



Safeguard Measures and U.S. Beef Exports to Japan

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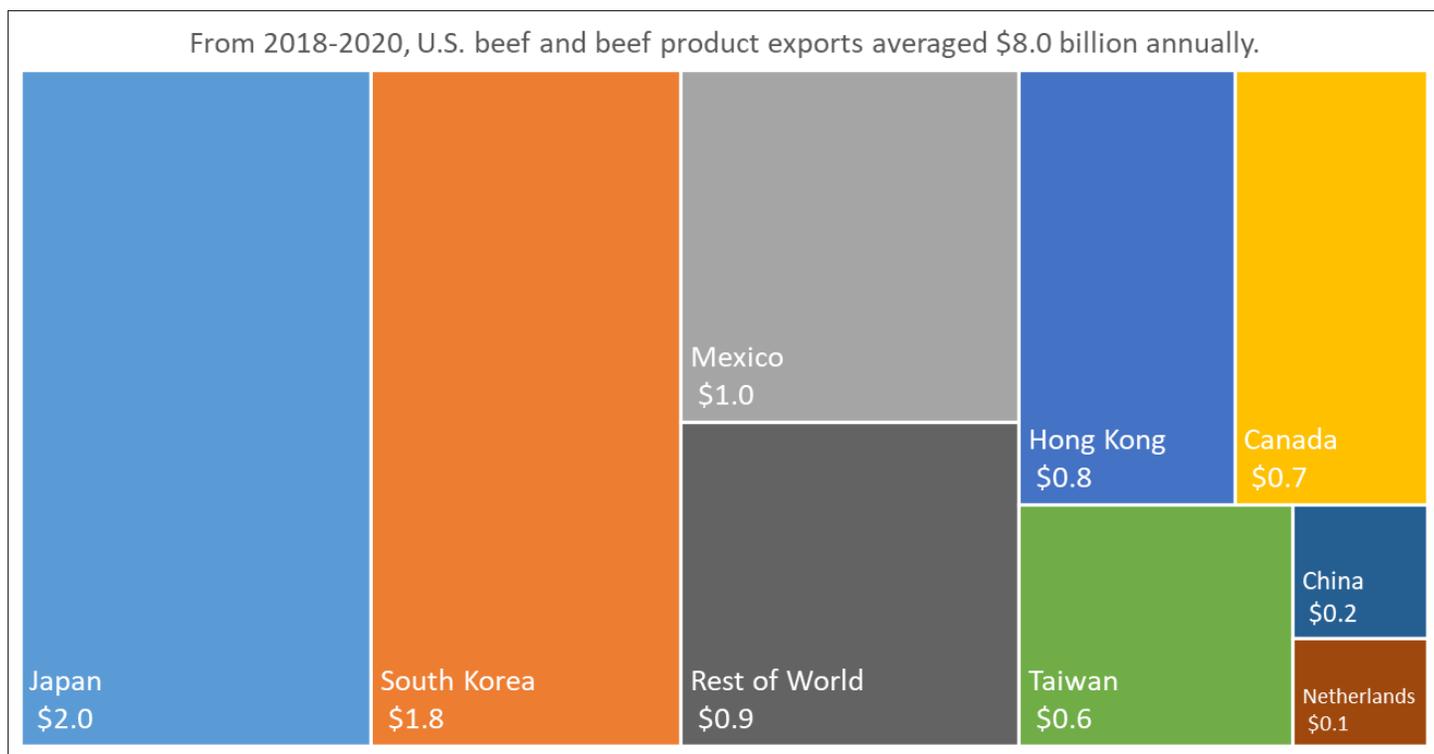
Introduction

For the last five years (2016-2020), beef and beef products have been a top-five U.S. agricultural export. In 2019, for instance, U.S. beef exports were valued at \$8.1 billion, third behind soybeans (\$18.7 billion) and tree nuts (\$9.1 billion).¹ Japan is the most important foreign market for U.S. beef (around \$2 billion annually), accounting for around 25 percent of total U.S. exports (See Figure 1) (U.S. Department of Agriculture, 2021a). Thus, the U.S. beef sector is concerned when Japanese policies change in favor of competing countries, resulting in a disadvantage for U.S. beef exports. This was actually an issue when the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) entered into force in December 2018.² The CPTPP countries that export beef to Japan (e.g., Australia, Canada, New Zealand and Mexico) faced immediate tariff reductions and a tariff phase-down from about 40 percent to nine percent over a 15-year period (Muhammad and Griffith, 2018). Fortunately, the U.S. was able to negotiate similar tariff reductions for U.S. beef in the U.S.-Japan Trade Agreement (USJTA), which entered into force January 2020. However, unlike beef from CPTPP countries, U.S. beef products face more restrictive safeguard measures in Japan (Imaizumi, 2021). Safeguard measures are used to limit excessive import growth by allowing governments to increase tariffs on a product when imports exceed a certain level during a specified period.

