

U.S.-Japan Trade Agreement

Beef & Pork Tariff & Safeguard Details

USMEF

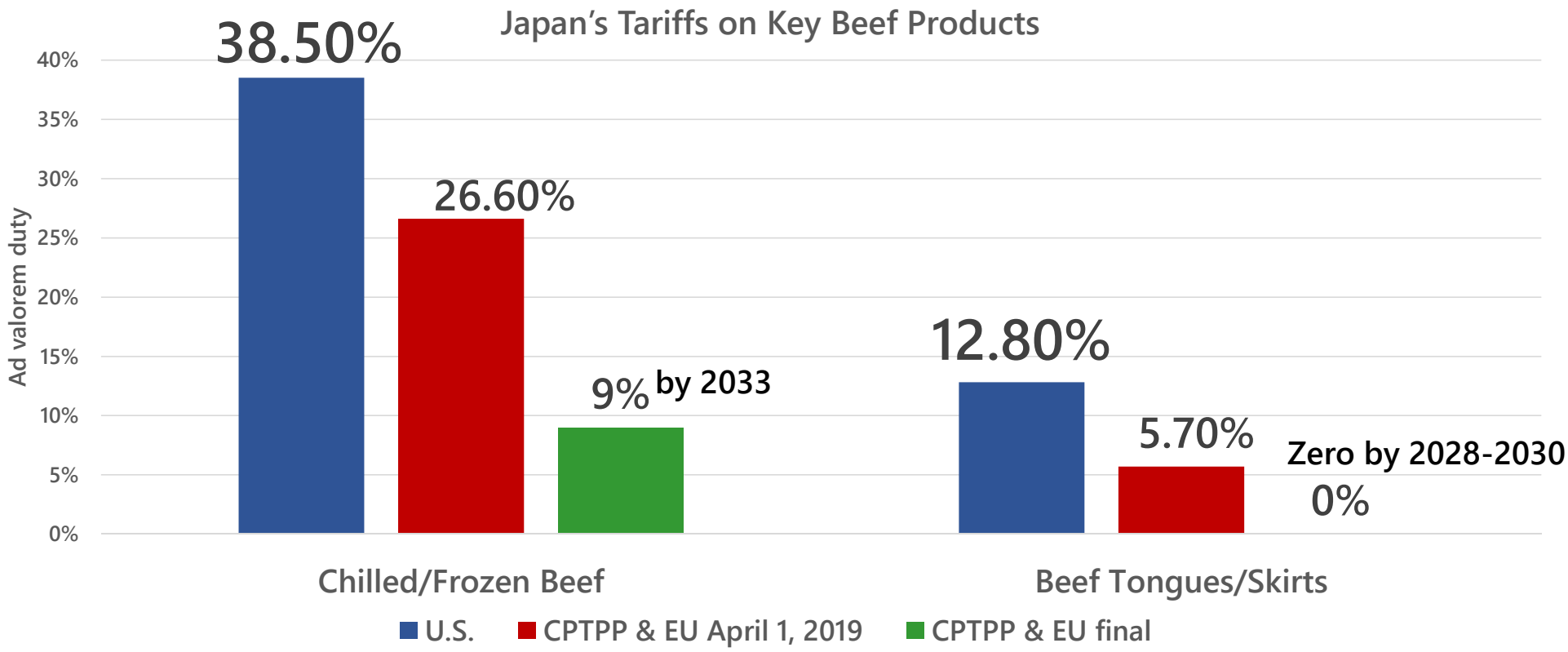
October 11, 2019

Key points and assumptions

- Following is based on our initial interpretation of the text released by USTR the week of Oct. 7, 2019
- Assume Jan 1, 2020 implementation or before April 1, 2020
- Tariff reductions mirror those agreed in TPP
- The U.S. is "grandfathered in" and will therefore be at parity with our competitors
- Safeguards for pork mirror those agreed in TPP
- Safeguard for chilled/frozen beef will be U.S.-specific and will be triggered every year, based on our forecasts but the agreement includes language to address the issue in the future and snapback duty is initially 38.5% and phases down

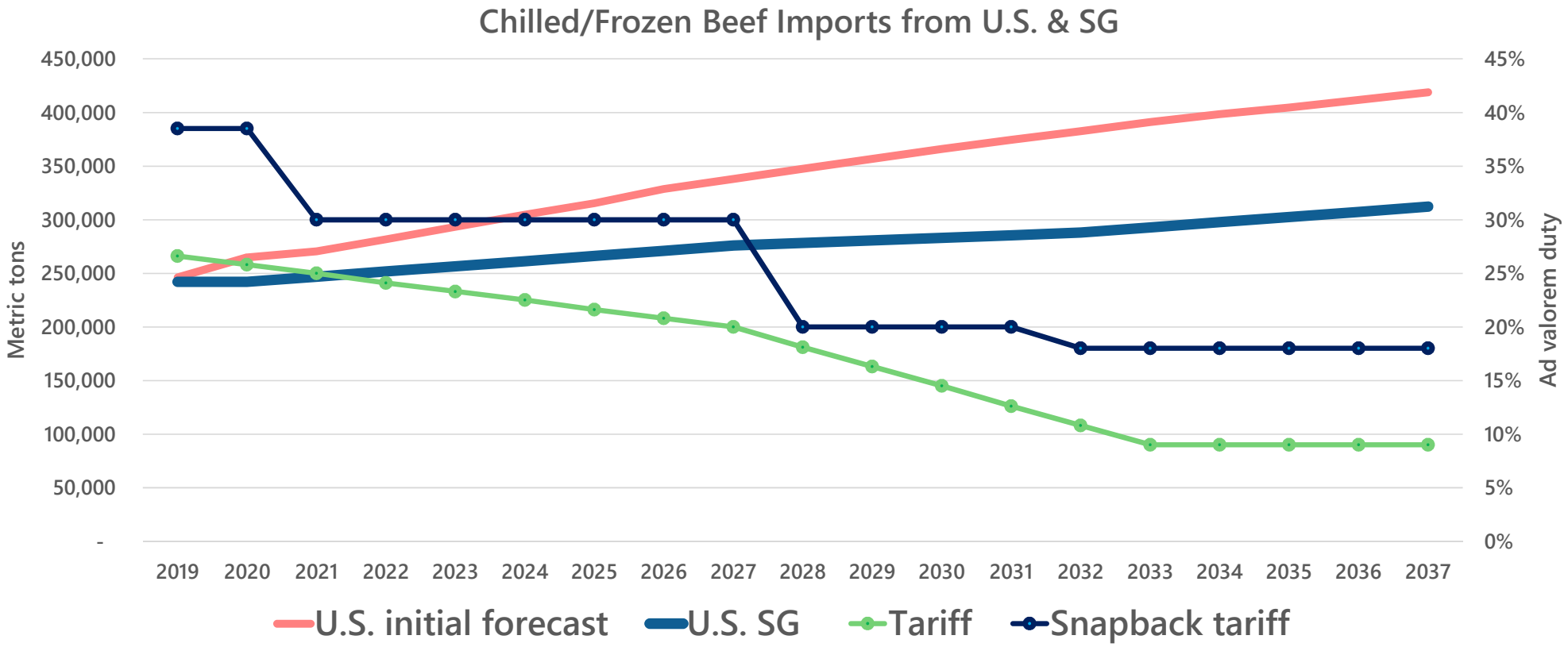
Beef highlights	Chilled & Frozen Beef	Tongues, Skirts & Hangers
MFN Applied Tariff (U.S. & Other Non-EPA Countries)	38.5% Quarterly SG snapback: 50%	12.8%
CPTPP Tariff Rates Upon Implementation & Reduction	27.5%, 26.6% on April 1 to 9% by year 16 (2033) With annual SGs during implementation* 601,800 mt on April 1, 2019, **38.5% snapback** *quarterly SGs for years 11-15	6.4% initial, 5.8%/5.7% for 2019 to 0% by year 13 for offals (skirts, hangers), by year 11 for tongues
U.S.-Japan	26.6% on implementation if before April 1, 2020, then to 25.8% on April 1, 2020 and to 9% by 2033 Annual SG starts at 242,000 mt, 38.5% snapback	**Offals (skirts & hangers) 5.8%** **tongues 5.7%** to 5.3% and 5.1% on April 1 to zero by 2030 for offals and 2028 for tongues

