

## **Japan-EU Trade Agreement Threatens U.S. Pork Exports to Japan**

On December 8, 2017, Japan and the European Union (EU) announced the finalization of negotiations on the Japan-EU Economic Partnership Agreement (EPA). One major outcome is that the agreement will eliminate, or sharply reduce, duties on agricultural products in which the EU has a major export interest, such as pork. Pork is one of the EU's main agricultural exports to Japan and they are a fierce competitor of the United States. Given that the agreement grants the EU duty-free access for processed pork meat and low-duty access for fresh pork meat exports, it will result in a significant duty disadvantage for U.S. exporters.

The most common type of meat consumed in Japanese households is pork, accounting for almost half of the overall volume of retail meat sales in 2016. Consumption trends are unlikely to change as Japanese consumers continue to shift away from fish towards pork and other meats. The European Commission estimates that the Japan-EU EPA will eliminate duties on more than 90 percent of EU agricultural products, making European products more affordable and more attractive to Japan's consumers. The Japan-EU EPA could enter into force as early as 2019.

### **Background and Current Trends**

Japan is the world's third-largest economy, with a GDP of \$5.4 trillion in 2017. Japan's population has been declining since 2010 and stands at 126 million as of July 2017. Japan's agricultural sector is small and slowly contracting. Agriculture is 1.1 percent of Japan's GDP and 2.9 percent of the labor force. According to the Organization for Economic Co-operation and Development, the decline in Japanese farms is primarily due to an aging population and a lack of generational farms. The agricultural sector's efficiency is also limited by the small and scattered nature of farmlands and high input costs, which drives up domestically-produced food prices.

Between 2013 and 2017, Japan imported an average of \$53 billion annually in agricultural goods from the world. Over this period the United States held a 25 percent market share of Japanese agricultural imports compared to the EU, with a 13 percent market share. The top U.S. agricultural exports to Japan are corn, beef, pork, soybeans, and wheat, accounting for 62 percent of U.S. agricultural exports to Japan in 2017. While the overall food market may weaken in the future as Japan's population declines, Japan will continue to depend on imported food to meet its needs.

<b>Japanese Pork and Pork Product Imports (fresh, frozen &amp; processed)</b>					
<i>Values in Thousands USD</i>					
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>World Total</b>	<b>\$4,830,529</b>	<b>\$5,250,565</b>	<b>\$4,277,435</b>	<b>\$4,898,391</b>	<b>\$5,169,727</b>
EU	\$1,300,088	\$1,674,710	\$1,272,483	\$1,632,528	\$1,696,529
U.S.	\$1,981,885	\$2,004,355	\$1,581,939	\$1,658,193	\$1,686,033
Canada	\$828,330	\$859,331	\$803,373	\$917,177	\$1,064,067
Mexico	\$346,077	\$359,225	\$331,312	\$381,413	\$429,977
Chile	\$173,433	\$148,148	\$105,963	\$139,133	\$127,455

*Source: IHS Markit-Japan Imports Data- BICO HS-6*

Japan ranked as the world's largest importer of pork and pork products in 2017, growing imports from \$4.9 billion in 2016 to \$5.2 billion in 2017 (a 6-percent increase). Japan's top imported pork products are frozen pork and fresh/chilled pork. The United States remained the top pork supplier to Japan for over a decade, until 2017 when the EU matched U.S. pork market share at 33 percent. Other suppliers of pork and pork products to Japan include Canada (21 percent), Mexico (8 percent) and Chile (2 percent). The EU currently leads the market in frozen pork exports to Japan, supplying \$1.6 billion in 2017. The EU has been able to dominate Japan's frozen imports, with decreasing volumes from the United States and Canada, because it supplies high-value cuts such as single-ribbed bellies and loins for use in Japan's bacon and loin-ham processing industry. The United States is the main supplier of fresh/chilled pork accounting for 53 percent of the market. Fresh and chilled pork is primarily consumed by the hotel, restaurant and retail sector and requires short delivery times where the U.S. holds an advantage. The EU has largely been uncompetitive in the fresh/chilled pork sector.

### **Tariff Elimination Hinders U.S. Trade Potential**

Japan is highly protective of its pork industry and has excluded pork or only provided minor tariff reductions and small tariff-rate quotas in previous bilateral trade agreements. The Japan-EU EPA however, similar to the Trans Pacific Partnership (which includes other top competitors Canada, Mexico and Chile), marks a change with Japan eliminating tariffs on more than 60 percent of its pork and pork product tariff lines within 12 years. Additionally, the Japan-EU EPA has established a volume-based safeguard for EU pork imports that will be phased out over 11 years.

Larger exports of European processed products and the continued growth in EU exports of ground seasoned pork (GSP) can be expected under the Japan-EU EPA. U.S. exports of GSP will be at a disadvantage as Japan's 20 percent duty is eliminated on EU-origin GSP over 5 years. The tariff on sausages (currently 10 percent) will be phased out in five years and tariffs on ham and bacon will be lowered from 8 percent to 2.2 percent in 5 years, and phased out completely by year 12. If EU processed pork exports to Japan grow significantly, this will impact Japan's

demand for imported raw materials for domestic ham and sausage manufacturing and, in turn, demand for U.S. frozen pork and ground seasoned pork.

Japan has historically been a major export destination for U.S. pork. However, agricultural exporters from the United States will face challenges as the EU gains preferential tariffs under the Japan-EU EPA. Similar to the TPP, where U.S. competitors are gaining preferential access to important export markets, the EU-Japan agreement threatens to cut into U.S. market share and depress profits for U.S. pork producers who depend on export markets for over 20 percent of their income.

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