¹ Beef and beef products are defined according to the Foreign Agricultural Service Bulk, Intermediate and Consumer Oriented (BICO) designation. While this designation is mostly chilled and frozen muscle cuts (more than 80 percent), it also includes offal products, carcasses and highly processed beef products (e.g., beef jerky).

² The CPTPP is a trade agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. The U.S. was once a member, but in January 2017, President Trump signed a memorandum officially withdrawing the U.S. from the agreement.

Figure 1. U.S. Beef and Beef Product Exports (\$ billions) By Destination: 3-Year Average (2018-2020).



Note: Colored squares are in proportion to each country’s dollar value. Beef and beef products are defined according to the Foreign Agricultural Service Bulk, Intermediate and Consumer Oriented (BICO) designation.

Source: U.S. Department of Agriculture (2021a)

The World Trade Organization (WTO) and agreements like CPTPP and USJTA allow the Japanese government to increase tariffs on beef when imports exceed a certain volume during a specified period. This specified volume is often referred to as a safeguard trigger. For instance, if Japan’s annual beef imports from CPTPP countries exceeded 601,800 metric tons (MT) (around 1,327 million pounds) from April 2019–March 2020, the Japanese government could have enforced a higher tariff to limit beef imports from CPTPP countries (Imaizumi, 2018).³ Japan’s safeguard trigger for U.S. beef negotiated under USJTA is currently 242,000 MT (around 534 million pounds), which is significantly lower than the CPTPP safeguard trigger. While the relatively higher safeguard trigger could be due to CPTPP including multiple countries and USJTA only including the U.S., Japan essentially imports beef from two countries, the U.S. and Australia. Imports from other CPTPP countries are significantly smaller by comparison. Thus, the more generous CPTPP safeguard trigger is predominantly applied to Australian beef, whereas U.S. beef is facing a significantly more restrictive safeguard trigger. To put this in context, U.S. beef exports to Japan exceeded 242,000 MT the last five years (U.S. Department of Agriculture, 2021a). Given this fact, it was no surprise when the Japanese government announced in March 2021 that imports of U.S. beef from April 2020 to March 2021 reached 242,229 MT, exceeding the safeguard trigger, and that tariffs on U.S. beef would temporarily increase from their current level (25.8 percent) to 38.5 percent for a 30-day period (Imaizumi, 2021).

