Darci Vetter
Written Testimony
Hearing on the U.S.-Japan Trade Agreements
Committee on Ways and Means
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Chairman Blumenauer, Ranking Member Buchanan, and Members of the Trade Subcommittee, thank you for the opportunity to discuss the recently concluded U.S.-Japan Trade Agreement. The Agreement is critical for U.S. agriculture to remain competitive in the Japanese market and will provide a much-needed lifeline for U.S. agricultural exports at a time when the sector is facing significant headwinds at home and abroad. However, this tariff-only Agreement does not address regulatory and other non-tariff barriers to trade, as past trade agreements have done. Further, the policy environment that led to this Agreement was truly unique, so while the Agreement provides a much-needed short-term win for U.S. Agriculture, I would caution against using it as a model for future agreements.

Significant Challenges for the Sector:

U.S. Agriculture is struggling; several years of low commodity prices have stretched the resources of farmers and ranchers around the country, while catastrophic flooding in multiple states has reduced planted acres and impacted quality for this year's harvest. At the same time, farmers are being squeezed by tariffs on steel and aluminum imports on one side and retaliatory tariffs on U.S ag exports on the other. Together, these declining prices and exports sales combined with rising input and farm machinery costs contributed to a 16% decrease in U.S. net farm income in 2018, compared with 2017[i]. In this context, the U.S.-Japan Agreement could not come soon enough.

Japan is currently our third largest agricultural export market. Total U.S. exports of agricultural products to Japan totaled $13 billion in 2018. Leading domestic export categories include: corn ($2.8 billion), beef & beef products ($2.1 billion), pork & pork products ($1.6 billion), soybeans ($927 million), and wheat ($717 million)[ii]. Of these, corn and soy enter freely into Japan, but beef, pork and wheat face significant market access barriers, including high tariffs on beef, a significant markup charged on wheat imports, and a complicated gate price scheme that penalizes exports of lower-value pork cuts.

Over the past few years, Japan has concluded comprehensive trade deals with some of our strongest competitors, including Canada, Australia, New Zealand, Chile and Mexico through the

Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), as well as the EU, which concluded its Economic Partnership Agreement with Japan in 2017. Without our own Agreement in place, the CPTPP and EU-Japan Agreements will undermine U.S. market share in Japan, a process that is already starting to bear out in this year's export numbers.

In part, the U.S.-Japan Agreement can reverse this trend. It provides broad benefits across the sector and would immediately bring the tariffs paid by U.S. farmers and ranchers to the same level as those faced by CPTPP and EU countries. The agreement's tariff reductions are structured the same way as the CPTPP and EU-Japan Agreements, provide a substantial majority of the benefits that would have been provided had the United States remained a participant in TPP.

To illustrate the importance of maintaining our competitive position in the Japanese market, let's look more closely at U.S. exports of pork, beef and wheat:

Japan is the leading export market for U.S. pork and beef; Exports to Japan account for about 25% of the total export value of each head of cattle and each pig slaughtered in the United States. In the first nine of months of 2019, with both CPTPP and the EU-Japan Agreement in force, Japan's purchases of pork from CPTPP countries and the EU increased by $200 million, while US exports to Japan fell $97.5million over the same period[iii]. Without the U.S.-Japan deal in place, the U.S. Meat Export Federation estimates that, on a per head basis, continued losses would equate to $4.55 per head by 2023 and $7.06 per head by 2028[iv].

U.S. beef exports to Japan have been surprisingly resilient, reaching more than $2 billion in 2018, despite the tariff advantage (nearly 13%) Australia, the EU and Canada have over U.S. beef. This is due in part to low supplies in drought-ridden Australia and high demand in the EU and Canada, both of which are driving up the price of beef from those markets. In contrast, demand for U.S. beef has been weaker, lowering prices and blunting the impact of the current tariff environment. Even so, we are beginning to see Japan choose Canadian product over the United States. In the first six months of 2019, Japan imported 6% less chilled beef from the United States, while imports from Canada have risen 126%, compared to the same period in 2018. Without the U.S.-Japan Agreement, we would expect Australia and Canada to continue taking market share.

While the tariff relief for beef is of utmost importance, it is worth examining the safeguard provisions for beef as well. The Agreement ensures that U.S. beef exports will not be covered by Japan's WTO safeguard, which would subject U.S. beef exports to 50% tariffs once triggered. Neither the EU nor CPTPP countries are currently covered by the WTO safeguard However, the beef safeguard in the U.S.-Japan Agreement allows for very limited growth before snapback duties will be applied—4,840 metric tons in years 3-9, 2,420 metric tons in years 10-14, returning to the 4,840 metric ton level in year 15, and phasing out in year 16. At these levels, it is likely that the safeguard will trigger each year, raising tariffs on U.S. beef until the end of the safeguard period.

