

‘Just another headwind’: U.S.-Japan trade deal dims rare bright spot for Canadian farmers

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A preliminary U.S.-Japan trade deal is expected to slash tariffs for American beef and pork exports, ending Canada’s advantage in the lucrative Asian market at a difficult time for farmers.

Early reports on the bilateral pact, struck on the sidelines of the Group of Seven summit in Biarritz, France, suggest it would level the playing field on meat tariffs with the 11 members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Canadian exports have surged since CPTPP came into effect in January, with domestic pork outpacing U.S. competition for the first time in April — a rare bright spot in a particularly fraught year for Canadian meat farmers who have seen shipments to China suspended and pork prices plunge due to tensions between Washington and Beijing.

“In the past few months, as the U.S.-China trade war flared up and China turned away from us, Japan was one of the few markets where we had increased volume,” Gary Stordy, director of government and corporate affairs at the Canadian Pork Council, said. “We were able to substantially increase our market share. Now this is just another headwind.”

U.S. President Donald Trump and Japanese Prime Minister Shinzo Abe announced an agreement in principle on Sunday that would slash tariffs on agricultural goods and postpone the threat of national security tariffs on Japanese autos. Trump also said Japan would purchase large quantities of U.S. wheat and corn in a deal he called “tremendous for the farmers.”

Though no official terms have been released, tariffs on American beef and pork will be reduced to levels set by the Trans-Pacific Partnership, Japan’s Nikkei newspaper reported.

The White House is under pressure to deliver a win to farmers caught in the crossfire of a U.S.-China trade war that has seen Beijing slap stinging retaliatory tariffs on American soybeans and pork. U.S. farmers have also had to watch from the sidelines as nations like Canada and Australia gained market share in Japan due to the lower tariffs afforded to them under the CPTPP, a deal abandoned by Trump in 2017.

“That’s the whole point here,” Simon Lester, a trade policy analyst at Washington’s Cato Institute, said. “By withdrawing from the TPP, the U.S. missed out and now they’re trying to make up for it.”

The proposed U.S.-Japan trade deal would open the Asian market to \$7 billion of American products including ethanol, as well as beef, pork, dairy products and wine, said U.S. Trade

Representative Robert Lighthizer. It would also reduce tariffs on some Japanese industrial products and include a clause on e-commerce.

If the final deal matches CPTPP tariff levels, it will likely raise political tensions with the other member nations of that pact, trade analysts say. The narrow scope of the proposed deal is also prompting questions about its compliance with international trade law. The World Trade Organization's "most favoured nation" provision requires countries to provide any privileges or concessions granted to one nation to all other WTO countries.

Countries can only deviate from this rule when negotiating free trade agreements that cover "substantially all of trade," Chad Bown, a senior fellow at the Peterson Institute for International Economics, said.

"There is a question of what 'substantially all trade' means," Bown said. "Is it 99 per cent? Is it 90 per cent? It's never been fully articulated."

However media reports on the US Japan deal suggest it is "very limited" he added, and would hardly qualify as covering "substantially all trade." That could leave the deal vulnerable to challenges from other countries before the WTO.

"The U.S.-Japan deal is not comprehensive right now, it's only on a few products," Lester said. "So the CPTPP nations might complain, other big agricultural exporters like Brazil might do the same."

The U.S. could suggest however, that the deal is part of a two-step agreement that will see negotiations continue and eventually progress toward a free trade agreement, he suggested, noting that the deal has yet to be completed.

Canadian meat exports have soared under the CPTPP with shipments of chilled pork to Japan up 8.5 per cent to 17,800 tonnes in April, nudging ahead of the U.S. for the first time, according the Japanese customs data.

Meanwhile, a second round of tariff cuts lowered the tariffs on Canadian beef from an initial 38.5 per cent to 26.6 per cent on April 1, prompting monthly exports to jump 42 per cent from 3,608 tonnes in April to 5,121 tonnes in May — a new monthly record high volume, according to Canfax Research Services. The overall volume of Canadian beef exports to Japan was up 62 per cent to 22,600 tonnes in the first six months of the year after the CPTPP came into effect.

Bob Lowe, vice president of the Canadian Cattlemen's Association, declined to comment on a potential U.S.-Japan deal until details are made publicly available.

"Generally speaking though, all trade is good and anything that supports the growth of the highly integrated North American beef industry is positive," he said in a statement.