



International Trade Report

July 30, 2004

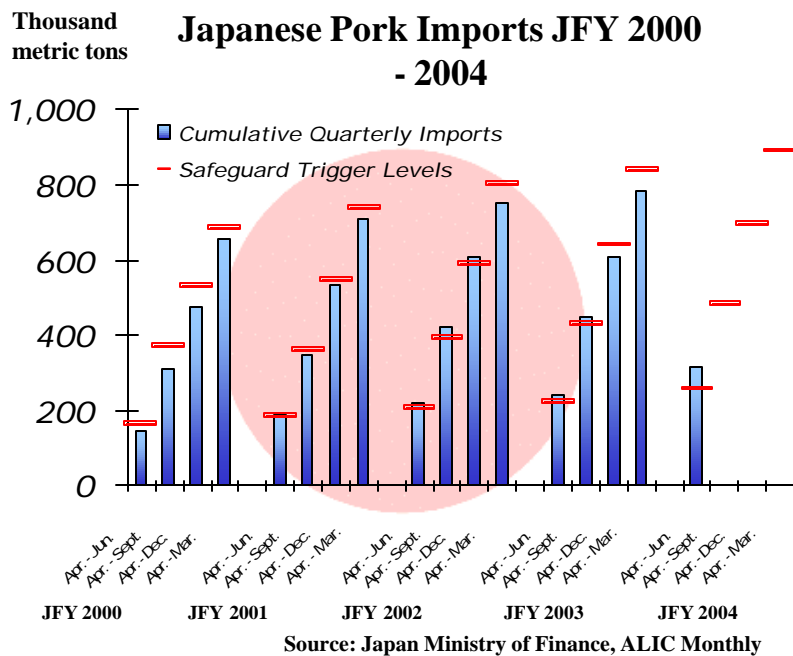
Japan's Pork Safeguard

For the fourth time in 4 years, Japan's safeguard for pork has been triggered resulting in an increase in the pork import gate price. The measure will become effective on August 1, 2004, and will last through the end of the Japanese fiscal year, on March 31, 2005. According to Japan's Ministry of Finance, Japanese pork imports for April - June 2004 rose to 316,755 tons, significantly above the trigger level of 257,004 tons. The safeguard tariff will increase the gate price for pork from 524 yen/kg to 653 yen/kg (\$4.81/kg to \$5.99/kg). The import duty for pork cuts remains at 4.3 percent at or above the gate price. The significant surge in imports during the month of June and reports that July import figures will also be high, would suggest that importers are trying to secure supplies before the gate price increase is implemented.

Japanese pork imports are subject to a differential duty mechanism known as the "gate price." The current system, negotiated under the 1995 Uruguay Round Agreement on Agriculture, directs importers to pay a simple tariff (4.3 percent in the case of fresh, chilled or frozen pork) as long as the value of imports meets or exceeds the established gate price. When the value of imports, priced on entry into Japan, is below the gate price, importers not only pay the tariff, but also

pay a duty equal to the difference between the import value and the gate price. As heir to domestic price stabilization policies, the gate price system is intended to minimize cheap imports. However, in practice, traders generally mix pork product shipments so that the average value of the shipment invoice rarely falls below the gate price. For example, low-value hams can be shipped together with higher-value loins so that traders end up only paying the simple tariff.

Japan also protects its pork market through the use of safeguard measures, which theoretically apply whenever imports cause or threaten to cause material injury to the domestic industry. While Japan has access to three different WTO-compliant safeguard mechanisms, the gate price