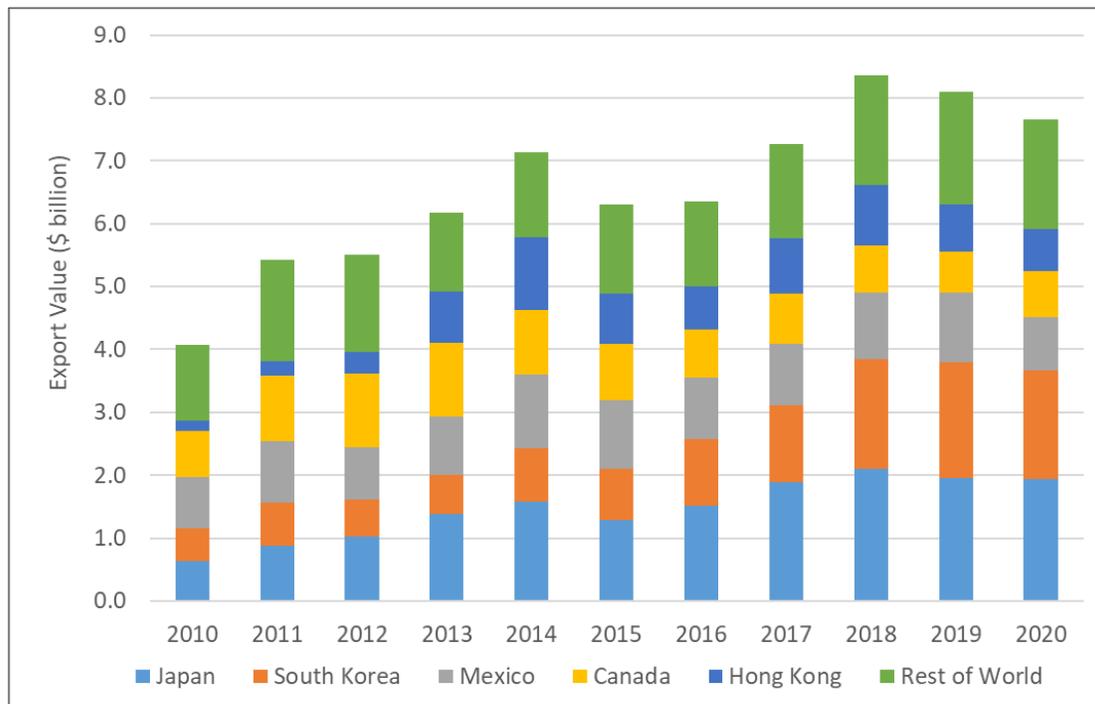
The goal of this report is to examine how Japan’s beef safeguard measures could impact the competitiveness of U.S. beef, vis-à-vis beef from competing countries like Australia. While there is some evidence that Japanese consumers do not consider U.S. beef and Australian beef to be perfect substitutes and have different preferences based on product attributes (e.g., U.S. grain-fed beef versus Australian grass-fed beef), prior research suggests that price competition is still important and that tariffs could affect the competitiveness of U.S. beef in Japan, resulting in less imports of U.S. beef and increased imports of Australian beef (Muhammad et al., 2018). In this report, we provide background on the U.S. beef sector and Japanese beef imports, details on Japan’s beef tariffs and safeguard measures in the CPTPP and USJTA, and lastly, we present findings on how temporary tariff increases due to safeguard measures impacts U.S. beef exports relative to other exporting countries in the Japanese market.

³ Note that April to March is the Japanese fiscal year.

Background

The U.S. is the largest beef producing country in the world on a quantity basis and generally accounts for about 20 percent of world beef production (U.S. Department of Agriculture, 2021b). From 2016 to 2020, total commercial beef production in the U.S. ranged from 25.2 billion pounds in 2016 to 27.2 billion pounds in 2019 (U.S. Department of Agriculture, 2021c). Though the U.S. is the largest beef producing country in the world, it generally lags Australia in total beef exports on a quantity basis. The U.S. usually exports 11 percent of its total production while Australia exports around 70 percent of total production (U.S. Department of Agriculture, 2021b). The total value of U.S. beef and beef product exports from 2010 through 2020 ranged from \$4.1 billion to a high of \$8.4 billion in 2018 but has since declined to \$7.6 billion in 2020 (U.S. Department of Agriculture, 2021a). During this period, Japan became the leading export destination for U.S. beef exports, surpassing exports to Canada and Mexico in 2013 (See Figure 2).

Figure 2. U.S. Beef and Beef Product Exports (\$ billions): 2010-2020.



Note: Beef and beef products are defined according to the Foreign Agricultural Service Bulk, Intermediate and Consumer Oriented (BICO) designation.

Source: U.S. Department of Agriculture (2021a)

Japan primarily imports muscle cuts either as fresh/chilled boneless beef (HS 020130) or frozen boneless beef (HS 020230) (Table 1).⁴ In 2020, Japan imported 260,800 MT of fresh/chilled boneless beef, and 338,000 MT of frozen boneless beef, which is over 80 percent of total imports. The demand for these cuts is driven by Japanese preferences for highly marbled cuts of beef, which are good for brief open flame exposure or boiling water. It is common for highly marbled short plates and briskets to be used in popular “beef bowl” dishes. The Japanese market is also a strong market for beef tongue and other offal products (Obara et al., 2010).

Figure 3 shows the value and the quantity of beef imports for the last 10 years. Except for 2020, the value and volume of Japanese imports have been increasing for at least the last five years.

⁴ The Harmonized Commodity Description and Coding System, or Harmonized System (HS), is an internationally standardized system of names and numbers to classify traded products.

