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In The Cattle Markets

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The EU-Japan Agreement and Implications for U.S. Beef

It was announced last week that the European Union (EU) and Japan have agreed in principle to an Economic Partnership Agreement. The agreement will gradually lower import tariffs on EU beef and pork entering Japan with an expected start date in early 2019. This deal is significant to the U.S. beef industry because it will give EU beef and pork an advantage in one of the most prominent U.S. beef export markets. Approximately one-quarter of total U.S. beef exports were to Japan in 2016 at a value of over \$1.5 billion.

Currently, EU beef imported by Japan is subject to a 38.5 percent tariff. However, under the agreement, the import tariff for EU beef is proposed to gradually decrease to 9 percent over 15 years. This will lower the cost of EU beef for Japanese importers relative to U.S. beef. The EU is not a major competitor to the U.S. in the Japan beef market currently, but lower tariffs are likely to lead to increased imports from the EU. This is seemingly a goal of the agreement as it is directly stated in the European Commission's announcement that it "will allow the EU to increase its beef exports to Japan substantially" (see the announcement [here](#)). If that statement comes to fruition, it has the potential to decrease the U.S. market share of beef in Japan.

The U.S. and the EU are the two largest exporters of pork to Japan. Increased imports of EU pork in Japan could result in reduced U.S. pork exports to Japan. This could indirectly impact the U.S. beef industry. If U.S. pork exports to Japan decrease, the pork that would have been exported still has to go somewhere unless production decreases. While increased exports to other countries are an outlet, it is also possible that the pork would end up on the U.S. market. This would lead to a larger supply of pork to be consumed in the U.S. – at the meat counter next to beef.

Lowering tariffs through this type of agreement is what the now-withdrawn Trans-Pacific Partnership (TPP) would have done for U.S. beef. The TPP was slated to decrease the tariff on U.S. beef imports from 38.5 percent to 9 percent over a 16-year period. Australia, a major beef exporter, already has an agreement in place with Japan that provides lower import tariffs on beef. These deals require a lot of work and negotiations across many sectors. For instance, the EU-Japan agreement also includes deals for cars and financial services. However, the announcement of the EU-Japan agreement is a reminder of how these deals can impact individual markets. Until a new agreement is reached, U.S. beef will continue to compete at a disadvantage in Japan.

The Markets

Many feeder auctions were closed last week for the Independence Day holiday. Fed cattle prices were down between \$1 and \$2 last week on average for live and dressed steers. The boxed beef cutout value continued to slide. The choice cutout value is down nearly \$24 over the last two weeks. Rib value has decreased significantly over this period.

<i>Data Source: USDA-AMS Market News</i>		Week of 7/7/17	Week of 6/30/17	Week of 7/8/16
5-Area Fed Steer	all grades, live weight, \$/cwt	\$117.58	\$118.64	\$120.02
	all grades, dressed weight, \$/cwt	\$188.18	\$189.95	\$190.80
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$221.09	\$230.64	\$209.33
	Choice-Select Spread, \$/cwt	\$16.33	\$17.80	\$13.08
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$171.01	\$169.54	\$153.80
	Oklahoma 8-market, \$/cwt	--	\$150.96	--
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	--	\$163.50	--
	Nebraska 7-market, \$/cwt	\$183.63	\$196.99	\$174.00
	Oklahoma 8-market, \$/cwt	--	\$166.07	--
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.56	\$3.32	\$3.16
	DDGS, Nebraska, \$/ton	\$101.75	\$98.50	\$140.25