

The gate price system for Japan's pork imports

Introduction

Japan is one of the major nations in the global pork industry. Worldwide, Japan is ranked sixth in pork consumption, ninth in pork production, and first in pork imports (note 1). Domestic production contributes around half of Japan's pork consumption. The other half is imported from foreign countries, such as the United States, Canada, and Denmark. Japan accounts for nearly one-fifth of the world's pork imports (note 2).

Although Japan is such a large pork importer, its pork market is strongly protected by a unique (and controversial) tariff system, called the gate price system. This paper aims to provide an outline of the gate price system.

The Act Concerning the Stabilization of the Price of Livestock Products

Before discussing border protection, it is useful to look at Japan's domestic pork price policy. The pork market is characterized by wide fluctuations in price, known as the "pork cycle." Violent fluctuations in pork prices can be harmful for both consumers and pig farmers. To minimize the fluctuation in pork prices, the Japanese government intervenes in the pork market based on the Act Concerning the Stabilization of Price of Livestock Products (ACSPLP). The ACSPLP requires the government to set an upper stabilization price and a stabilization standard price. The government is obliged to make efforts to hold the pork price between the upper stabilization price and the stabilization standard price. If the pork price exceeds the upper stabilization price, the government should take steps to increase pork supply by providing, for example, a special tariff reduction. If the pork price falls below the stabilization standard price, the government needs to implement price-supporting measures such as procurement of domestic pork.

How to estimate pork price is problematic because it differs according to the meat part. In the domestic wholesale market, pork is mainly traded in carcass form, consisting of all meat parts. In the ASCPLP, the upper stabilization price and the stabilization standard price are defined as unit values of a carcass (yen per kilogram) (Table 1).

Introduction of the gate price system

In the 1950s and 1960s, the Japanese government employed a quota system for pork imports. By restricting the total amount of pork imports under the quota system, the government protected domestic pig farmers from their foreign counterparts. However, the quota system was inconsistent with the discipline of the General Agreement on Tariffs and

Trade (GATT), which advocated free trade. Following the discipline of free trade, the Japanese government abolished the quota system in 1971. However, this does not mean that the government stopped protecting domestic pig farmers from their foreign counterparts. As a substitute for the quota system, the government introduced a new tariff system, called the gate price system (Figure 1). In the gate price system, the government sets a standard import price. In area A of Figure 1, customs levy a tariff to fill the gap between the standard import price and the CIF price. In area B of Figure 1, customs apply a 5% ad valorem tariff. When the gate price was introduced, the standard import price was set at the average of the upper stabilization price and the stabilization standard price. The value obtained by dividing the standard import price by 1.05 is called the gate price.

The gate price system seems a powerful border protection for domestic pig farmers. However, the gate price system suffers from many problems. One of the biggest problems is how to evaluate the price of imported pork. Pork is mainly traded in cut-meat rather than carcass form in the international market. When the gate price system was introduced, customs required pork importers to import all cut-meat parts according to the average weight composition of meat parts from a carcass. Such transactions are called “full-set imports.” Theoretically, the value of imported pork per kilogram is comparable to the carcass price (note 3).

However, full-set imports caused a nuisance in the domestic pork market in 1974. Following an increase in domestic pork prices in the previous two years (1972–1973), the government provided a special tariff reduction under the ASCPLP. As a result, pork imports increased sharply, and pork importers were forced to import both wanted and unwanted parts as required by full-set imports. Stocks of unwanted parts of imported pork piled up to an intolerable level. In 1974, faced with dead stock, pork importers started selling unwanted parts at giveaway prices, resulting in turmoil in the domestic pork market. To prevent further dumping in the domestic pork market, customs abolished the full-set requirement and began to apply the gate price system for each meat part separately.