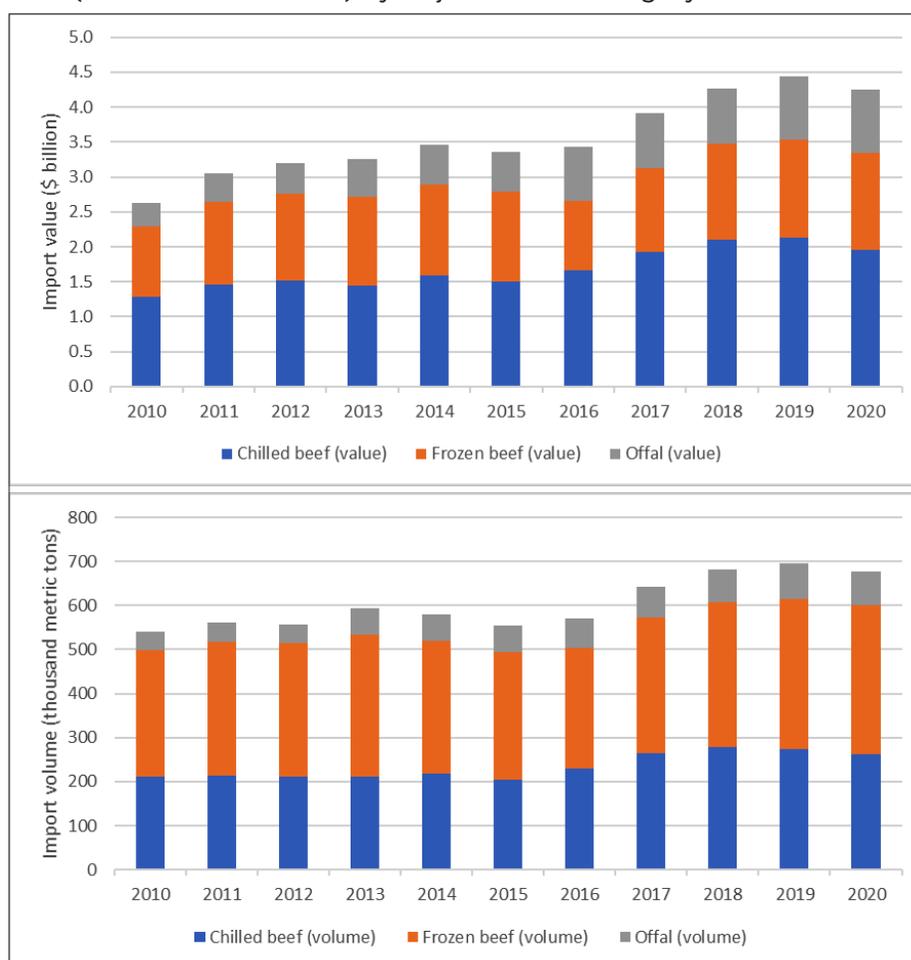
Table 1. Japanese Beef Imports by Product Category: 2020.

| HS Code | Product Definition | Value (\$ million) | Volume (1,000 MT) |
|---------|--|--------------------|-------------------|
| 020130 | Meat of Bovine Animals, Boneless, Fresh or Chilled | \$1,950.4 | 260.8 |
| 020230 | Meat of Bovine Animals, Boneless, Frozen | 1,374.9 | 338.0 |
| 020610 | Offal of Bovine Animals, Edible, Fresh or Chilled | 620.2 | 42.4 |
| 020621 | Tongues of Bovine Animals, Edible, Frozen | 204.8 | 22.4 |
| 020629 | Other Offal of Bovine Animals, Edible, Frozen | 76.7 | 11.8 |
| 160250 | Other Meat or Offal of Bovine Animals, Prepared or Preserved | 45.0 | 8.9 |
| 020120 | Meat of Bovine Animals, Cuts with Bone-In (Other than Half or Whole Carcasses), Fresh or Chilled | 10.7 | 0.7 |
| 020220 | Meat of Bovine Animals, Cuts with Bone-In (Other than Half or Whole Carcasses), Frozen | 6.7 | 0.9 |
| 020622 | Livers of Bovine Animals, Edible, Frozen | 1.5 | 0.9 |
| 020110 | Carcasses and Half-Carcasses of Bovine Animals, Fresh or Chilled | 0.1 | 0.0 |
| 021020 | Meat of Bovine Animals, Salted, in Brine, Dried or Smoked | 0.1 | 0.0 |

Note: Harmonized System (HS) codes and product definitions are based on the global description and coding system of standardized product names and numbers used to classify traded products.

