A *CHOICES* Debate On... Japanese Beef Trade Liberalization

It May Not Benefit Americans

by Julian M. Alston, Colin A. Carter, and Lovell S. Jarvis

For many years Japan has restricted its beef imports. The United States, Australia, and other countries have pressed Japan to reduce these restrictions. Japan recently agreed to "liberalize" beef imports. The conventional wisdom in the United States is that the liberalization will mean increased U.S. beef exports to Japan to the benefit of beef producers and the United States as a whole. This view overlooks key aspects of Japanese and U.S. policy and may be seriously in error. We question whether U.S. exports will grow faster under the liberalized policy and whether producer benefits will outweigh U.S. consumer costs.

The Old Japanese System

The beef industry accounts for only a small percentage of Japanese farm production—less than 5 percent in 1985. Nevertheless, the beef industry has enjoyed powerful political support as reflected in a nominal protection rate of over 400 percent. Japan has protected its beef producers primarily through the use of import quotas. Controls on the import mix have become increasingly specific and quota arrangements have become increasingly complex as total beef imports have increased.

Until 1969, beef and veal imports by Japan amounted to less than 25,000 metric tons (mt), carcass weight equivalent, and accounted for less than 10 percent of domestic consumption. By 1987 imports had reached 325,000 mt, while production nearly tripled to 600,000 mt.

Under current arrangements, the Livestock Industry Promotion Corporation (LIPC) allocates approximately 80 percent of the total quota. The LIPC has filled the greatest part of this quota by tendering specific qualities and quantities of beef among importers. Private traders who import the remaining 20 percent have a greater degree of choice of types and cuts of beef. The Japanese government—through the LIPC—can influence the sources of imports by choosing a mix of desired "quality" since different suppliers produce different types of beef. In particular, Australia and New Zealand specialize in the production of grass-fed beef while the United States and Canada specialize in grain-fed beef.

The Australian government has claimed that the Japanese have managed the quota system to favor U.S. interests. Changes in the total Japanese imports of beef and offal and the mix between sources and beef types provide some support for this claim (Figure 1). In 1970, Australia supplied 87 percent of all Japanese beef and veal imports and the United States only 2 percent. In recent years Australia's share fell—from 77 percent in 1979 to 59 percent in 1986. The U.S. share rose from 18 percent to 35 percent.

These changes are not associated with a U.S. comparative advantage in beef. Australia is the largest exporter in the world. In contrast, as shown in the table, the United States is the largest (net) importer.

U.S. Is Largest World Beef Importer

	Production	Consumption	Imports	Exports
Australia	1,508	615	—	555
New Zealand	555	120	—	275
United States	10,886	11,638	675	243
Canada	997	975	72	72
Japan	565	1,008	222	—

Source: Based on Table 1 in Harris *et al.*

Notes: (a) All quantities are thousand mt for calendar year 1987 except for Australia (financial year ending June 1987) and New Zealand (year ended September 1987); (b) production and consumption are carcass weight equivalent; (c) imports and exports are shipped weight; (d) these countries trade in foot and mouth disease free beef only.

In the past two decades, the United States has consistently imported beef from a number of nations, mainly Australia and New Zealand, and maintained a beef import quota (or voluntary export restraint (VER)) to protect its domestic producers.

There are two possible explanations for the increasing share of U.S. beef in Japanese imports. One is that the Japanese have man-

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aged quotas to favor U.S. beef. The other is that the Japanese have a much higher income elasticity of demand for grain-fed beef than for grass-fed beef. During the last two decades Japan has imported increasing quantities of so-called "high quality" beef which, in the quota specifications, is defined as being grain-fed beef. The Japanese government has claimed that this pattern reflects consumer preferences. The Australians claim that the allocation of the global quota discriminated in favor of grain-fed beef.