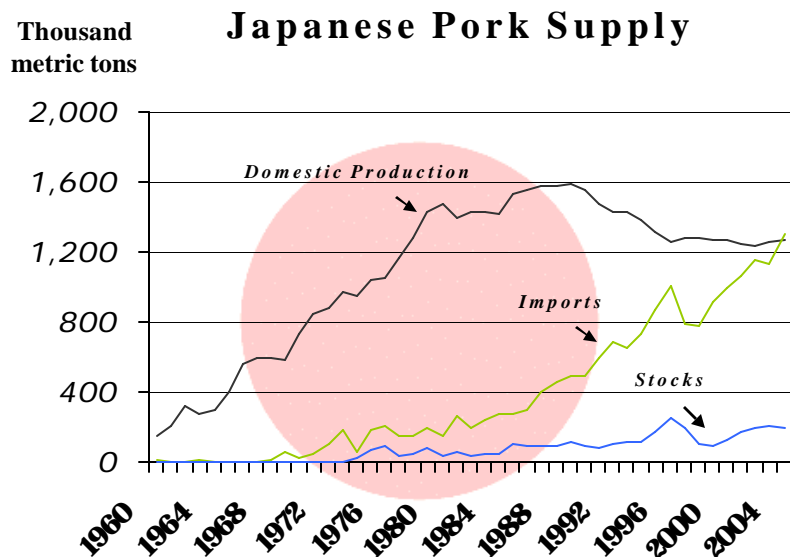
(GP) safeguard is the most commonly used. The GP safeguard, defined by the 1995 bilateral agreement between the United States and Japan, is now a part of the Uruguay Round Agreement, and applies equally to all WTO members. Under this special provision, Japan can raise the pork gate price by up to 24.6 percent whenever imports in a given quarter are 19 percent higher than the previous 3-year average for that quarter.

Since 1995, Japan has invoked the GP safeguard 6 times – 1995, 1996, 1997, 2001, 2002, and 2003. In the three years between 1997 and 2001, Taiwan, which previously had been the largest pork exporter to Japan, was barred from entering the Japanese market due to a foot and mouth disease (FMD) outbreak. Korean pork was also barred from entering Japan in 2000, due to FMD. By July 2001 however, other pork exporting countries managed to fully replace Korea and Taiwan’s market share, triggering once again the GP safeguard.

The Japanese Pork Market

Over the last 15 years Japanese domestic pork production has declined 20 percent, from 1.59 million tons in 1989 to 1.26 million tons in 2003. During this same period, the Japanese Ministry of Agriculture estimates that the number of hog farms fell from 50,200 to less than 9,500. While this decline is more apparent among smaller operators, the number of larger farms, with more than 500 animals, has also declined by almost 21 percent. Despite increasing productivity, the retirement of an aging farm population has not helped the Japanese pork industry keep up with the 1.5 percent annual growth in pork consumption.

Japanese pork consumption in 2004 appears to be growing even more significantly due to short supplies of beef and poultry. Japanese beef imports for January through May 2004 are 31 percent below 2003 levels. While the ban on U.S. beef, due to bovine spongiform encephalopathy (BSE), has helped boost Japanese imports from Australia (+ 28 percent) and New Zealand (+ 93 percent), the continuing shortage of high quality beef has elevated retail beef prices. Similarly, the ban on Chinese and Thai poultry has kept Japanese poultry imports at 33 percent below 2003 levels. Poultry imports from Brazil have increased significantly (+ 87 percent), but many Japanese consumers appear to be demonstrating a strong preference for pork. This seemed to be the precipitating factor that triggered the GP safeguard in the first quarter 2004.