Of the major markets for U.S. beef, Japan has the highest tariffs Competitors currently have the tariff advantage …U.S.-Japan puts U.S. on a level playing field again, if implemented before April 1, 2020

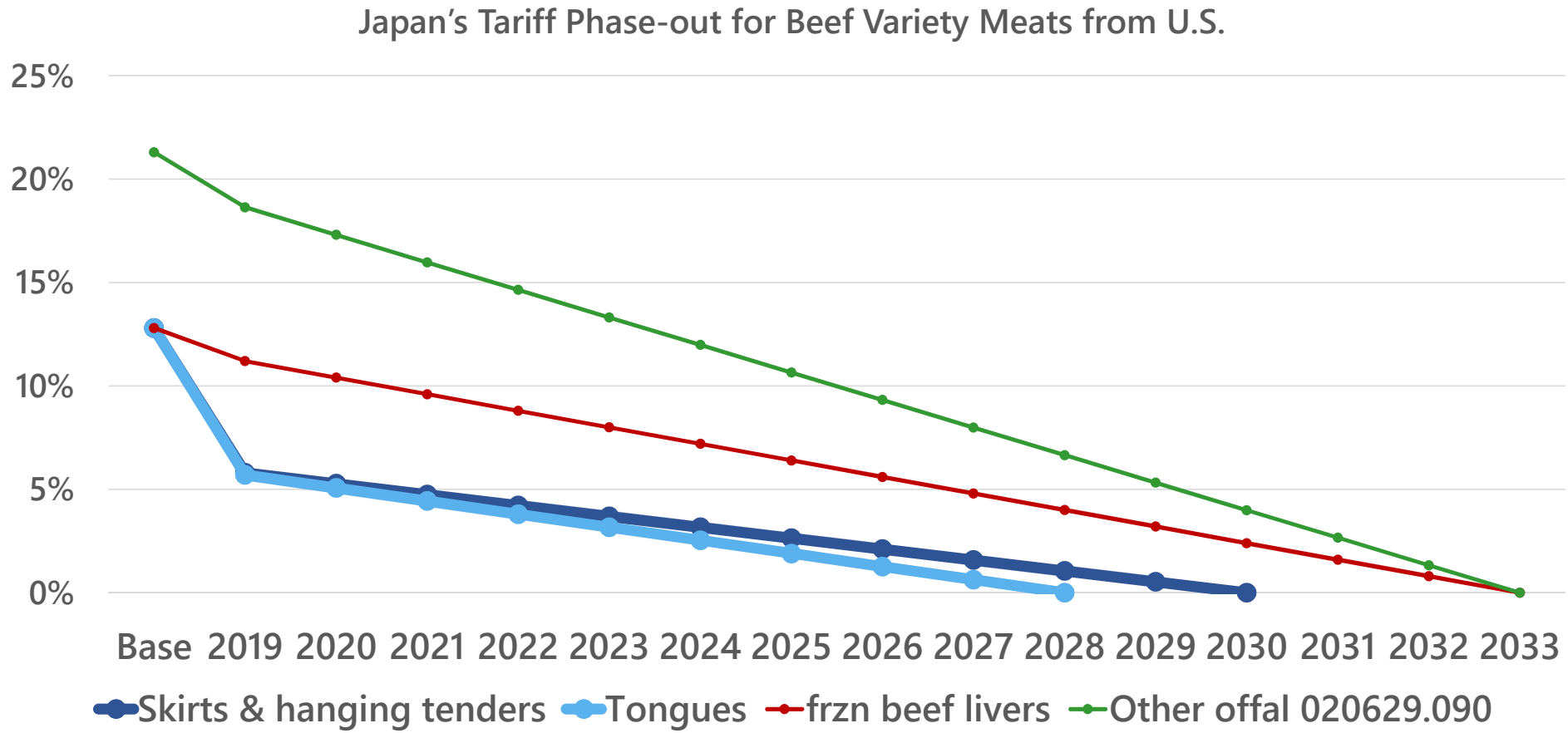


Source: USMEF and agreement text

U.S. likely to trigger beef safeguard each year (additional beef SG details in slides 22-30)



