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## **Comments on Negotiating Objectives for a U.S.- Japan Trade Agreement**

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U.S. Wheat Associates (USW) strongly supports negotiations with Japan on agricultural market access that prioritize preventing damage to U.S. wheat farmers due to preferential access granted by Japan in other trade agreements. These agreements have the potential to undo decades of market development work in Japan by U.S. wheat farmers and put much of the valuable Japanese wheat market out of reach. Therefore, the top priority for U.S. wheat farmers is to prevent losses to our competitors through expanded access to the Japanese market.

### **Market Overview**

Japan is a critical market for U.S. wheat farmers. It has been a large and consistent buyer of U.S. wheat for decades, with U.S. wheat farmer market promotion in Japan dating back to the U.S. occupation after World War II. In marketing year 2017/18, Japan was the second largest importer of soft white, hard red spring, and hard red winter wheat, ranking just behind Mexico as the largest destination overall. Japan is also a relatively inelastic buyer of U.S. wheat, which helps underpin prices for U.S. farmers. However, there is still competition in the Japanese market and consolidation pressures that mean U.S. market share is not guaranteed. The other major wheat suppliers to Japan are Canada and Australia, which together comprise around half of imports.

### **Mark-Up System**

Japan's import system for wheat is state-directed, with only the Ministry of Agriculture, Forestry and Fisheries (MAFF) allowed to import duty-free. Duties applied to all other entities are prohibitive (55 yen/kg or \$500/MT). Wheat imported by MAFF is resold to flour millers, but MAFF adds a "mark-up" to the resale price. The mark-up is based on MAFF's administrative costs and estimated income supports for Japanese wheat producers. It is not publicly released but is widely known among the flour milling companies. The current mark-up is reportedly set at 17.4 yen/kg (\$154/MT). This is effectively a tariff on imported wheat, and in most countries a tariff this high would be prohibitive, but steady demand in Japan amidst a tightly controlled system has allowed trade to continue.

MAFF imports six classes of wheat under the traditional mark-up system: HRS, HRW, and SW from the United States; ASW and APW from Australia; and CWRS from Canada. There is also a program under MAFF called “Simultaneous Buy Sell” (SBS) that allows wheat from other origins or classes, but these are limited and also subject to the mark-up.

### **CPTPP Impacts**

U.S. wheat farmers are alarmed by the implementation of the updated Trans-Pacific Partnership (CPTPP) without the United States. This agreement will grant preferential access to Canadian and Australian wheat exports upon entry into force at the end of this year with a mark-up cap at 16.2 yen/kg (\$148/MT) compared to the current mark-up of 17.4 yen/kg (\$154/MT). This will be followed by another reduction just three months later to a maximum of 15.3 yen/kg (\$140/MT). The reduction will continue through 2027, when Canadian and Australian wheat will be sold with a mark-up of just 9.4 yen/kg (\$86/MT), roughly \$70/MT or 45 percent below the current mark-up rate applied to U.S. wheat, which Japan has no obligation to change.

Japanese flour millers and product manufacturers will respond to the new competitive reality by reducing the share of U.S. wheat in their products. For some products this will simply mean buying Canadian or Australian instead of American. Others will need to be reformulated to account for different quality characteristics from different origins. Others may need to transition more slowly to avoid changes in consumer perceptions. But all processors will be looking to reduce their exposure to higher priced U.S.-origin wherever possible.

### **Objectives**

U.S. wheat farmers’ primary objective is to ensure that the vulnerability created by CPTPP is fixed. The departure of the United States from TPP left an enormous vulnerability for U.S. wheat farmers that must be fixed as soon as possible by new market access gains as part of a U.S.-Japan agreement.

We also support including other chapters related to agriculture that were agreed to by both the United States and Japan in TPP – such as the SPS chapter – and building on these where possible with language that was included in the U.S.-Mexico-Canada Agreement (USMCA).

### **Conclusion**

Achieving a satisfactory outcome in this negotiation matters a great deal to U.S. wheat farmers who have long ties with Japan. Market development work started there seven decades ago, and the Japanese milling industry has been close partners with U.S. Wheat Associates since its inception. That legacy is on the verge of disappearing due to CPTPP and we hope the Trump Administration will act quickly to save it.

### **About U.S. Wheat Associates**

USW’s mission is to “develop, maintain, and expand international markets to enhance wheat’s profitability for U.S. wheat producers and its value for their customers.” USW activities in more than 100 countries are made possible through producer checkoff dollars managed by 17 state wheat commissions and cost-share funding provided by USDA’s Foreign Agricultural Service. For more information, visit our website at [www.uswheat.org](http://www.uswheat.org).