However, abolishment of the full-set requirement caused another problem: tariff evasion. Let us assume that a pork importer imports 10 tons of tenderloin at a CIF price of 800 yen per kilogram and 10 tons of picnic at a CIF price of 300 yen per kilogram. Let us further assume that the standard import price is 482.5 yen per kilogram. If a pork importer reports 10-kg imports of tenderloin and 10-kg imports of picnic separately at customs, the total tariff will be 2,225 yen ($800 \times 10 \times 0.05 + (482.5 - 300) \times 10 = 2,225$). On the other hand, if a pork importer reports 20-kg imports of pork at a CIF price of 500 yen per kilogram at customs (combining tenderloin and picnic), the total tariff will be 550 yen ($500 \times 20 \times 0.05 = 550$). The latter is called a “combination import.” Thus, if a pork importer sets the CIF price equal to the gate price by combining expensive and cheap parts of pork, the company minimizes its tariff burden. Officially, if customs find that a combination import is undertaken to evade tariff (i.e.,

if a pork importer mixes up different types of pork for customs entry), customs consider it an illegal action and impose a penalty. In practice, however, it is difficult to spot combination imports. For example, if a pork importer procures pork from a dummy company in a foreign country, it is not easy for customs to identify the transaction as a combination import. Generally, a pork importer frequently imports many types of cut meat. Reporting all pork imports at customs separately is troublesome. Often, customs and pork importers have different views on how to report pork imports.

The gate price system has a more fundamental problem in addition to combination imports. If the international pork price falls below the gate price, importers have no incentive to look for cheaper pork. This is contrary to the discipline of the market economy (note 4). In addition, the gate price system is likely to induce tariff evasion not only through combination imports but also in various other ways. For example, if a pork importer establishes a dummy company overseas and enters into a bogus transaction, the CIF price is easily manipulated. In area A of Figure 1, a pork importer can evade tariff by reporting higher-than-actual CIF prices. Of course, a bogus transaction is a crime. However, judging whether a transaction is bogus is often a gray area.

The Uruguay Round and the gate price system

The European Union used to adopt a variable import levy on some agricultural commodities. This system was fiercely criticized in the GATT Uruguay Round (1986–1994) and was prohibited in the Marrakesh Agreement Establishing the World Trade Organization (WTO), enacted in 1995. Japan's gate price system, recognized as a version of the variable import levy, was also taken up for discussion in the GATT Uruguay Round.

Following the Marrakesh agreement, Japan reported a new pork import system, shown in Figure 2, to the WTO (note 5). In the new system, pork imports are levied a specific duty of 425 yen per kilogram if the CIF price falls below 460 yen per kilogram. If the CIF price exceeds 460 yen per kilogram, imports are levied an ad valorem duty of 5%. Obviously, the new system is anomalous. For example, if a CIF price higher than the gate price falls below the gate price, the imported price of pork after tariff increases drastically.

In fact, the Japanese government did not implement the new system as reported to the WTO (note 6). Figure 3 shows what Japanese customs actually did. As can be seen, customs exempt the part of tariff that exceeds the standard import price if the CIF price falls below the gate price. As a result, if the CIF price is between the gate price and 58 yen per kilogram, the imported pork price after tariff is the same as the standard import price regardless of the CIF price. Since no pork is as cheap as 58 yen per kilogram, it is evident that the gate price system was maintained even after the GATT Uruguay Round. Combination imports also continued even after the GATT Uruguay Round although customs have been officially

prohibiting combination imports (note 7). Thus, whether the Japanese government should be regarded as strictly following the Marrakesh agreement its pork imports is arguable (note 8).

The ad valorem tariff rate and the standard import price were reduced from 5% to 4.3% and from 482.5 to 410 yen per kilogram, respectively, between 1995 and 2000 (Figure 4). The structure of the gate price system has remained unchanged since then (while there was a change in customs' attitudes on implementation of the gate price system in 2012 as will be discussed in the next section).

Recent movements on the gate price system

Hiroshi Takahashi, a watcher of the Japanese meat industry, studies the record of pork imports from 2001 to 2010 and finds that the CIF prices in this period were almost equal to the gate price (note 9). This is strong evidence that combination imports were institutionalized in this period with the connivance of customs (note 10). Takahashi also explains that ham and sausage producers in Japan are major buyers of foreign pork. Since domestic pork is quite expensive, ham and sausage producers in Japan rely on cheap parts of foreign pork for use as ingredients in these products. However, to save tariff, pork importers undertook combination imports by importing expensive parts of foreign pork simultaneously. These parts were used mainly to save tariff and sold at giveaway prices at the domestic pork market. Takahashi concludes that the gate price system is not effective even for the purpose of protecting domestic pig farmers because it is likely to induce bargain sales of expensive parts of foreign pork.