Source: Foreign Agricultural Service, Official USDA Estimates

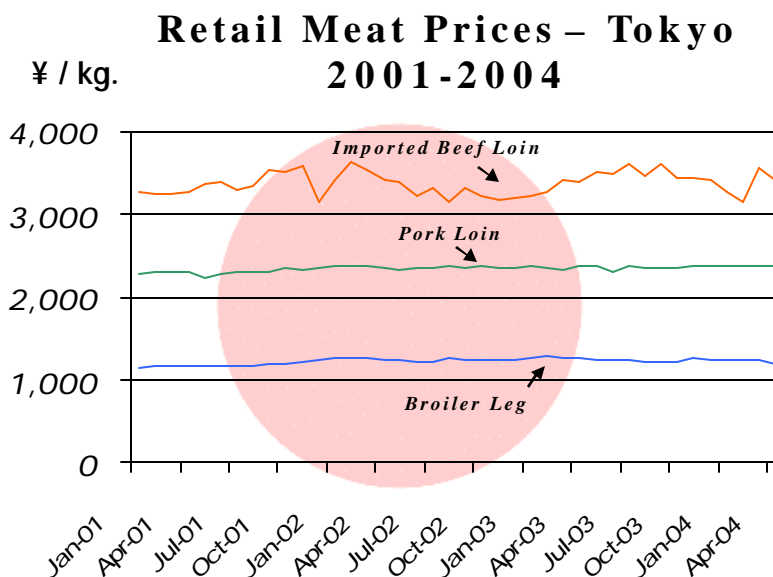
Japanese consumers typically prefer domestic pork, particularly Kurobuta, “Black Hog” pork. However, imported pork, both chilled and frozen, is widely available, and is often more affordable. Despite a preference for premium domestic product, price-conscious Japanese consumers are increasingly recognizing the quality of imported pork. Approximately 73 percent of Japanese pork imports are frozen, supplied primarily by Denmark, and usually destined for further processing. The United States supplies about 68 percent of Japanese imports of fresh/chilled pork, mostly distributed within the retail sector. It is important to note that the pork gate price system and the GP pork safeguard does not distinguish between frozen and fresh/chilled pork imports. Whereas frozen and fresh/chilled beef imports are subject to separate safeguard trigger levels, surging imports in either frozen or fresh/chilled pork will ultimately affect all pork imports. Indeed, this is the situation under the current safeguard trigger. This is not too unusual, especially as cold storage stock levels fluctuate. Traders can be motivated to purchase more frozen product in anticipation of safeguard gate price increases. Conversely, plentiful stocks can have an adverse impact on pork import levels. In 2003, Japanese ending pork stocks were almost 10.5 percent higher than the previous 3-year average. In 2003, pork imports from Denmark fell by almost 8 percent, contributing to a 2.5 percent decrease in total pork imports compared to the previous year.

Until recently, most exporters have pragmatically accepted the limitations of the pork gate price safeguard system. Despite some misgivings, most exporters have performed very well in the Japanese market. However, Mexico, which currently accounts for about 5 percent of Japanese pork imports, recently saw an opportunity to improve market access in negotiating a free trade agreement (FTA) with Japan. The Japan-Mexico FTA, which is expected to enter into effect on January 1, 2005, will immediately enable Mexico to export up to 38,000 tons of pork at half the current *ad valorem* tariff of 4.3 percent. This pork quota is scheduled to gradually rise to 80,000 tons in the fifth year of the agreement.

Japan: Facts and Figures

- **Population**
128 million
- **2003 GDP**
US\$ 4.3 trillion
- **2003 Per Capita Meat Consumption**

Beef – 10.3 kg.
Pork – 18.5 kg.
Chicken – 14.4 kg



Source: ALIC

Japan: Pork tariffs and

HS tariff lines	Product	Tariff	Note
0203	Meat of Swine, Fresh, Chilled or Frozen	4.3	GP
	Offal		
020630091	Internal organs of swine, fresh or chilled	8.5	
020630093	Other edible offal of swine, fresh or chilled	4.3	GP
020641090	Swine liver, frozen	8.5	
020649091	Internal organs of swine, frozen	8.5	
020649093, 94, 95	Other edible offal of swine, fresh or chilled	4.3	GP
	Salted, dried, or smoked meat		
021011	Salted, dried, or smoked hams and shoulders and cuts thereof, with bone in	8.5	GP
021012	Salted, dried, or smoked bellies and cuts	8.5	GP
021019	Other salted, dried, or smoked meat of swine	8.5	GP
02109011, 19	Other salted, dried, or smoked products	8.5	GP
1601	Sausages	10	
	Other prepared or preserved meat, offal, or blood		
160210	Homogenized preparations	21.3	
160220	Livers	21.3	
160241011, 19	Hams and cuts thereof	8.5	GP
160241090	Hams and cuts thereof	20	
160242011, 19	Shoulders and cuts thereof, sterilized	8.5	GP
160242090	Shoulders and cuts thereof, sterilized	20	
160249100	Boiled guts, bladders, or stomachs	0	
Gate prices		Yen/kg	US\$/lb¹
	Carcasses and half carcasses	393	1.63
	Cuts with bone in	524	2.18
	Boneless cuts	524	2.18
	Edible offal, except fresh / chilled internal organs and frozen livers	524	2.18
	Hams and cuts thereof	897.59	3.73
	Shoulders and cuts thereof	897.59	3.73

Notes: Refer to Customs Tariff Schedules of Japan for definitive information on Japan's tariffs. GP indicates that the tariff line is subject to the gate price system. HS stands for Harmonized System.