Source: Trade Data Monitor® (2021)

Figure 3. Japanese Beef Imports in Value (\$ billion) and Volume (thousand metric tons) by Major Product Category: 2010-2020.

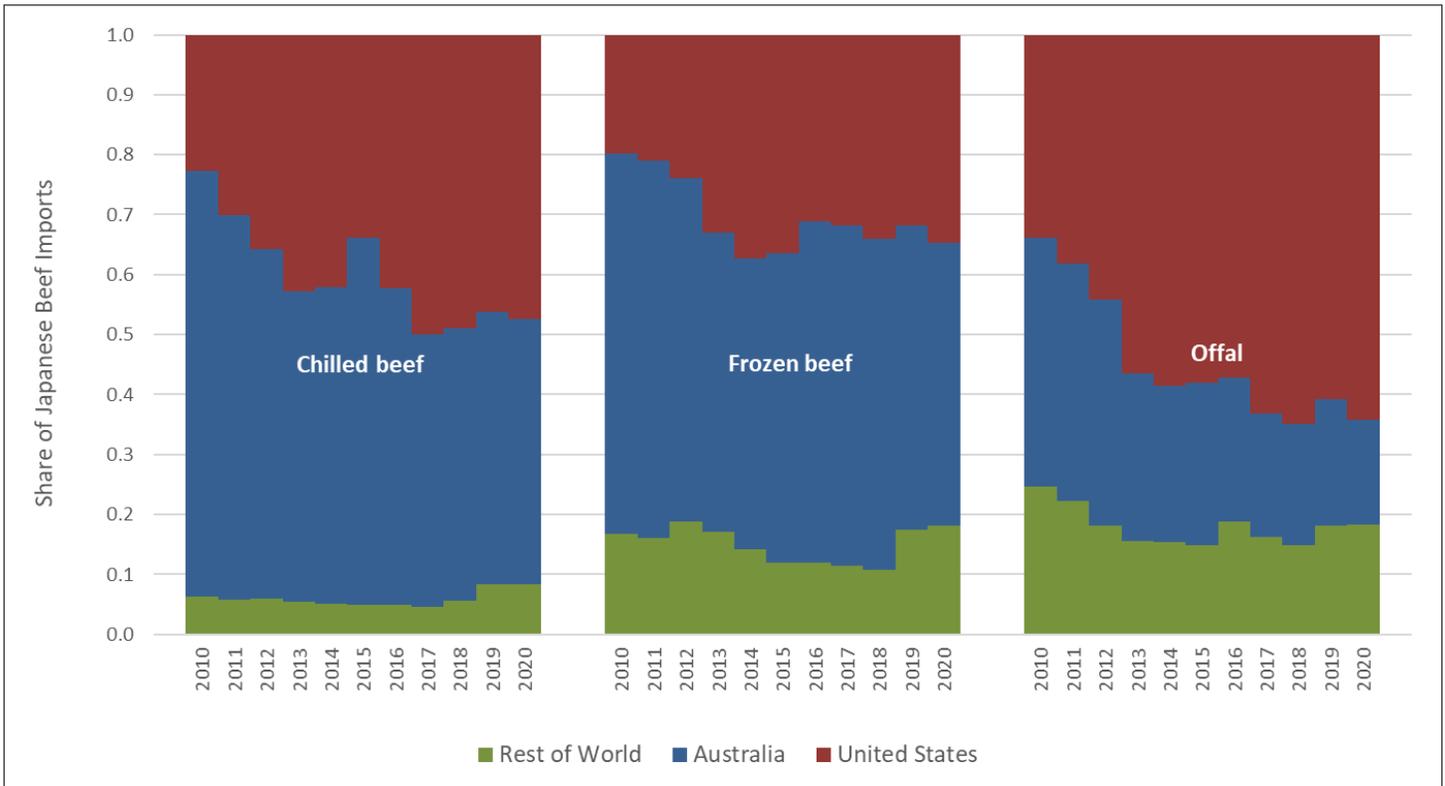


Note: Harmonized System (HS) codes and product definitions are based on the global description and coding system of standardized product names and numbers used to classify traded products. Chilled beef is defined according to HS 0201 *meat of bovine animals, fresh or chilled*; frozen beef is defined according to HS 0201 *meat of bovine animals, frozen*. Both categories include boneless, bone-in, and carcasses. Offal is an aggregation of bovine offal categories (See Table 1): HS 020610, HS 020621, HS 020622, and HS 020629.