In 2012, customs started to conduct rigorous examinations to unearth combination imports (note 11). The exposure of Shibata and Dodani's tariff evasion in 2012 is symbolic (note 12). Shibata and Dodani are among the most important persons in the Japanese meat industry, and their company accounted for more than one-tenth of Japanese pork imports in 2010. Their total tariff evasion was as large as 13.6 billion yen, an unprecedentedly large evasion.

Fearing possible disputes with customs, Japanese trading companies are reducing pork imports. As a result, ham and sausage producers in Japan have been experiencing shortage of ingredients since 2012 (note 13).

Notes

- 1) Japan's pork production, consumption, and imports were 1.2 million, 2.5 million, and 1.3 million tons, respectively, in 2013 (USDA, *Livestock and Poultry; World Market and Trade*).
- 2) World imports of pork in 2013 were 6.8 million tons (USDA, *Livestock and Poultry*;

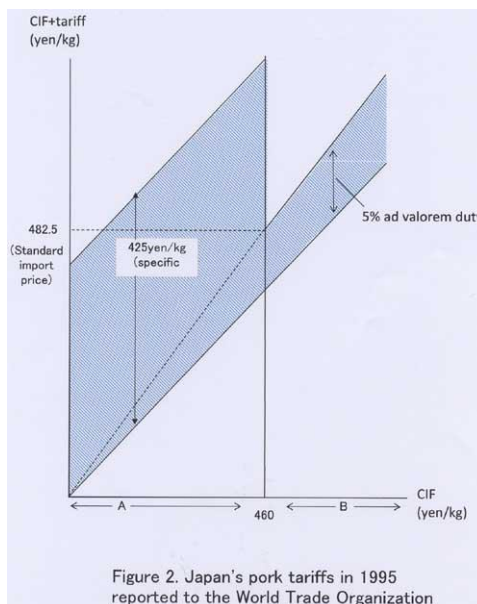
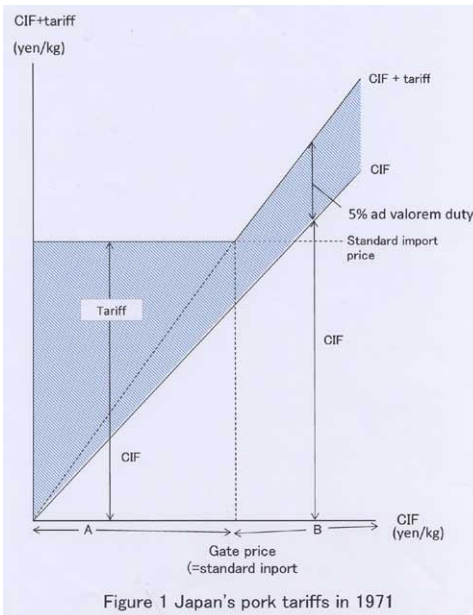
World Market and Trade).