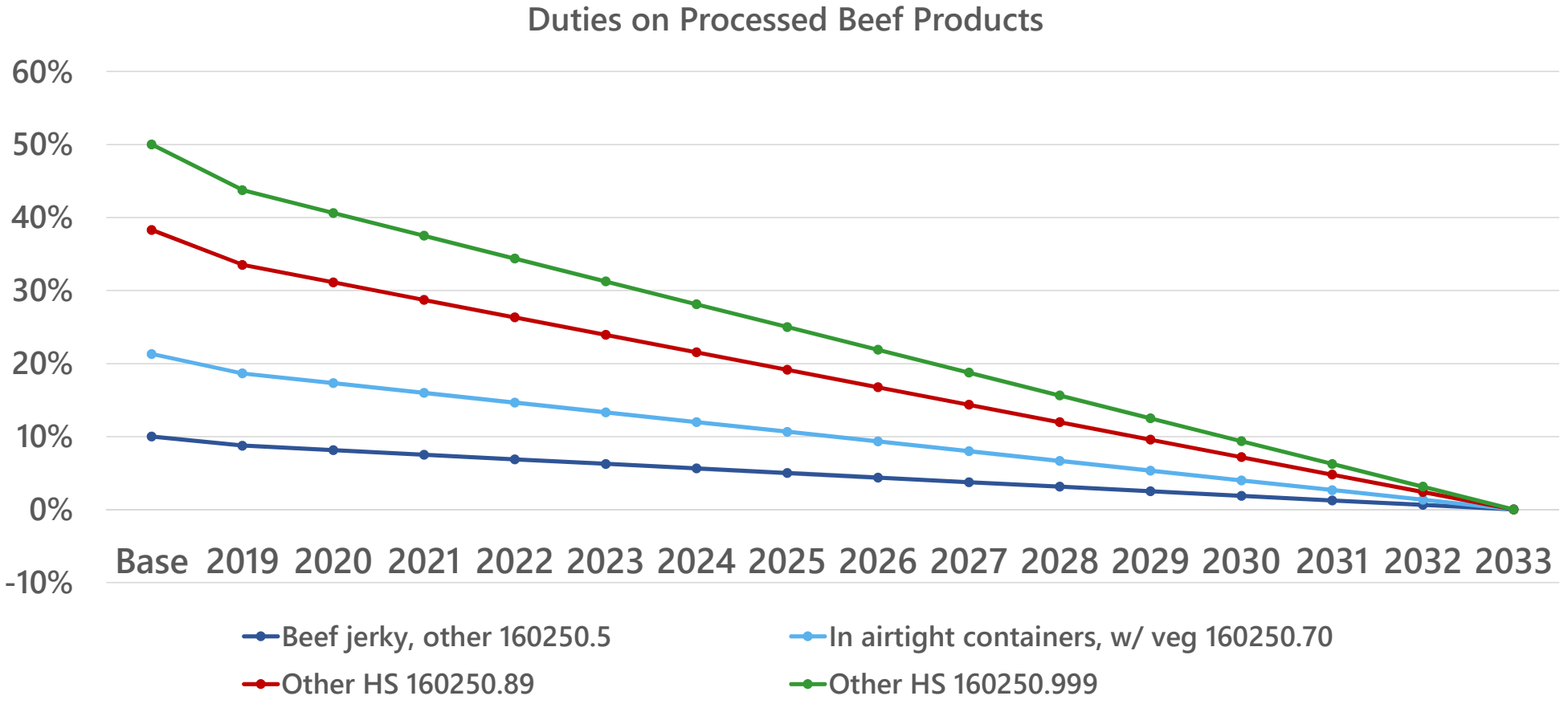
Tariff phase-out for beef variety meats



Processed beef duties to phase out

- Additionally, Japan will eliminate tariffs on processed beef products, including beef jerky and meat extracts, which are as high as 50 percent, in 5 to 15 years
- The following are phased to zero by year 15 or by 2033:
- 160250.5 beef jerky 10%
- 160250.59 other 10%
- 160250.70 in airtight containers, with vegetables 21.3%
- 160250.890 other 38.3%
- 160250.999 other 50%