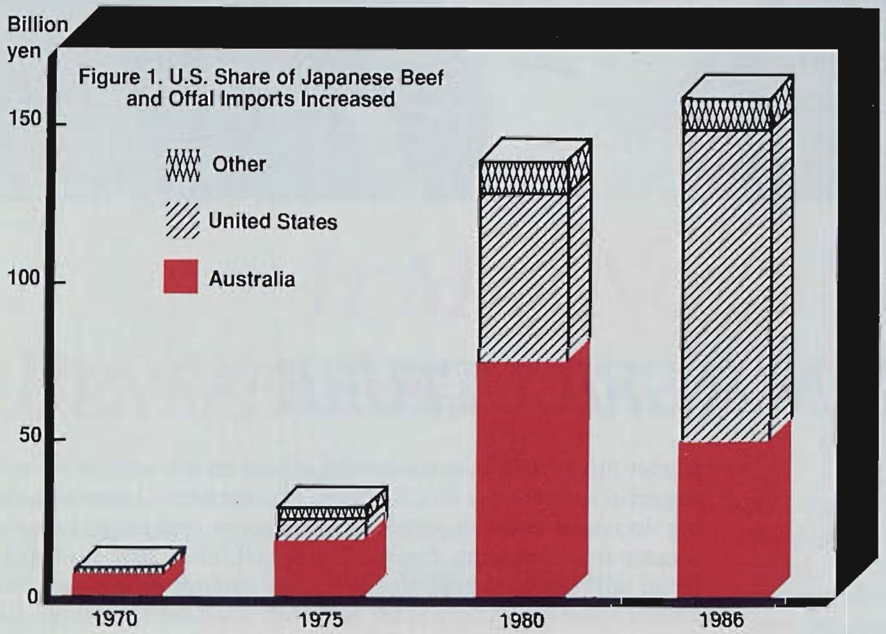

Figure 1. U.S. Share of Japanese Beef and Offal Imports Increased

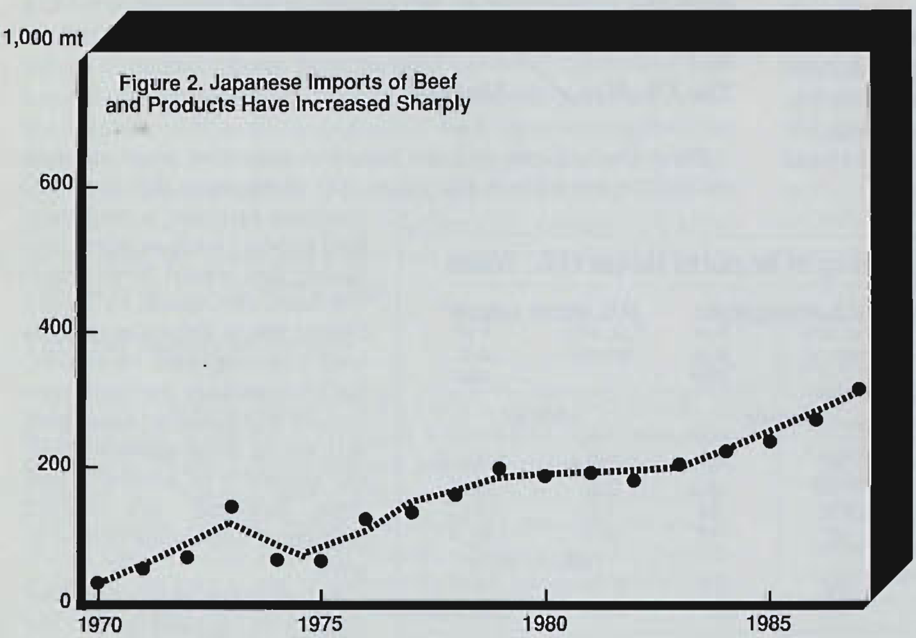

Figure 2. Japanese Imports of Beef and Products Have Increased Sharply

What evidence is available? First, quotas have been manipulated to permit higher importer margins on higher price beef. This has encouraged diversion of quotas toward grain-fed beef. Indeed, the percentage tariff equivalent on leaner beef appears to have been higher than that on higher priced beef.

Second, the Japanese defined offals—which enter Japan outside the quota and free of limitations apart from a small tariff—to include diaphragm beef (outside skirts and hanging tenders). These are relatively good beef cuts. More importantly, only about two pounds of this beef is produced per animal. Thus, the amount of diaphragm beef available from each exporting country is directly proportional to the number of animals slaughtered. The United States was the primary beneficiary of this approach capturing more than 70 percent of total diaphragm beef imports by Japan. In fact, U.S. exports of "offal" to Japan in recent years have been greater in quantum and value than U.S. exports of beef and veal under quota. The price of diaphragm beef in the United States nearly tripled in the last three years and, in 1989, more than 95 percent of all the diaphragm beef produced in the United States was exported to Japan. It seems clear that this imaginative aspect of the quota policy was designed to favor the United States.

The New System

Under the 1984 four-year agreements with the United States and Australia, Japan's beef imports were to increase annually by 9,000 mt—6,900 mt of "high quality" (grain-fed) beef and 2,100 mt of "other" (grass-fed) beef. These increments would have brought the total quota to 177,000 mt by 1988. In fact, because of increased domestic demand, the Japanese increased the total quota significantly beyond the agreed amount.

In spite of these favorable changes, the Australian and U.S. governments filed a complaint against the Japanese with the GATT in early 1988. Before the GATT could take action, Japan announced in June 1988 that it had reached new bilateral agreements with both the Australian and U.S. governments. Under the new agreement the Japanese import quota will increase by 60,000 mt annually through 1990 (the transition period) prior to being eliminated altogether on April 1, 1991. The current 25 percent import tariff will be raised temporarily to 70 percent in 1991 and thereafter lowered to 60 percent in 1992 and to 50 percent in 1993 (the post-transition period). Additional safeguards allow for an additional 25 percent tariff in any year during the post-transition period in which beef imports increase by 20 percent over the previous year.

