The importance of Japan to the U.S. red meat industry

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Japan is a top global importer of pork & beef

Source: GTA and USMEF estimates
And top value market for U.S. = $3.7 Billion

U.S. Pork & Variety Meat Exports

- 2016
- 2017
- 2018

U.S. Beef & Variety Meat Exports

Source: GTA and USMEF estimates
Accounting for more than a quarter of export value

Jan - Nov 2018 beef export value per head of fed cattle slaughtered = $320.72, +14%

Jan – Nov 2018 pork export value per hog slaughtered = $51.46, -3%

Source: USDA/FAS & USMEF, fed slaughter
Red meat is key in U.S. ag market access
A U.S.-Japan trade agreement is urgently needed

- **All is not yet lost, but we are now way behind**
  - Japanese market is booming / in transition
  - Companies looking to invest for future – noting decrease in Japanese production expected, high labor costs, etc.
  - Expect continued growth in Japanese red meat consumption and imports accounting for a larger share of the market

- Need assurance that U.S. will be FTA/TAG partner soon

- **Industry priorities have been conveyed to USTR =**
  - level playing field ASAP

- Near-term loss estimates: $600 million pork and $550 million beef ... lost opportunities exceed $1 billion each in 10 years
“Niku Boom” Japan’s meat & poultry imports reach a record 3 million mt

Source: GTA and USMEF estimates
Opportunities: Japanese consumption

- Seafood continues to decline
- Poultry, pork and beef continue to grow
- Convenience drives demand for value-added and favors red meat vs. seafood
- Demographics- older generation eating more red meat
- Income/economic growth continues to underpin meat consumption
- U.S. beef and pork seen as high-quality and healthy
- Imports to account for a larger share of consumption
The Japanese Beef Market

Japan’s Beef Situation, calendar year, mt

Per capita: 6.88 in 2011 to 7.1 kg in 2017 and 7.4 kg in 2018

Source: ALIC, GTA and USMEF estimates
U.S. and Australia

Market Share of Japan’s 2018 Beef Import Volume

- U.S.: 49% Chilled beef, 56% Frozen beef, 26% Variety meats
- Australia: 46% Chilled beef, 34% Frozen beef, 26% Variety meats
U.S. beef exports to Japan...adding value to each animal

Japanese imports of U.S. beef tongue averaged $11.60 per head of fed slaughter in 2018 and imports of short plate averaged $28.50 per head.

Source: GTA and USMEF estimates
Of the major markets for U.S. beef, Japan has the highest tariffs. Competitors now have the tariff advantage.

<table>
<thead>
<tr>
<th>Japan’s Tariffs on Key Beef Products</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Chilled/Frozen Beef</td>
<td></td>
</tr>
<tr>
<td>- U.S.</td>
<td>38.50%</td>
</tr>
<tr>
<td>- CPTPP &amp; EU Implementation</td>
<td>27.50%</td>
</tr>
<tr>
<td>- CPTPP &amp; EU April 1, 2019</td>
<td>26.60%</td>
</tr>
<tr>
<td>- CPTPP &amp; EU final</td>
<td>9% by 2033</td>
</tr>
<tr>
<td>Beef Tongues/Skirts</td>
<td></td>
</tr>
<tr>
<td>- CPTPP &amp; EU Implementation</td>
<td>12.80%</td>
</tr>
<tr>
<td>- CPTPP &amp; EU April 1, 2019</td>
<td>6.40%</td>
</tr>
<tr>
<td>- CPTPP &amp; EU final</td>
<td>5.70%</td>
</tr>
<tr>
<td></td>
<td>0%</td>
</tr>
</tbody>
</table>

Initial tariff reductions on implementation (Dec 30 for CPTPP and Feb 1 for EU) and again at start of JFY, April 1, 2019

Source: USMEF and agreement text.
U.S. beef export losses without FTA

- Per head losses: 
  - $18.70 by 2023
  - $42 by 2028
- These are lost opportunities
- Will impact across the chain

Japan's Imports of U.S. Beef & Forecast Scenarios

- Status quo, no U.S.-Japan
- Assuming U.S. EPA
- Annual losses

- Year 5 (2023): $2,347, $(504)
- Year 10 (2028): $1,833, $(1,155)
Opportunities: Over Thirty Month Beef Access

• U.S. beef exports to Japan could increase by $150 to >$200 million annually or +7 to 10%

• Export demand expected for high-demand Japan cuts
  Short Plate, Outside Skirt, Hanging Tender

• Strong potential for cuts from white cow or other quality assured programs, meeting Japanese cut specifications and with competitive pricing
  Chuckeye Roll, Short Rib, Loins (strips, tenders), Clod, Brisket

• Offal/Variety Meat, high demand
  Mountain Chain Tripe, Tongue, Abomasum, Liver, Large Intestine & Small Intestine

• Processed/cooked beef
  Assume U.S. exports could double as being able to produce value-added beef products from OTM significantly reduces costs.