Japan's phase-out of duties on processed beef products



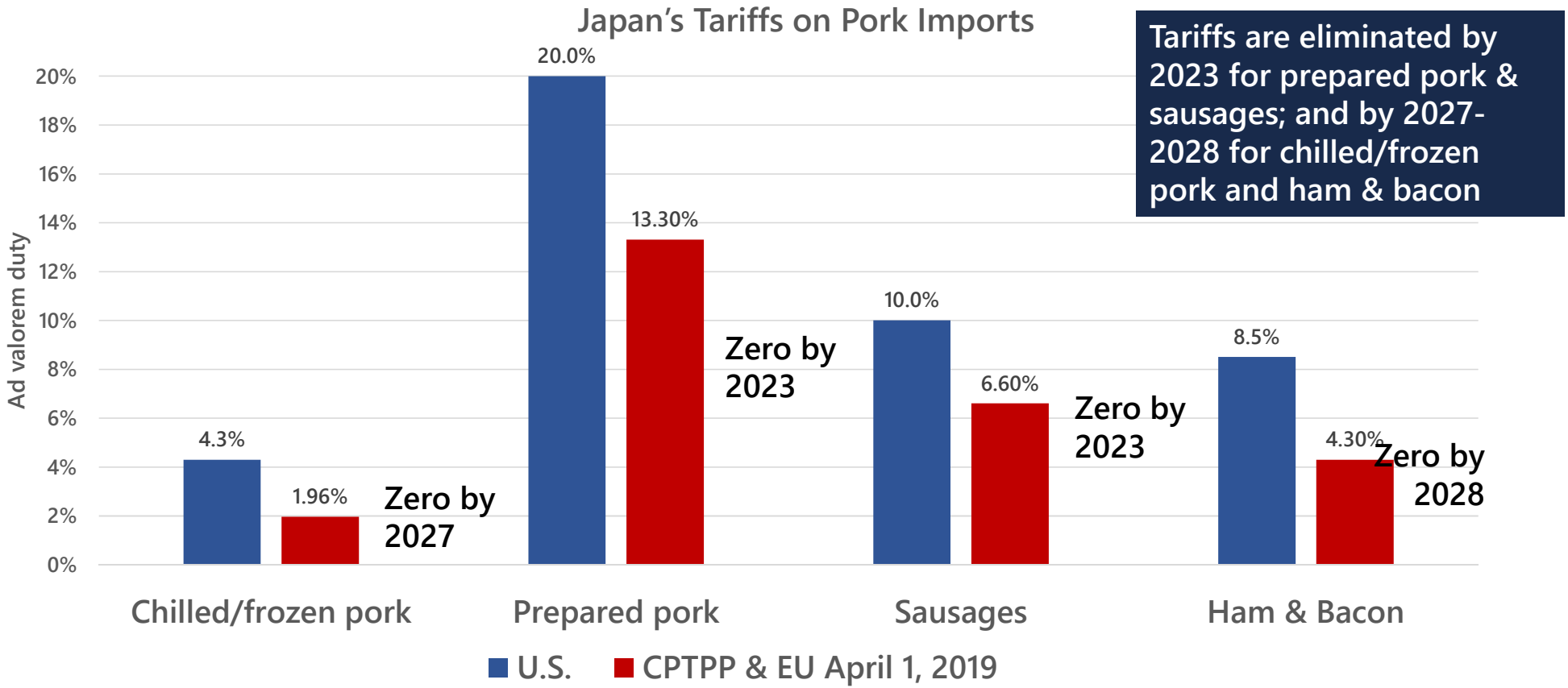
Chilled/Frozen Pork

Tariff Type	Ad Valorem	Below Gate Price of 524 yen/kg: specific duty rate
MFN (U.S. & Other Non-EPA Countries)	4.3%	Max 482 yen/kg
CPTPP & Japan-EU EPA Tariff Rates	2.2% to 1.96% on April 1, 2019 phased to 0% by year 10	Max 125 yen/kg years 1-4, 70 yen/kg in year 5, phased to 50 yen by year 10
U.S.-Japan	1.96% on implementation then phased to zero by year 9	Max 125 yen/kg years 1-3, 70 yen/kg in year 4 (2022), phased to 50 yen by year 9 (2027)

Duties on Processed Pork Products

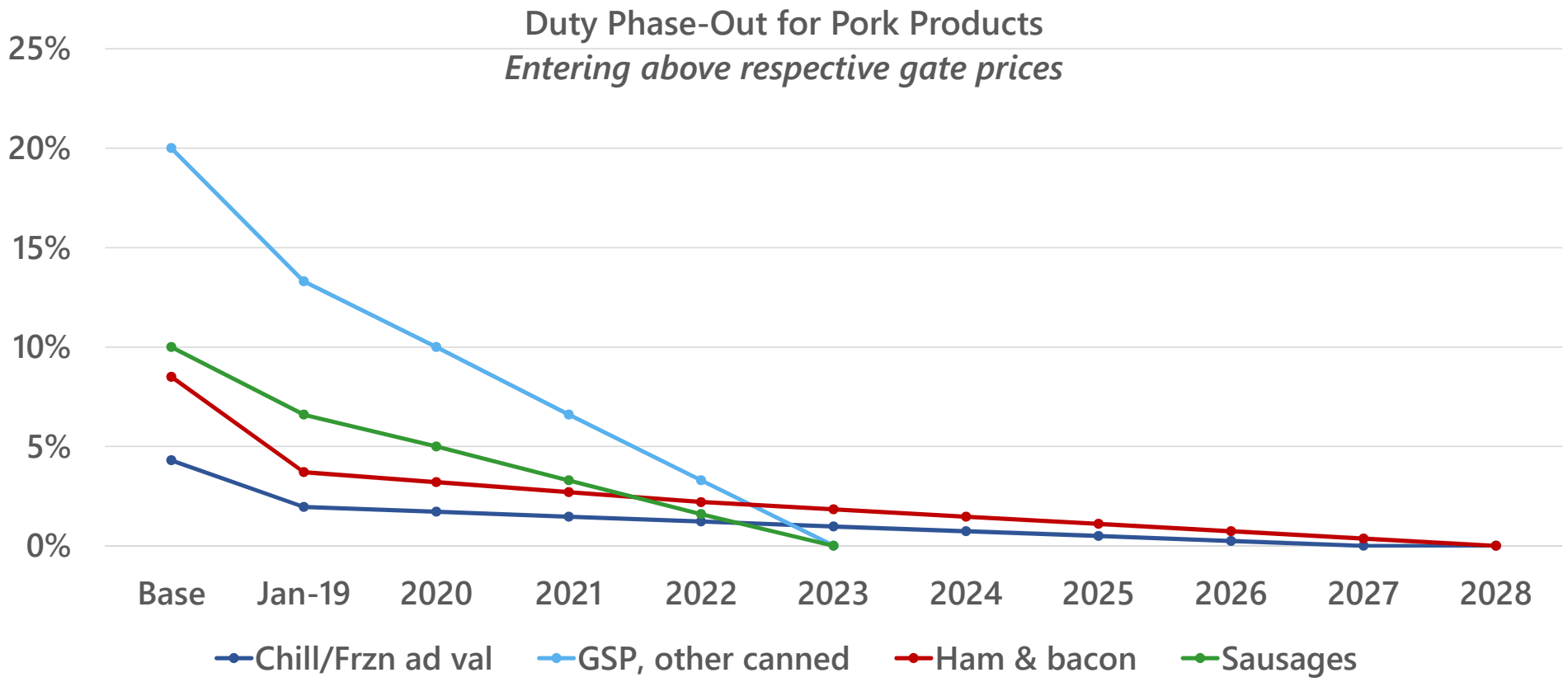
		U.S.-Japan agreement to mirror CPTPP & EU				
	MFN	Before April 1, 2020 Year 1	2020 Year 2	2021 Year 3	2022 Year 4	2023 Year 5
GSP, canned pork, etc. HS 16024	20%	13.3%	10%	6.6%	3.3%	zero
Sausages HS 1601	10%	6.6%	5%	3.3%	1.6%	zero
Ham & bacon HS 0210 & 16024	8.5% 897.59 GP	3.7%	3.2%	2.7%	2.2%	To zero by year 10 (2028)

Elimination of tariffs on processed pork and changes to the chilled/frozen gate price could significantly change Japan's pork market