Source: Trade Data Monitor® (2021)

Figure 4 shows the share of Japanese beef imports by major product category (chilled beef, frozen beef and offal) and country of origin (U.S., Australia, and *Rest of World*). The U.S. and Australia typically account for about 90 percent of total beef imports in Japan. Australia tends to be the leader on a quantity basis due to its proximity to Japan, but the U.S. usually leads on a value basis due to shipping higher valued beef products from grain finished animals. The quantity gap has narrowed recently as Australia is attempting to rebuild its herd following several years of drought. The lack of Australian beef has led to market share increases for the U.S. and the rest of the world (Flake, 2019). In 2020, the U.S. accounted for 47 percent of Japan’s chilled beef imports, 35 percent of Japan’s frozen beef imports, and 64 percent of Japan’s offal imports.

Figure 4. Share of Japanese Beef Imports by Source and Major Product Category: 2010-2020.



Note: Harmonized System (HS) codes and product definitions are based on the global description and coding system of standardized product names and numbers used to classify traded products. Chilled beef is defined according to HS 0201 *meat of bovine animals, fresh or chilled*; frozen beef is defined according to HS 0201 *meat of bovine animals, frozen*. Both include boneless, bone-in and carcasses. Offal is an aggregation of bovine offal categories (See Table 1): HS 020610, HS 020621, HS 020622, and HS 020629.

Source: Trade Data Monitor® (2021)

Implications of Safeguard Polices on U.S. Beef Exports to Japan

A comparison of CPTPP and USJTA tariff rates, safeguard triggers and the “snapback” tariff rates (safeguard rates) if the safeguard is triggered is presented in Table 2. Note that the CPTPP safeguard trigger for 2020 was set at 613,600 MT. The Japanese government could have imposed the safeguard rate of 38.5 percent for a specified period, as opposed to the negotiated CPTPP tariff rate, if imports from CPTPP countries exceeded this amount. The same safeguard rate (38.5 percent) applies if imports of U.S. beef exceeded the USJTA safeguard trigger in 2020, which was actually the case. The USJTA safeguard trigger was initially set at 242,000 MT annually but is expected to grow each year starting in 2022.⁵

⁵ According to the Office of the U.S. Trade Representative (2019), the USJTA safeguard trigger increases by 4,860 MT per year beginning in the third year of the agreement to the ninth and 2,420 MT from the 10th to 14th year. Starting in the 15th year, the annual increase will return to 4,840 metric tons, if the safeguard is still in place.

Table 2. CPTPP and USJTA Tariff Rates, Safeguard Rates and Safeguard Triggers: 2020-2024.

| | CPTPP Tariff | USJTA Tariff | Safeguard Rate CPTTP | Safeguard Rate USJTA | Safeguard Trigger CPTPP | Safeguard Trigger USJTA [†] |
|------|-----------------|-----------------|-------------------------|-------------------------|----------------------------|---|
| | | | <i>Percent</i> | | <i>1,000 Metric Tons</i> | |
| 2020 | 25.8 | 25.8 | 38.5 | 38.5 | 613.6 | 242.0 |
| 2021 | 25.0 | 25.0 | 38.5 | 38.5 | 625.4 | 242.0 |
| 2022 | 24.1 | 24.1 | 30.0 | 30.0 | 637.2 | 246.9 |
| 2023 | 23.3 | 23.3 | 30.0 | 30.0 | 649.0 | 251.7 |
| 2024 | 22.5 | 22.5 | 30.0 | 30.0 | 660.8 | 256.6 |

[†]The USJTA safeguard triggers for 2022-2024 are estimates based on agreement text and could change since the safeguard was triggered in 2021.