• But U.S. not likely to fully realize potential without an FTA as tariffs on some processed beef items are high (and are phased to zero through CPTPP) and generally OTM beef needs to be price-competitive
The Japanese Pork Market

Japan’s Pork Situation, calendar year, mt

Per capita: 13.16 in 2011 to 14.4 kg in 2017 and 14.9 kg in 2018

Source: ALIC, GTA and USMEF estimates
Japan imports record volumes of pork (> $5 billion)

Total imports: 1.16 mil mt
U.S.: 407,000 mt, steady
U.S. market share held at 35%

Source: GTA and USMEF estimates
Chilled pork driving the growth in Japan’s imports…and GSP

Lots of potential in the value-added categories as Japan’s tariffs are phased out through CPTPP and Japan-EU

Source: GTA and USMEF estimates
Japan’s imports of U.S. pork

Japan’s U.S. pork imports by category

Tariffs on competitor’s processed pork phasing to zero

Source: GTA and USMEF estimates
Elimination of tariffs on processed pork and changes to the chilled/frozen gate price could significantly change Japan’s pork market.

Tariffs are eliminated by 2023 for prepared pork & sausages; and by 2027-2028 for chilled/frozen pork and ham & bacon.

Source: USMEF and agreement text.
Canadian pork gaining chilled market share

Japan’s Chilled Pork Imports

Source: GTA and USMEF estimates
Record-large GSP imports, driven by EU, Mexico, Chile, Canada …FTA partners

Source: MAFF
The loss of U.S. market share, from 45% to 34%

U.S. Share of Japan’s Pork Imports, by category

- Chilled pork
- Ground seasoned pork
- Frozen pork
- Total pork

Source: GTA and USMEF estimates
With TPP-11 & Japan-EU EPA

- Expect continued growth in chilled pork, led by Canada
- Potential to import single cuts priced below the gate
  - For processing and retail
- Continued growth in ground seasoned pork,
  - with investment in Europe (Ireland and Spain as relatively new suppliers as well as Germany and Netherlands)
  - and in Canada, Mexico, Chile
- Looking to produce more value-added and processed products outside Japan
  - labor advantages favor Mexico
  - but potential in Europe and Canada as well
U.S. pork export losses without FTA

- On a per head basis, this would equate to $4.55 per head loss by 2023
- and -$7.06 per head by 2028
- Again these are lost opportunities or market potential
- Chain-wide impact
Besides lost export sales of >$2.2 billion annually, Impact back to feed grains & downstream employment

<table>
<thead>
<tr>
<th>Feedstuff</th>
<th>Pork</th>
<th>Beef</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>172.8 mil bu</td>
<td>64.2 mil bu</td>
<td>237 mil bu</td>
</tr>
<tr>
<td>DDGS</td>
<td>282,867 tons</td>
<td>724,000 tons</td>
<td>1.006 mil tons</td>
</tr>
</tbody>
</table>

Projected value of between $1.5 Bil to $2 Bil to corn and soybean farmers

• Exports to Japan estimated to directly support more than 4% of the jobs in the meat packing and processing industry
• An annual cost of more than $5.2 billion in direct economic losses to other businesses and industries in the top 15 states where the meat packing and processing industry is located
• Also, based on the RIMS II data, about 23,600 jobs outside the meat industry would be lost in year 10 in those states
Thank you

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- eborror@usmef.org
- 303-623-6328