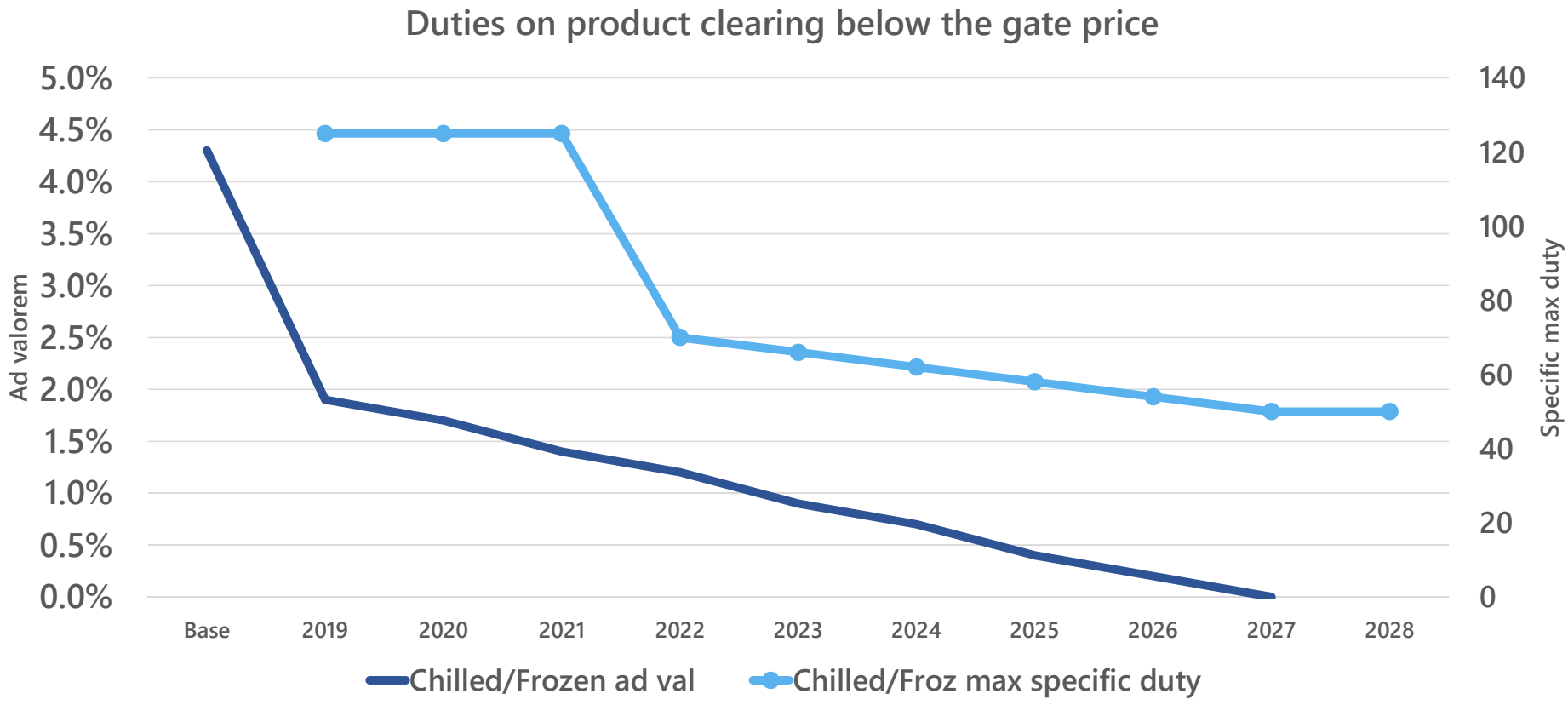


Source: USMEF and agreement text

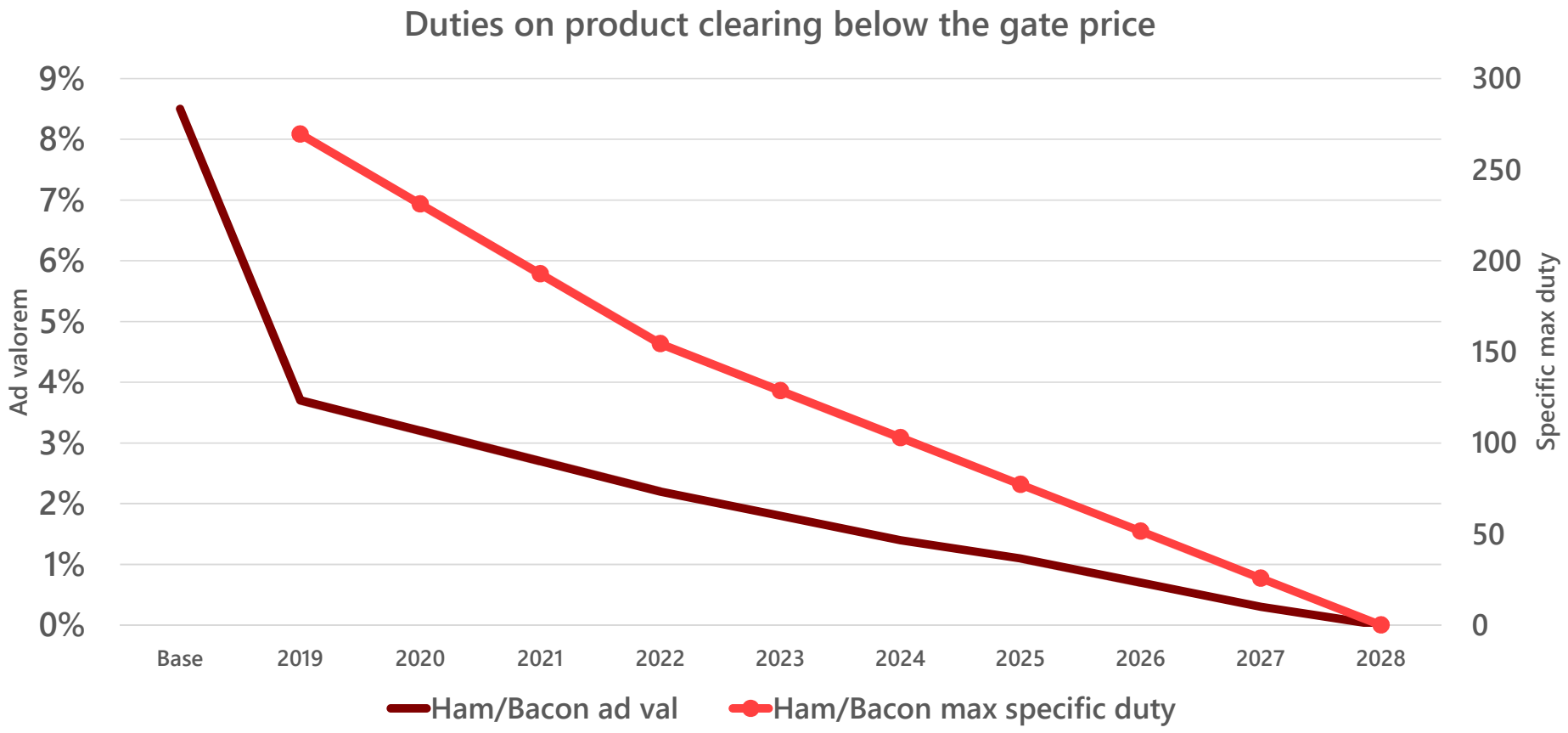
Tariffs on all pork phase to zero, except chilled/frozen entering below the gate price