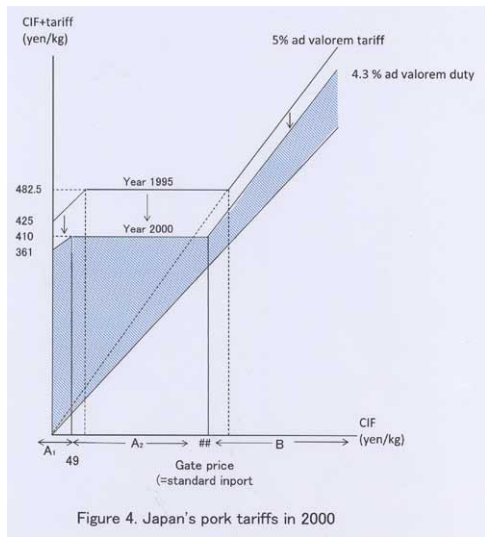
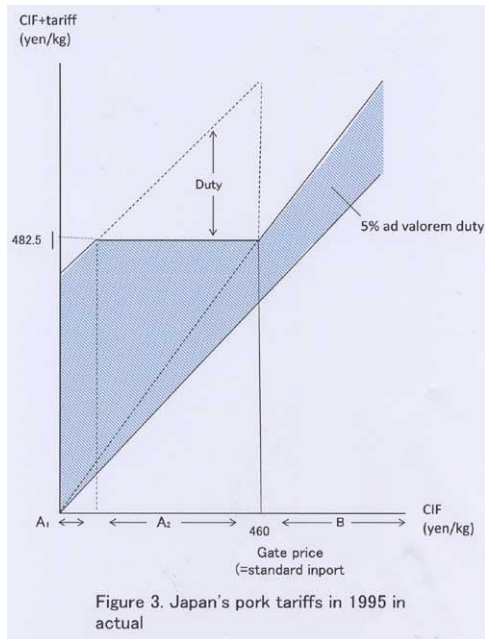
- 3) A carcass includes not only meat but also bones. Thus, the cut-meat price of full-set imports should be higher than the carcass price. For the implementation of the gate price system, a ratio of 1.25 is assumed between cut-meat and carcass prices.
- 4) It is argued that the gate price system constitutes an infringement of the freedom of establishment guaranteed by the Constitution (see Shiga and Sakura, *Buta Niku no Sagaku Kanzei Seido wo Danzai Suru*, Paru Shuppan, 2011).
- 5) A new system to safeguard pork imports was also introduced. For reasons of space, this paper does not discuss this system.
- 6) Katsuhiko Obata, an official of the Japanese Ministry of Agriculture, Forestry and Fisheries who was in charge of trade negotiations on Japan's pork imports at the GATT Uruguay Round and Fisheries, explained in his speech at a livestock farmers' meeting how the Japanese government employed a system different from what was reported to the World Trade Organization. The record of his talk is available at Shokuniku Kenkyukai, *Jiyukago no Gyuniku Eyutsu*, 1994).
- 7) Every year since 2004, customs unearthed tariff evasion of pork imports, although these cases were just the tip of an iceberg.
- 8) It is argued that the gate price system is a violation of Article 98 of the Constitution, which stipulates that "the treaties concluded by Japan and established laws of nations shall be faithfully observed."
- 9) Takahashi Hiroshi, *Sagaku Kanzei Seido Kaisetsu*, 2012.
- 10) Shiga estimates that 80% to 90% of Japan's pork imports are combination imports (Shiga Sakura, *Kuni no Taiman no Tsuke wo Shokutaku ni Mawasuna*, Paru Shuppan, 2010).
- 11) "Tighter investigation on 'illegal pork,'" April 8, 2012, *Nihon Keizai Shimbun* (morning edition).
- 12) "An unsuspended prison sentence for tariff evasion of pork imports," May 21, 2013, *Nihon Keizai Shimbun* (evening edition).
- 13) "Pork imports are affected by weaker yen" April 8, 2013, *Shokuhin Shimbun*.

[unit: ¥/kg]

Fiscal Year	Skinned Carcass		Scalded Carcass	
	Stabilization standard price	Upper stabilization price	Stabilization standard price	Upper stabilization price
1970	345	422	335	392
1971	355	434	335	404
1972	360	440	340	410
1973	380	465	360	435
1974	507	620	487	590
1975	556	680	517	632
1976	601	734	559	683
1977	627	766	583	712
1978	627	766	583	712
1979	601	735	559	684
1980	588	764	547	711
1981	600	779	558	725
1982	600	780	560	725
1983	600	780	560	725
1984	600	780	560	725
1985	600	780	560	725
1986	540	760	500	705
1987	455	645	425	600
1993	400	505	370	525
1993	400	565	370	525
1993	400	565	370	525
1991	400	565	370	525
1992	400	565	370	525
1993	400	565	370	525
1994	400	540	370	500
1995	400	525	370	490
1996	390	515	365	480
1997	385	510	360	475
1998	380	505	355	470
1999	370	495	345	460
2000	365	485	340	450
2001	365	480	340	445
2002	365	480	340	445
2003	365	480	340	445
2004	365	480	340	445
2005	365	480	340	445
2006	365	480	340	445
2007	365	480	340	445
2008	380	515	355	480
2009	400	545	370	505
2010	400	545	370	505
2011	400	545	370	505
2012	400	545	370	505
2013	405	550	375	510

Source: Ministry of Agriculture, Forestry and Fisheries





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