¹ Converted from Yen/kg using a June 2004 average exchange rate of 109 yen/US\$.

Sources: Japan Tariff Association, Customs Tariff Schedules of Japan, Japan Uruguay Round Country Schedule, 1995.

Summary of Pork Safeguard Trigger Levels and Actual Imports (metric tons) 1995-2004

JFY 1995					
	Trigger Levels	Cum. Total	April	May	June
I (Apr. - Jun.)	146,965	142,727	48,857	51,483	42,387
			July	August	September
I - II (Apr. - Sept.)	286,215	301,151	58,604	53,328	46,492
			October	November	December
I - III (Apr. - Dec.)	440,494	469,691	115,194	24,363	28,983
			January	February	March
I - IV (Apr. - Mar.)	567,029	536,547	21,837	25,181	19,838

JFY 1996					
	Trigger Levels	Cum. Total	April	May	June
I (Apr. - Jun.)	152,488	373,184	133,094	94,261	145,829
			July	August	September
I - II (Apr. - Sept.)	311,736	471,026	40,900	28,581	28,361
			October	November	December
I - III (Apr. - Dec.)	482,268	588,208	41,923	31,541	43,718
			January	February	March
I - IV (Apr. - Mar.)	594,000	665,596	34,254	19,814	23,320

JFY 1997					
	Trigger Levels	Cum. Total	April	May	June
I (Apr. - Jun.)	254,431	94,698	42,155	34,410	18,133
			July	August	September
I - II (Apr. - Sept.)	407,643	335,431	123,037	69,890	47,806
			October	November	December
I - III (Apr. - Dec.)	575,268	436,382	37,641	32,421	30,889
			January	February	March
I - IV (Apr. - Mar.)	677,074	519,975	30,482	27,248	25,863

JFY 1998					
	Trigger Levels	Cum. Total	April	May	June
I (Apr. - Jun.)	242,209	131,498	46,102	43,175	42,221
			July	August	September
I - II (Apr. - Sept.)	439,345	270,435	52,042	46,015	40,880
			October	November	December
I - III (Apr. - Dec.)	592,726	423,435	55,631	53,011	44,358
			January	February	March
I - IV (Apr. - Mar.)	683,104	548,128	38,893	38,008	47,792

JFY 1999					
	Trigger Levels	Cum. Total	April	May	June
I (Apr. - Jun.)	237,754	183,694	67,771	54,811	61,112
			July	August	September
I - II (Apr. - Sept.)	427,168	331,646	59,462	41,866	46,624
			October	November	December
I - III (Apr. - Dec.)	574,385	477,795	45,687	49,746	50,716
			January	February	March
I - IV (Apr. - Mar.)	687,703	655,828	56,609	58,401	63,023

JFY 2000					
	Trigger Levels	Cum. Total	April	May	June
I (Apr. - Jun.)	162,590	148,296	45,926	51,082	51,288
			July	August	September
I - II (Apr. - Sept.)	371,880	310,303	53,564	58,379	50,064
			October	November	December
I - III (Apr. - Dec.)	530,586	476,357	52,545	59,684	53,825
			January	February	March
I - IV (Apr. - Mar.)	683,826	654,354	53,645	55,755	68,597

JFY 2001					
	Trigger Levels	Cum. Total	April	May	June
I (Apr. - Jun.)	183,850	189,955	65,779	72,520	51,656
			July	August	September
I - II (Apr. - Sept.)	361,914	350,032	87,373	35,621	37,083
			October	November	December
I - III (Apr. - Dec.)	546,449	533,939	54,120	65,097	64,690
			January	February	March
I - IV (Apr. - Mar.)	737,133	709,560	68,979	58,305	48,337