Duties on product entering below the gate price
Chilled/Frozen GP: 524 yen/kg



Duties on product entering below the gate price
Ham/Bacon GP: 897.59 yen/kg



Chilled/frozen pork safeguards are country-specific and for the U.S. as follows

- Based on the volume high of the previous 3 years multiplied by a growth factor:
- 112% in year 1 (adjusted for implementation date)
- 116% in years 2-3
- 116% in years 4-5 (plus a price factor and separate <400 yen/kg SG)
- 119% in years 6-10 (2024-28), and is then eliminated

- Snapback duties for product entering above the GP:
- Years 1-2: 4%
- Years 3-5: 3.4%
- Years 6-8: 2.8%
- Years 9-10: 2.2%

Years 4 (2022) through 10 there is a CPTPP-wide PLUS U.S. and separate EU SG for pork entering at <400 yen/kg

<400 yen/kg SG	CPTPP + U.S.	EU	Snapback (yen/kg)	Within SG max duty	Snapback Ad valorem
Year 4 (2022)	90,000	63,000	100	70	3.4%
Year 5 (2023)	102,000	71,400	100	66	3.4%
Year 6 (2024)	114,000	79,800	100	62	2.8%
Year 7 (2025)	126,000	88,200	100	58	2.8%
Year 8 (2026)	138,000	96,600	100	54	2.8%
Year 9 (2027)	150,000	105,000	70	50	2.2%
Year 10 (2028)	150,000	105,000	70	50	2.2%

Snapback duties are to remain effective only until the end of the JFY in which the SG was triggered

SG eliminated at end of year 10

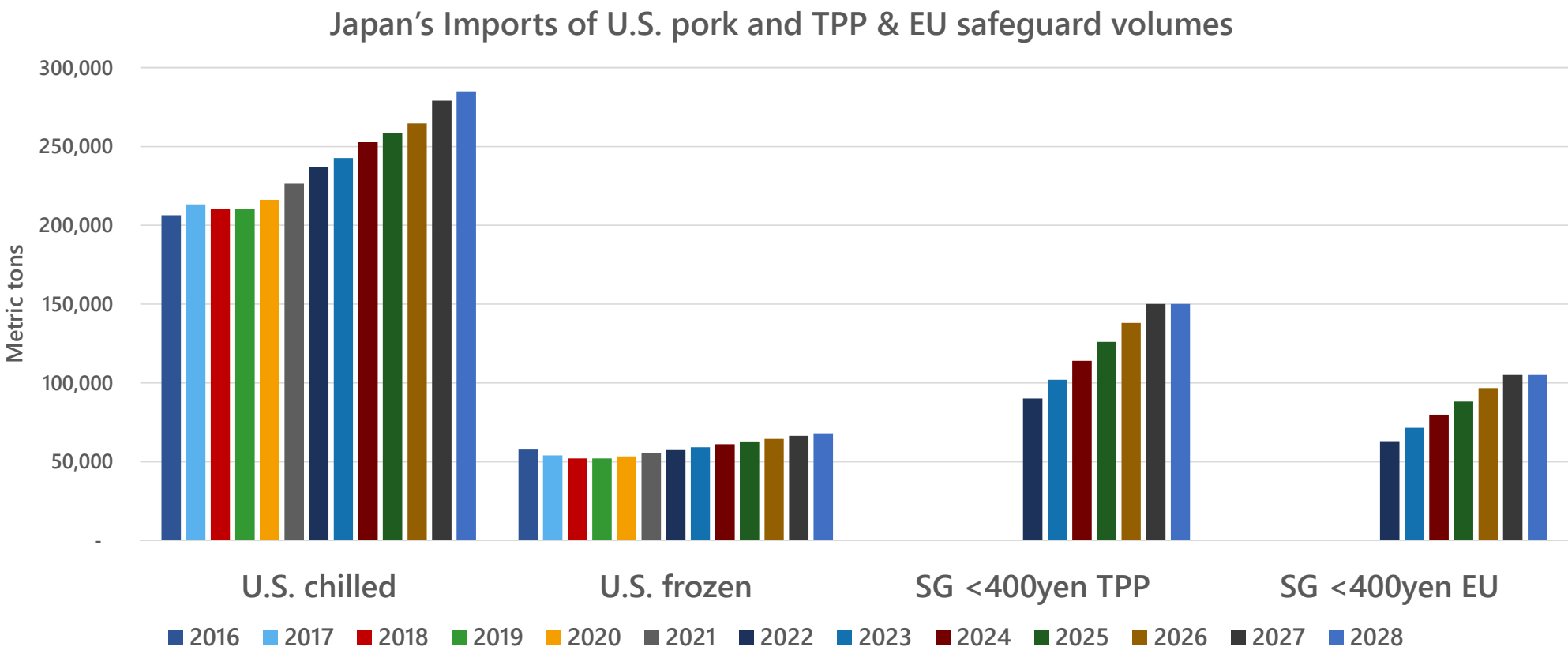
Ham & bacon SG is also country-specific

- Based on the high of the past 3 years multiplied by a growth factor of which increases from
  - 115% in year 1 (adjusted for implementation date)
  - 118% in years 2-5
  - 121% in years 6-10, and is then eliminated by end year 10
- Snapback duties for ham and bacon if SG triggered:
  - Years 1-3: 85% of base rate (7.23% for product clearing GP)
  - Years 4-8: 60% of base rate (5.1%)
  - Years 9-10: 45% of base (3.83%)
- SG may only remain in effect until the end of the JFY in which the SG was triggered