Under the new arrangements, total Japanese beef imports will increase by 50 percent or so over three years, with potential for further increases. Whether U.S. exports to Japan increase or decline in absolute terms depends on substitution in consumption between different qualities and sources of beef, and on the capacities of the livestock industries in different countries to supply an expanded market. Of course, the relevant comparison from a narrow U.S. perspective is not whether U.S. exports increase in absolute terms but, rather, whether they increase more than they would have under a continuation of the previous policy of managed, but growing, quotas.

Several econometric studies have estimated the demand for beef in Japan and two of these (Wahl et al. and Harris et al.) have predicted the likely trade impacts of the reforms.

Both studies predict that total Japanese beef imports will approximately double by the middle 1990s, with Wahl et al. predicting a gain in the U.S. share from 39 percent to 43 percent, and Harris et al., predicting a decline from 52 percent to 46 percent.

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Each study predicts a rise in U.S. exports given the large increase in total Japanese imports.

Two Caveats

We raise two possible caveats regarding future U.S. beef exports. First, the rise in imports may not be greater than it would have been without the reform. We suggest that Japanese beef imports would have grown briskly with a continuation of the previous policy regime, so that the *increment* (due to the reform) may be small. Figure 2 shows Japan's beef imports for 1970 to 1987. The growth rate is 12 percent for the period and 17 percent for the last 10 years. The growth rate of U.S. exports has been over 30 percent. Extrapolating the long-term growth rate of 12 percent per annum from 1987 would imply total imports of about 1.8 million mt in the year 2000. Interestingly enough, the U.S. government projects total Japanese imports under the policy reforms of 1.9 million mt in 2000. Essentially, then, the reform could be seen as an agreement by Japan to expand imports at a rate which is in the same range as its past long-term growth, but not to manage the mix of imports. If so, the main effect of the reform will be in the reallocation of market shares.

Second, the econometric estimates assume continuation of the existing market structures. However, substantial structural shifts could occur over the long run. For example, the United States may be able (by virtue of current production and infrastructure) to supply a higher proportion of an expanded Japanese demand in the short run. However, Australia can almost certainly produce similar grain-fed beef for export to Japan in the long run. Canada and New Zealand can also do so. Indeed, the Japanese are allegedly purchasing land, cattle and packing plants in all three countries, as well as in the United States. Thus, we would be surprised if the U.S. share of Japanese beef imports did not erode substantially over time.

Finally, even if the U.S. beef industry were to gain from Japanese liberalization, net U.S. welfare may decline. If Japanese liberalization increases world beef trade, the price of beef should increase in every country which is closely linked to world prices. Thus, U.S. beef producers could indirectly gain from Japanese beef trade liberalization, even if U.S. beef exports to Japan decline. However, since the United States is likely to remain a net importer, its consumers should lose more from a beef price increase than its producers gain.

Admittedly, Japanese liberalization could make it more difficult for other countries to protect their beef sectors, including the United States. If so, U.S. consumers, and thus economic welfare, could benefit significantly from liberalization of U.S. beef policy.

Two-thirds of Japanese beef production comes from dairy breeds. Bill Coyle

For More Information

The Relative Inefficiency of Quotas by J. E. Anderson, and published by MIT Press, Cambridge, in 1988.

"Policy Changes Affecting Pacific Beef Trade: A Preliminary Analysis" by D. Harris, G. Corra, and I. Shaws. Paper presented to Workshop on Agricultural Policy, Trade, and Development; PECC/KREI, Seoul, Korea, in May 1989.

"The 1988 Japanese Beef Market Access Agreement: A Forecast Simulation Analysis" by T. I. Wahl, G. W. Williams, and D. J. Hayes. Journal Paper No. J-13228 of the Iowa Agriculture and Home Economics Experiment Station, Ames, 1989.

"Japanese Beef Policy and GATT Negotiations: An Analysis of Reducing Assistance to Beef Producers" by T. I. Wahl, G. W. Williams, and D. J. Hayes. MERC Staff Report No. 6-87 of the Meat Export Research Center, Iowa State University, Ames, 1987.

We question whether U.S. exports will grow faster under the liberalized policy and whether producer benefits will outweigh U.S. consumer costs.

Trade liberalization is an attractive national policy, even though instances will occur where it does not specifically benefit the United States. For several decades following World War II, the United States consistently sought trade liberalization, believing that greater economic interdependence among nations would contribute to global harmony. More recently, U.S. negotiators have pressed for liberalization when they believed that a trading partner unfairly excluded U.S. exports. We suggest the liberalization of Japanese beef quotas conforms better to the former strategy. Consequently, Japanese liberalization of beef imports should not be construed as an exchange, wherein the Japanese conveyed benefits to the United States *in exchange for* either the continuing protection of other Japanese economic sectors or for improved access for Japanese products to U.S. markets. Instead, liberalization of Japanese beef imports benefits primarily the Japanese and, secondarily, the Australians.