- Loss summaries:
### Frozen Pork

<table>
<thead>
<tr>
<th>Country</th>
<th>Jan-Nov ‘17</th>
<th>Jan-Nov ‘18</th>
<th>YOY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>97,860</td>
<td>104,598</td>
<td>7%</td>
</tr>
<tr>
<td>Denmark</td>
<td>105,564</td>
<td>100,325</td>
<td>-5%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>23,359</td>
<td>26,708</td>
<td>14%</td>
</tr>
<tr>
<td>Germany</td>
<td>18,352</td>
<td>20,467</td>
<td>12%</td>
</tr>
<tr>
<td>France</td>
<td>13,199</td>
<td>13,030</td>
<td>-1%</td>
</tr>
<tr>
<td>Italy</td>
<td>12,153</td>
<td>12,791</td>
<td>5%</td>
</tr>
<tr>
<td>Hungary*</td>
<td>18,480</td>
<td>7,875</td>
<td>-57%</td>
</tr>
<tr>
<td>Austria</td>
<td>7,788</td>
<td>7,008</td>
<td>-10%</td>
</tr>
<tr>
<td>Ireland</td>
<td>6,572</td>
<td>6,928</td>
<td>5%</td>
</tr>
</tbody>
</table>

### Ground Seasoned Pork

<table>
<thead>
<tr>
<th>Country</th>
<th>Jan-Nov ‘17</th>
<th>Jan-Nov ‘18</th>
<th>YOY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>6,826</td>
<td>10,878</td>
<td>59%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>7,194</td>
<td>7,774</td>
<td>8%</td>
</tr>
<tr>
<td>Ireland</td>
<td>1,404</td>
<td>5,753</td>
<td>310%</td>
</tr>
<tr>
<td>Spain</td>
<td>677</td>
<td>1,557</td>
<td>130%</td>
</tr>
</tbody>
</table>

### Prepared/canned hams 160249

<table>
<thead>
<tr>
<th>Country</th>
<th>Jan-Nov ‘17</th>
<th>Jan-Nov ‘18</th>
<th>YOY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>3,657</td>
<td>3,861</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: GTA, metric tons, *Hungary banned following ASF finding
<table>
<thead>
<tr>
<th></th>
<th>Chilled Beef</th>
<th>Frozen Beef</th>
<th>Tongues &amp; Skirts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MFN Applied Tariff</strong></td>
<td>38.5%</td>
<td>38.5%</td>
<td>12.8%</td>
</tr>
<tr>
<td>(U.S. &amp; Other Non-EPA Countries)</td>
<td>SG: 50%</td>
<td>SG: 50%</td>
<td></td>
</tr>
<tr>
<td><strong>Australia EPA</strong></td>
<td>29.3%</td>
<td>26.9%</td>
<td>7.6%</td>
</tr>
<tr>
<td>April 1, 2018 and 2019 Tariff Rates, 2019 SG volume</td>
<td>28.75%</td>
<td>26.6%</td>
<td>TRQ (19,000)</td>
</tr>
<tr>
<td></td>
<td>SG: 38.5% (137,500)</td>
<td>SG: 38.5% (202,500)</td>
<td></td>
</tr>
<tr>
<td><strong>Comprehensive &amp; Progressive Agreement for Trans-Pacific Partnership (CPTPP) Tariff Rates</strong></td>
<td>27.5%, 26.6% on April 1 to 9% by year 16 (2033)</td>
<td>6.4%, 5.7% to 0% by year 11 for tongues, by year 13 for skirts</td>
<td>38.5% snapback</td>
</tr>
<tr>
<td>Upon Implementation &amp; Reduction</td>
<td>With annual SGs during implementation*</td>
<td>*quarterly SGs for years 11-15</td>
<td></td>
</tr>
<tr>
<td></td>
<td>601,800 mt on April 1, 2019,</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*April 1, 2019 tariff rate
Chilled beef accounts for more than half of Japan’s imports

- Total beef imports, excluding variety meats 600,000 mt
  - 2018 market share: Australia 51% U.S. 40% Canada 3.6% NZ 2.5% Mexico 2%
- Chilled beef 280,000 mt, 53% of total
  - U.S. 49.8% market share (short plate 47%, chuck/clod/round 46%, loin 7%)
  - Australia 45% (chuck/clod/round 58%, brisket/plate 24%, loin 17%)
  - NZ 2%
  - Canada 1.5% and Mexico 1%
- Frozen beef 310,000 mt, 45.5% of total
  - Australia 56.5% market share (trimmings/manufacturing beef = 71%)
  - U.S. 32.5% (short plate = 85%)
  - Canada 5.4%
  - Mexico 2.9%
  - NZ 2.55%
- Prepared/cooked beef 1% of total
  - Australia 56% market share
  - U.S. 30%
“Niku boom”
Japan’s robust meat demand

Source: GTA and USMEF estimates
The duty cost of importing U.S. beef limits sales of higher-value cuts.