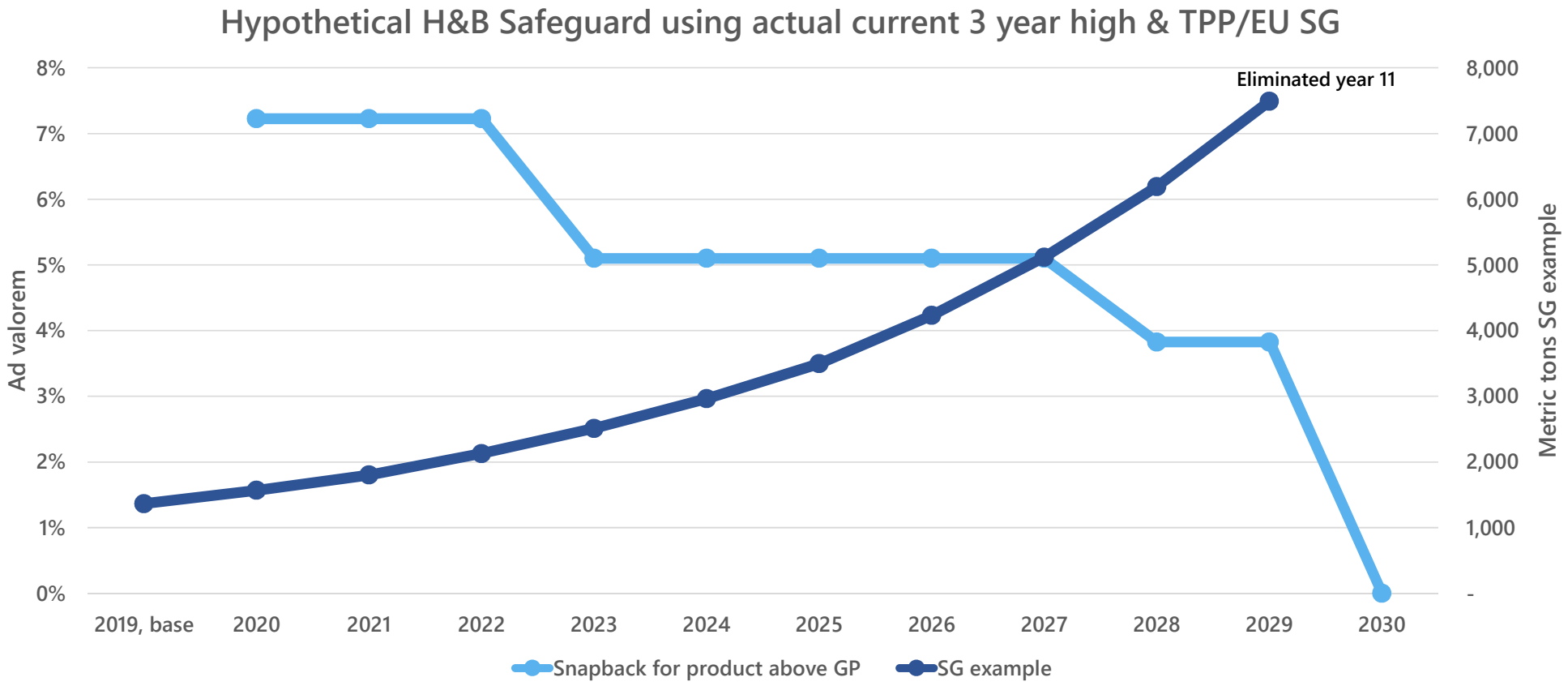
Pork SG calculation if agreement implemented before April 1, 2020

- The applicable trigger level for SG2 goods from the United States for Year 1 for the purposes of subparagraph (a)(i) shall be determined by
- multiplying 112 percent of the largest annual aggregate volume of imports of SG2 goods from the United States during any of the preceding three fiscal years
- by a fraction the numerator of which shall be the number of days between the date of entry into force of this Agreement and the following March 31
- and the denominator of which shall be 365.
- For the purposes of determining the applicable trigger level in accordance with the previous sentence, any fraction of less than 1.0 shall be rounded to the nearest whole number (in the case of 0.5, the fraction shall be rounded to 1.0).

If large volumes of U.S. (and Canadian) chilled and frozen enter <400 yen/kg then it would be possible to trigger the SG