JFY 2002					
	Trigger Levels	Cum. Total	April	May	June
I (Apr. - Jun.)	207,038	218,151	94,683	71,682	51,786
			July	August	September
I - II (Apr. - Sept.)	393,487	422,218	114,171	40,853	49,043
			October	November	December
I - III (Apr. - Dec.)	590,281	606,336	58,712	65,320	60,086
			January	February	March
I - IV (Apr. - Mar.)	801,163	751,912	63,715	48,456	33,405

JFY 2003					
	Trigger Levels	Cum. Total	April	May	June
I (Apr. - Jun.)	220,706	239,803	102,883	77,341	59,579
			July	August	September
I - II (Apr. - Sept.)	429,414	446,091	120,591	38,176	47,521
			October	November	December
I - III (Apr. - Dec.)	641,268	610,832	58,793	50,865	55,083
			January	February	March
I - IV (Apr. - Mar.)	839,279	783,238	61,203	62,571	48,632

JFY 2004					
	Trigger Levels	Cum. Total	April	May	June
I (Apr. - Jun.)	257,004	316,755	133,511	89,735	93,509
			July	August	September
I - II (Apr. - Sept.)	483,275				
			October	November	December
I - III (Apr. - Dec.)	694,603				
			January	February	March
I - IV (Apr. - Mar.)	890,399				

Source: Japan Ministry of Finance and ALIC Monthly

Japanese Pork Imports (in metric tons)

Fresh/Chilled Pork

Origin	1996	1997	1998	1999	2000	2001	2002	2003
Australia	25	403	1,549	2,139	3,824	6,325	11,364	9,466
Canada	7,242	15,804	20,347	28,314	41,133	44,661	44,370	35,078
EU-15	67	415	390	435	476	193	326	707
Korea	4,534	10,576	18,405	21,725	4,842	0	0	0
Mexico	23	267	1,910	6,622	12,927	14,356	11,956	9,338
Taiwan	79,772	12,332	0	0	0	0	0	0
United States	77,233	89,116	101,956	112,730	128,189	134,988	137,634	120,168
Others	1	0	0	3	9	42	6	0
Total	168,897	128,913	144,557	171,968	191,400	200,565	205,656	176,760

Frozen Pork

Origin	1996	1997	1998	1999	2000	2001	2002	2003
Australia	447	2,842	4,395	2,876	2,326	2,493	1,824	2,928
Canada	32,088	38,630	41,496	62,707	70,033	108,389	134,747	131,527
Chile	0	768	5,019	4,708	8,358	10,112	21,586	28,188
EU-15	157,426	194,918	150,529	213,614	273,645	236,219	256,950	250,344
Hungary	0	0	0	196	5,413	13,197	16,852	14,414
Korea	30,328	37,925	71,793	58,774	11,997	0	0	0
Mexico	13,012	24,771	28,694	30,167	26,866	27,844	28,677	25,136
Taiwan	186,454	35,206	0	0	0	0	0	0
United States	64,559	47,926	58,258	54,984	60,895	109,859	111,233	125,260
Others	82	61	196	67	138	12	56	0
Total	484,396	383,047	360,380	428,093	459,671	508,125	571,925	579,800

Processed Pork

Origin	1996	1997	1998	1999	2000	2001	2002	2003
Australia	0	0	2	1	0	167	770	839
Canada	14,417	8,546	9,880	13,674	14,715	10,291	7,142	7,350
China	332	927	1,092	1,655	2,282	2,696	3,357	4,406
EU-15	1,379	591	1,729	1,764	2,961	2,043	1,076	2,245
Korea	1	12	400	339	49	0	0	0
Mexico	2,063	1,712	1,042	361	470	342	94	0
Switzerland	49	29	22	22	16	12	7	3
Taiwan	1,046	141	0	39	200	618	295	222

Thailand	104	90	96	73	49	52	162	204
United States	34,015	25,467	24,338	24,798	23,690	22,006	22,101	24,328
Others	2	0	3	0	1	8	4	1
Total	53,408	37,515	38,604	42,726	44,433	38,235	35,008	39,598
Grand Total	706,701	549,475	543,541	642,787	695,504	746,925	812,589	796,158

Note: All data are reported in product weight

Source: Japan Customs

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