Sources: Imaizumi (2018) and Office of the U.S. Trade Representative (2019)

Using demand estimates from the literature (Muhammad et al., 2018), we project the impact of Japan imposing the safeguard rate (38.5 percent) on U.S. beef in place of the 2021 USJTA tariff rate (25.0 percent). Results are reported in Table 3. Given that the Japanese government is expected to impose the safeguard rate for 30 days, projections are reported monthly. Even though the safeguard can be triggered by muscle cuts and some offal products, the safeguard rates mainly apply to muscle cuts: fresh/chilled beef (HS 0201) and frozen beef (HS 0202). Tariffs on most offal products were already low (12.8 percent) before USJTA went into effect, so the tariff and safeguard rates in Table 2 do not necessarily apply to offal products.⁶ Accordingly, the projections in Table 3 are limited to HS 0201 and HS 0202. As previously noted, these two categories account for over 80 percent of Japan's total beef imports.

Using average monthly imports over the last five years (2016-2020) as the baseline, the projected decline for U.S. beef in Japan given the safeguard rate is \$16.4 million per month, which includes a \$10.8 million decrease in imports of U.S. chilled beef (-14.1 percent relative to the baseline) and a \$5.6 million decrease in imports of U.S. frozen beef (16.2 percent). The projection range suggests that imports of U.S. beef could be lower by as much as \$26 million per month if the safeguard rate is imposed. Interestingly, competing countries do not necessarily benefit from the safeguard rate being imposed on U.S. beef. Australian chilled beef is the only exception, which is only projected to increase by \$3.0 million due to limited substitution between U.S. and Australian chilled beef in the Japanese market (Muhammad et al., 2018). Thus, projections suggest that the safeguard policy is likely benefiting domestic producers since losses for the U.S. are not being fully made up by imports from other countries.

Table 3. Average Monthly Impact of the USJTA Safeguard Trigger and Rate on Japanese Beef Imports by Source.

| Country and Product | Estimated loss or gain (monthly) | |
|----------------------------|------------------------------------|----------------------|
| | <i>\$ million</i> | <i>Percent</i> |
| U.S. chilled beef | -\$10.8 [-16.5, -5.2] [†] | -14.1% [-21.5, -6.7] |
| U.S. frozen beef | -\$5.6 [-9.3, -2.0] | -16.2% [-26.8, -5.6] |
| Australia chilled beef | \$3.0 [0.2, 5.8] | 3.9% [0.2, 7.6] |
| Australia frozen beef | \$1.6 [-1.7, 5.0] | 2.9% [-3.1, 8.9] |
| Rest of World chilled beef | \$0.2 [-0.5, 0.9] | 1.7% [-4.8, 8.3] |
| Rest of World frozen beef | -\$0.5 [-2.0, 0.9] | -3.5% [-13.1, 6.1] |

[†]95% projection/confidence intervals are in [brackets].

⁶ The tariff rates for products such as cheek and head meat, which are also considered offal products according to the trade data, were quite high (50 percent) before USJTA went into effect, but imports of these products account for a negligible share of total beef imports in Japan and are excluded from the projections.

Conclusion

Given the more restrictive safeguard for U.S. beef in Japan, it was not a surprise the safeguard was triggered in 2020 and that the Japanese government would impose a higher tariff rate on U.S. beef in 2021. In fact, it is not unreasonable to expect imports of U.S. beef to exceed the safeguard level every year, which suggests that the losses reported in this study could be a repeated event for U.S. beef exports. Fortunately for the U.S. beef industry, the U.S. and Japan also agreed to revisit and possibly revise the safeguard trigger each year and to eliminate the safeguard altogether if it is not triggered for four consecutive years (Imaizumi and Satake, 2020; Office of the U.S. Trade Representative, 2019). Thus, the safeguard levels reported in this study could be a little higher for 2021.

Overall, this report shows that U.S. beef in Japan will face more challenges than beef from competing countries like Australia due to the different safeguard levels between the USJTA and the CPTPP. Note that the CPTPP safeguard is more than double the safeguard that is being imposed on U.S. beef. Since the CPTPP safeguard is mainly being applied to a single country, beef imports from Australia could significantly increase to unprecedented levels without any concerns of higher tariffs. To put this in context, Japanese imports of U.S. and Australian beef both averaged about 300,000 MT per year over the last five years (2016-2020). Other CPTPP countries aside, imports from Australia would have to almost double before triggering the CPTPP safeguard, whereas average imports for the U.S. already exceed the USJTA safeguard. Thus, the USJTA beef safeguard will continue to result in lost sales for U.S. beef exports in Japan. Beef imports from Australia will, likely, never trigger the CPTPP safeguard.

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