Japan’s Chilled Beef Imports by Category, 2017

- **Chuck, clod, round**
  - U.S.: $3.57/lb * 38.5% = $1.38/lb
  - Australia: $3.57/lb * 26.6% = $0.95/lb

- **Short plate, brisket**
  - U.S.: $2.70/lb * 38.5% = $1.04/lb
  - Australia: $2.70/lb * 26.6% = $0.72/lb

- **Loin**
  - U.S.: $6.70/lb * 38.5% = $2.57/lb
  - Australia: $6.70/lb * 26.6% = $1.78/lb

Other regions have significantly lower duty costs due to lower duty rates.
Lower value frozen imports aren’t hit as hard but also more price sensitive.

Japan’s Frozen Beef Imports by Category, 2017

- **Chuck, clod, round**
  - $2.53/lb * 38.5% = $0.97/lb
- **Short plate, brisket**
  - $1.76/lb * 38.5% = $0.68/lb
  - $2.53/lb * 26.6% = $0.67/lb
- **Loin**
  - $1.76/lb * 26.6% = $0.47/lb
- **Trimnings**
  - $1.69/lb * 26.6% = $0.45/lb
U.S. as the top supplier of chilled beef tongues and skirts, but tariff on U.S. will be double that of competitors

Japan’s imports of beef variety meats, 2017

- Chilled skirts: $5.53/lb * 12.8% = $0.71/lb (U.S.), vs. 5.8% = $0.32/lb (Others)
- Chilled tongues: $7.73/lb * 12.8% = $0.99/lb (U.S.), vs. 5.7% = $0.44/lb (Others)
- Frozen tongues: $7.73/lb * 12.8% = $0.99/lb (U.S.), vs. 5.7% = $0.44/lb (Others)
- Frozen skirts: $5.53/lb * 12.8% = $0.71/lb (U.S.), vs. 5.8% = $0.32/lb (Others)
Total pork imports, excluding variety meats & sausages: 1.16 million mt

- Chilled pork 412,000 mt
  - U.S. 52%, Canada 45%, Mexico 2.8%

- Frozen pork 530,000 mt
  - U.S. 10%, EU 64%, Mexico 14%, Canada 7%, Chile 4.6%

- Ground seasoned pork 158,000 mt
  - U.S. 65%, EU 17%, Canada 10%, Mexico 4.4%, Chile 2.4%

- Canned, other processed pork 58,000 mt
  - U.S. 48%, followed by China, EU and Thailand

- Ham and bacon 4,400 mt
  - U.S. 9% and EU is primary supplier

- Sausages 31,000 mt
  - U.S. 31%, followed by China, EU and Thailand
The competitors to benefit from

<table>
<thead>
<tr>
<th>Tariff Type</th>
<th>Chilled/Frozen Pork</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ad Valorem</strong></td>
<td>Below Gate Price of 524 yen/kg: specific duty rate</td>
</tr>
<tr>
<td><strong>MFN (U.S. &amp; Other Non-EPA Countries)</strong></td>
<td>4.3%</td>
</tr>
<tr>
<td><strong>CPTPP &amp; Japan-EU EPA Tariff Rates</strong></td>
<td>2.2% to 1.96% on April 1, 2019 phased to 0% by year 10</td>
</tr>
</tbody>
</table>
## Duties on Processed Pork Products

<table>
<thead>
<tr>
<th>GSP, canned pork, etc.</th>
<th>20%</th>
<th>16.6%</th>
<th>13.3%</th>
<th>10%</th>
<th>6.6%</th>
<th>3.3%</th>
<th>zero</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sausages</td>
<td>10%</td>
<td>8.3%</td>
<td>6.6%</td>
<td>5%</td>
<td>3.3%</td>
<td>1.6%</td>
<td>zero</td>
</tr>
<tr>
<td>Ham &amp; bacon</td>
<td>8.5%</td>
<td>4.3%</td>
<td>4.3%</td>
<td>4.3%</td>
<td>4.3%</td>
<td>2.2%</td>
<td>To zero by year 11</td>
</tr>
</tbody>
</table>