On average, Japan imports 3 million metric tons of wheat from the United States each year, giving the United States about 50% market share in this very specific, demanding market. But preferential access granted to Canadian and Australian wheat producers under the CPTPP has given these producers a nearly $70/ton price advantage into the Japanese market. The U.S.-Japan Agreement would provide access to U.S. wheat producers on the same terms as those enjoyed by their CPTPP competitors, protecting more than 10% of U.S. annual wheat exports worth more than $700 million last year alone.[v]

While the Agreement is undoubtedly a positive for agriculture, there are a number of reasons why this deal may not be an appropriate model for opening other markets, particularly for U.S. agriculture. The Agreement provides important market access for much of the U.S. agriculture sector, but its coverage is not comprehensive. An initial review of the text showed that several categories of products were excluded from the Agreement, including some of significant export interest to the United States. Key product exclusions include rice, butter, milk powders, lamb/sheep meat, fresh poultry, sugar and sugar-containing products, and several horticultural items including tomatoes, cucumbers, peppers, grapefruits, tangerines, mandarins, pears, grapes, melons and strawberries.[vi]

Given the breadth and depth of U.S. export interests in agriculture, these exclusions are important not only because these products will not gain new market access into Japan, but also because future trading partners may see the exclusion of these products as a signal that the United States is willing to exclude products in future deals with the United States.

While the deal provides important tariff relief, it does not provide the structure to help alleviate non-tariff barriers that our other, more comprehensive, trade agreements do. The volume, variety and value of U.S. agriculture exports continue to grow, and as higher-value products like meat, dairy and fresh produce make up a larger portion of our exports, sanitary and phytosanitary (SPS) regulations become more central to our trading priorities. Careful coordination, proper implementation, a strong scientific basis and transparency are required to ensure that these SPS rules are not being used to take the place of tariffs. When SPS rules are misapplied, they are often even more damaging than tariffs, completely closing markets to U.S. products. A strong SPS chapter is an extremely valuable element of U.S. trade agreements.

In addition to being a major agricultural producer, the United States also excels in agricultural services and technology. Apart from tariff relief, U.S. agriculture also benefits when trade agreements provide new access for trade in services as well as intellectual property protection, among other provisions like commitments on transparency and enforcement.

These concerns raise the question of the prospects for a Phase II of the U.S.-Japan Agreement, the timing of such a deal, and what it might contain. It is important that any second phase include an opportunity to augment the current tariff provisions with a robust chapter on SPS and other provisions to address and prevent non-tariff barriers, as well as an opportunity to reduce or eliminate tariffs on those products not covered by the current Agreement.

Finally, we cannot overlook the fact that the timing and political context for the U.S.-Japan Agreement were unique. In this instance, there was a sense of urgency on both sides to reach agreement, and it just so happened that each side was motivated by the opportunity to gain or maintain access for the other's most sensitive products—automobiles for Japan and agriculture for the United States. It is also worth noting that Japan had already provided the tariff concessions in the U.S.-Japan Agreement to multiple other trading partners, so their market was already open.

We could expect, however, that a phased approach to negotiating with future trading partners would favor moving forward with the most non-controversial issues first, grabbing the so-called "low hanging fruit" to build momentum for later phases of the negotiations. In most countries, agriculture is the most protected sector and the most politically sensitive to trade liberalization, meaning that under a phased approach, gains for agriculture would move to the back of the bus.

As noted in an OECD report that examines agricultural opening under Regional Trade Agreements (RTAs), "[a]griculture has long been considered a sensitive sector with respect to trade policy disciplines and liberalisation compared to manufactured goods….This often means that the agricultural sector is treated differently in RTAs compared to other goods….While agriculture is included in all RTAs as required by the GATT-WTO article xxiv, the agreements offer substantial flexibility on what to liberalise, how fast and to what extent."[vii] In other words, free trade agreements already contain a lot of exceptions to full market opening for agricultural products, and following a phased approach could provide another opportunity to delay marketing opening to U.S. agricultural exports. While the U.S.-Japan Agreement was an opportunity to grab some "low hanging fruit" for U.S. agriculture, it is likely that in most other instances the "low hanging fruit" won't include actual fruit—or meat, dairy, grains, or wine.

In summary, the U.S.-Japan Agreement is an important step forward with a leading trade partner at a critical time. It will provide our farmers an opportunity to regain market share and grow exports into an established, high-value market. But the tariff-only approach to this Agreement is not a substitute for a more comprehensive agreement, and is not a structure that, if replicated with other countries, is likely to be advantageous for U.S. agriculture. The United States should seek a more comprehensive agreement with Japan as part of any second phase negotiations.

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[i] Congressional Research Service, "Retaliatory Tariffs and U.S. Agriculture", Anita Regmi, September 2019. https://fas.org/sgp/crs/misc/R45903.pdf

[ii] www.ustr.gov

[iii] U.S Meat Export Federation, based on Japanese import data

[iv] U.S Meat Export Federation, based on Japanese import data

[v] US Wheat Associates, https://www.uswheat.org/wp-content/uploads/2019/09/Japan-Agreement-Urgent-for-U.S.-Wheat-Producers.pdf

[vi] This list should not be considered exhaustive; a more thorough review is required to determine whether products within product categories may have been excluded as well.

[vii] OECD (2015-03-01), "Regional trade agreements and agriculture", OECD Food, Agriculture and Fisheries Papers, No. 79, OECD Publishing, Paris. http://dx.doi.org/10.1787/5js4kg5xjvvf-en