



International Agricultural Trade Report

Dairy Livestock & Poultry Trade Update

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Are Japan Safeguards on Beef Imports Expected? Not Until Mid-2003

There has been considerable recent speculation of a safeguard action by Japan on beef imports coming on the heels of the recent re-imposition of safeguard duties for pork. Given Japan's methodology for imposing beef safeguards and the reduction in Japanese beef imports since late in 2001, such an action appears extremely unlikely in the near term. However, those same factors point toward Japan having to evaluate the appropriateness of imposing a beef safeguard by mid-2003 as Japan's beef imports move back to traditional levels.

Japan's Beef Market in Turmoil Much of Last Year

In late 2001, Japan's beef market was dealt a serious blow when several cases of Bovine Spongiform Encephalopathy (BSE) were detected in domestic dairy cattle. Actions by Japanese officials did not calm consumer fears and beef consumption fell sharply, as much as fifty percent, taking import demand down with it. Beef consumption has steadily regained lost ground and has reportedly returned to near year-earlier levels.

Japan's monthly import volumes, however, remain below those of recent years. As beef supplies in storage, primarily frozen beef, are worked down to meet rebounding consumption, monthly import volumes are expected to return to near traditional levels.

Japan's Safeguard Mechanism for Beef is More Sensitive to Trade Changes

Unlike the safeguard system for pork, which is based on the total of all pork and pork product imports, Japan maintains two separate import safeguard systems for beef, one for fresh/chilled imports and another for frozen beef imports.

As is the case of pork, cumulative, quarterly import volumes during the April-March Japan Fiscal Year are measured against a calculated safeguard level volume to determine if import volumes in the period under review exceed the safeguard level. (The quarterly import triggers are cumulative for the Fiscal Year, i.e., the safeguard level trigger for the second quarter of a Fiscal Year is the sum of the first quarter plus the sum of the second quarter.) For pork, the safeguard trigger levels for each period are based on the average imports of the corresponding time periods of the three prior years trade. If trade in the current year period under review exceeds this average by 19 percent, the Government of Japan may take safeguard action until at least the end of the current Fiscal Year.

For beef, the safeguard level triggers use an identical cumulative volume comparison methodology, but only compare current period trade volumes (fresh/chilled and, separately,

frozen beef imports) against the prior year's corresponding import volumes. When current year, quarterly period imports of either product exceed the comparable prior year's volume by 17 percent, the Government of Japan may apply a higher tariff rate until at least the end of the current Fiscal Year. If the Government takes such an action, beef import tariffs would rise from the current 38.5 percent rate to a 50-percent rate.

Reduced Beef Imports in Calendar 2002 Likely to Trigger Safeguard Action in mid-2003

Japanese beef imports for the first quarter of their April – March 2002/03 Fiscal year were 54,328 tons of fresh/chilled beef and 57,811 tons for frozen beef. These volumes were sharply below the first quarter import triggers, 107,947 tons for fresh/chilled beef and 109,129 tons for frozen beef.

Given this slow start to cumulative totals, it is extremely unlikely that import volumes in the next quarters of the current Japanese fiscal year will trigger safeguards.

But these low first quarter import volumes (the lowest first quarter volumes since at least 1993) establish the starting points for setting next years trigger levels. The trigger for April –June cumulative fresh/chilled beef imports will be 63,564 tons, that for frozen beef will be 67,639 tons.

With beef consumption approaching pre-BSE detection levels, it is difficult to imagine beef import volumes in Japan's 2003/04 Fiscal Year not exceeding trigger levels as early as during the first quarter (April – June, 2003.) For frozen beef, a return to traditional pre-2002 monthly import volumes could result in reaching the trigger level in just the first two months of the first quarter. Even in the unlikely event that a first-quarter action could be avoided, the cumulative nature of the safeguard mechanism will in all likelihood trigger action in the following quarter.

The language of the Government of Japan safeguard notification does not require imposition of higher duties. It states that they "may apply" such rates. However, this is identical language to that used in the pork safeguard notification.

The Government of Japan took action on pork imports when triggers were met last year and during the current year.

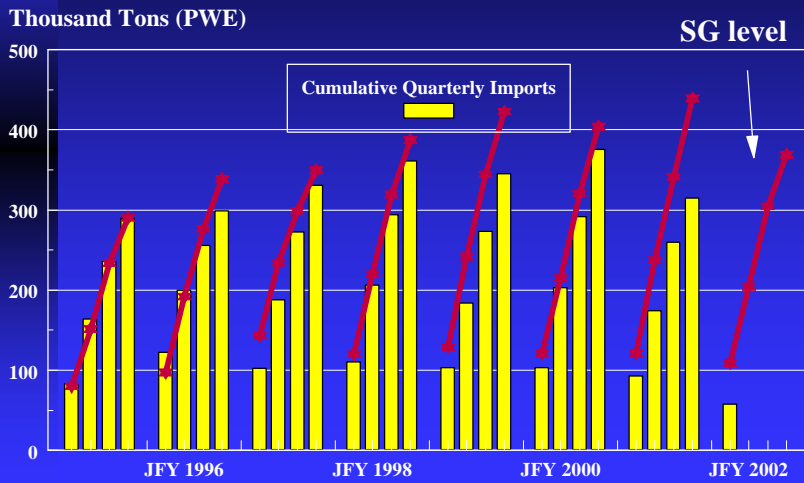
Challenges to U.S. Beef Exports to Japan Will Remain Strong

The United States exported a record \$1.46 billion of beef to Japan during calendar 2000. During 2001, exports dropped 15 percent to \$ 1.24 billion. With a slow January – May export pace to Japan, and reduced year-to-year beef export unit values, U.S. total beef exports to Japan are likely to fall further.

It is little consolation that our key competitors for market share are faring even more poorly in the depressed Japanese market.

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Japan's Reduced 2002 Frozen Beef Imports Likely to Remain Well Below Safeguard Trigger Level



Japan's Reduced 2002 Fresh/Chilled Beef Imports Likely to Remain Well Below Safeguard Trigger Level