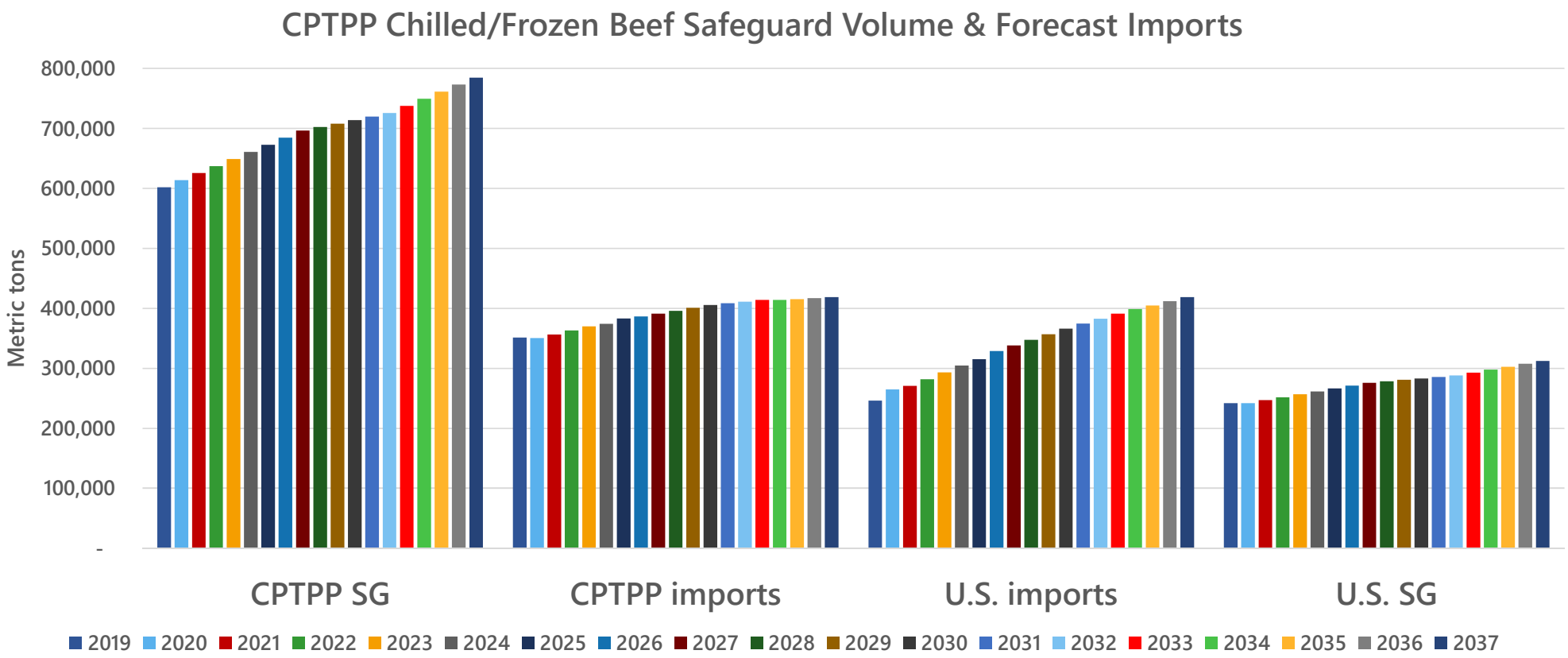


Example of U.S. ham & bacon SG



Additional beef SG details

The CPTPP beef SG is not likely to be triggered



Note that from 2028-2032 Japan's SGs have a quarterly trigger mechanism at 117% (years 10-14)

More details on the U.S. beef SG

- Japan would cease applying any safeguard if the safeguard is not triggered for four consecutive fiscal years after year 14.
- Unique to this agreement, Japan and the United States will consult to agree on adjusting the conditions for the safeguard trigger level under two scenarios.
- First, Japan and the United States will consult in year 4 of the agreement should Japan negotiate modifications to the safeguard measure with CP-TPP countries.
- Second, Japan agrees to consult to adjust the applicable safeguard trigger level to a higher level if the safeguard is ever triggered.
- The consultation mechanism is elaborated in a side letter.

SG Text from the agreement

- a) If the agricultural safeguard measure is imposed, the United States and Japan shall enter into consultations to adjust the applicable safeguard trigger levels of that safeguard measure to higher levels.
- Notwithstanding paragraph 4 of Sub-Section 4 of Section B in Annex I of the Agreement,
  - Japan shall notify the United States and provide the United States with relevant data concerning the measure immediately after the safeguard measure is imposed.
  - The United States and Japan shall commence such consultations no later than 10 days after the safeguard measure is imposed, with a view to concluding them no later than 90 days after the safeguard measure is imposed.
- Further to paragraph 9(c), the United States and Japan shall consult to agree on the conditions for the application of the agricultural safeguard measure in the Agreement with consideration of certain modified conditions for the application of the corresponding agricultural safeguard measure in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), if the conditions under the Agreement are to be modified on the basis of the aggregate volume of imports of the originating agricultural goods referred to in paragraph 9 from the United States and imports of the corresponding agricultural goods from the parties, that are also original signatories, of the CPTPP.

Black swan event and the safeguard

- If the importation into Japan from the United States of the originating agricultural goods provided for in the tariff items indicated with “SG1*” or “SG1**” in Column “Staging Category” of the Schedule of Japan (Chilled/Frozen Beef) has been wholly or substantially suspended for more than three years due to sanitary concerns,
  - Japan shall not apply an agricultural safeguard measure under this paragraph on such goods from the United States for four years after the whole or substantial lifting of the suspension.
  - If a natural disaster such as severe drought disrupts the recovery of production in the United States, the period in which Japan shall not apply an agricultural safeguard measure under this paragraph to such goods from the United States shall be five years.

And further on the beef SG

- Notwithstanding subparagraph (b), Japan and the United States shall consult, by the end of the first half of Year 4, and at any time upon request of either Party, with a view to modifying the conditions for application of the agricultural safeguard measure provided in this paragraph in Year 5 and thereafter. As a result of the consultation, the modified conditions shall be effective by written agreement between Japan and the United States.

If beef SG is triggered, snapback duty can be applied as follows

- Beef SG may be maintained:
- If the aggregate volume of imports exceeds the trigger level
  - on or before January 31, until the end of the fiscal year in which the agricultural safeguard measure was applied;
  - during the month of February, for 45 days beginning from the day of the application of the agricultural safeguard measure;
  - during the month of March, for 30 days beginning from the day of the application of the agricultural safeguard measure.

How quick will we know the SG is triggered?

- The period during which an agricultural safeguard measure may be maintained shall commence no later than the day following the fifth business day after the end of the publication period in which the aggregate volume of imports of the originating agricultural goods exceeded the trigger level
- As an exceptional measure taken for the implementation of this paragraph, within five business days after the end of each publication period, the customs administration of Japan shall publish the aggregate volume of imports of the originating agricultural goods as provided in subparagraph (a) from the United States between:
- (A) the beginning of the fiscal year and the end of the publication period;
- and (B) for Year 10 through Year 14, the beginning of the quarter and the end of the publication period.
- "publication period" means:
  - (A) the period from the first day of each month until the 10th day of that month;
  - (B) the period from the 11th day of each month until the 20th day of that month;
  - and (C) the period from the 21st day of each month until the final day of that month.

The beef SG will operate quarterly in years 10-14 (2028-2032)

- If during any year from Year 10 through Year 14, the aggregate volume of imports from the United States in any quarter exceeds the quarterly safeguard trigger volume set out in subparagraph (ii), Japan may increase the rates of customs duties for such goods in accordance with paragraph 3 for a period of 90 days.
- The 90-day period shall commence no later than the day following the fifth business day after the end of the publication period in which the aggregate volume of imports of such goods in the quarter exceeded the quarterly safeguard trigger volume.
- The rate of customs duty referred to in paragraph 3(c) if the condition set out in this subparagraph (g) is met shall be:
- 20%, if the condition is met during Year 10 through Year 13; and
- 18%, if the condition is met in Year 14.
- The quarterly safeguard trigger volume means 117 percent of one fourth of the trigger level set for the respective year.
- Japan may maintain an agricultural safeguard measure until the later of the end of the 90-day period or the date provided for above (if near end of JFY)

Beef SG calculation if implemented before April 1, 2020

- The applicable trigger level for Year 1 for the purposes of subparagraph (b)(i) shall be determined by multiplying 242,000 metric tons
- by a fraction the numerator of which shall be the number of days between the date of entry into force of this Agreement and the following March 31
- and the denominator of which shall be 365.
- For the purposes of determining the applicable trigger level in accordance with the previous sentence, any fraction of less than 1.0 shall be rounded to the nearest whole number (in the case of 0.5, the fraction shall be rounded to 1.0)