



North American Free Trade and U.S. Agriculture

Curriculum Guide

I. Goals and Objectives

- A. Understand what NAFTA is and how it affects trade.
- B. Understand how NAFTA may impact Texas and U.S. agriculture.
- C. Understand impacts of NAFTA on selected commodities.

II. Description/Highlights

- A. NAFTA, negotiated between the United States, Canada, and Mexico was implemented on January 1, 1994. It created one of the world's largest free trade areas. The three member countries have a combined population of 385 million people, \$8.5 trillion in annual economic output, and annual trade exceeding \$2.0 trillion.
- B. NAFTA is designed to expand the flow of goods, services, and investment throughout North America. In contrast to the Uruguay Round Agreements (URA) which only reduce tariffs and increase import quotas, NAFTA calls for (1) the full, phased elimination of import tariffs and (2) the elimination or fullest possible reduction of nontariff trade barriers, such as import quotas, licensing schemes, and technical barriers to trade.
- C. Mexico has become the third largest market for U.S. agricultural exports, purchasing food and fiber valued at \$5.4 billion in 1996. Major U.S. agricultural exports to Mexico include grains, meats and livestock products, fruits, nuts, vegetables and other horticultural products. Exports of beef, poultry, pork, corn, and soft fruits increased during 1994, NAFTA's first year (Figure 1).
- D. U.S. agricultural imports from Mexico were valued at \$3.8 billion in 1996, up 31 percent since 1994 (Figure 2). Major imports were vegetables, live animals--mainly feeder cattle, coffee, fruits, nuts and malt beverages. Competitive imports have increased since NAFTA was implemented, leading to more competition for some U.S. producers.
- E. NAFTA is expected to have a positive overall impact on U.S. agriculture. The USDA estimates that U.S. agricultural exports to Mexico could increase by \$2.0 billion per year after NAFTA is fully implemented. Gains in grains, meats, poultry, and cotton are likely to offset losses expected in the fruit and vegetable sectors.

- F. Increased U.S. export demand will raise U.S. prices, unless there is corresponding increase in supply. Consumers of some products will be worse off if higher prices are passed on to them. More imports increase the supply available to consumers and prices will drop, unless domestic suppliers reduce production in the face of these lower prices. The net benefits from trade depend on the balance between trade gains and losses and the resulting impacts on prices, jobs, income, taxes, and social costs.
- G. Feedlots, meat packers, and processors should benefit from larger export volumes. It has been estimated that at least 432,000 additional fed steers will be required to meet Mexican import demand. U.S. feedlot operators would experience small gains associated with additional volume. Feed grain producers will also benefit because these steers should consume an additional 351,000 tons of feed grains.
- H. A 15% seasonal tariff on grain sorghum was eliminated on 1/1/94. Corn trade is being liberalized more slowly due to its political and social importance in Mexico. Under a tariff-rate quota, a minimum of 2.8 million tons of corn may now enter Mexico duty free each year. The quota was exceeded by more than 3.0 million tons in 1996 due to drought in Mexico and a short crop. The duty-free quota will grow three percent annually, and the 180.6 % duty on over-quota corn imports will be eliminated over 15 years. Mexican demand for U.S. feed grains has increased as more grains are fed to cattle, hogs, and poultry.
- I. U.S. wheat exports have expanded from 321,000 tons in 1990 to 1.5 million tons in 1996. NAFTA will result in gains for input suppliers and grain elevators as trade volume expands. Intense competition from Canada has curtailed U.S. export growth in recent years. Price impacts will be small because U.S. wheat prices are determined by many global factors.
- J. Exports to Mexico should expand moderately as Mexico lowers its current 10% duty on rough rice and a 20% duty on milled rice. Both duties will be phased out over 10 years. U.S. rice exports have increased since 1990, to 390,000 tons in 1996. This represents about 10% of total U.S. exports.
- K. U.S. cotton producers should benefit from increased exports and slightly higher prices as Mexico's 10% duty is reduced over 10 years. Since 1990, U.S. cotton exports to Mexico have expanded from 204,500 bales to 689,000 bales in 1996. Mexico will gain greater access to the U.S. market as the Section 22 quota is replaced by a tariff-rate quota. U.S. cotton imports from Mexico reached 47,000 bales in 1996, up from almost nil in 1990.
- L. NAFTA was projected to have a small positive impact on U.S. peanut producers. A stronger Mexican peso, coupled with more production, reduced U.S. peanut exports to 4,500 tons in 1996. U.S. exports can be expected to increase moderately to about 25,000 tons. The U.S. will use a tariff-rate quota to limit shipments from Mexico. NAFTA provisions allow only Mexican grown peanuts to be processed into peanut butter and paste for low duty shipment to the U.S. market. However, it is also likely that higher consumer incomes in Mexico will lead to increased demand for U.S. grown raw peanuts, resulting in additional exports.

- M. Agribusinesses associated with these industries can expect both positive and negative impacts. Suppliers of seed, fertilizer, and other chemicals may experience minor losses as the production of some crops declines. Specialized infrastructure, such as packing shed operations, may gain as imported volume expands and capacity increases. Some operations may survive only by relocating nearer to production areas in Mexico. Both farm and non-farm labor can expect some lost employment opportunities as imports of Mexican produce expand. The overall impact on employment cannot be predicted with presently available information.
- N. Under NAFTA, there is the potential for more commercial exports of milk powder and evaporated milk to Mexico. In the past, Mexico has imported large quantities of subsidized dairy products from the U.S. In the short run, it is likely that U.S. government export programs will continue to be an important factor affecting the level of Mexican dairy imports. U.S. cheese producers will probably benefit from NAFTA because the Mexican cheese import licensing scheme will be replaced with a twenty percent tariff to be eliminated over ten years. Lower Mexican tariffs on fluid milk, which will decline from 10% to zero over ten years, will create a larger market for U.S. products, resulting in expanded export demand and higher producer prices. U.S. consumers may face slightly higher milk prices in some areas.

III. Potential Speakers

- A. Extension Economists
- B. Global Business Managers
- C. National or State Government Officials
- D. Marketing Club Leaders

IV. Review Questions

- A. What two steps does NAFTA take to open up trade between the three countries?
1)phases out all existing import tariffs, 2)eliminates or reduces as much as possible all nontariff trade barriers.
- B. How is NAFTA expected to impact U.S. Agriculture and why is that impact difficult to assess?
NAFTA is expected to have a positive impact overall, but it is hard to assess due to its mixed impacts on some sectors and the influence of global market conditions on most products.
- C. NAFTA will impacts many products. Where will the effects of NAFTA be the most evident in Texas?
Beef and Cattle, Feed Grains, Wheat, Rice, Cotton, Peanuts, Vegetables, and Dairy Products

V. For More Details

International Trade Leaflet Series, Leaflets 7, 8, 9, and 10 located at:
<http://agrinet.tamu.edu/intlagmktg/>

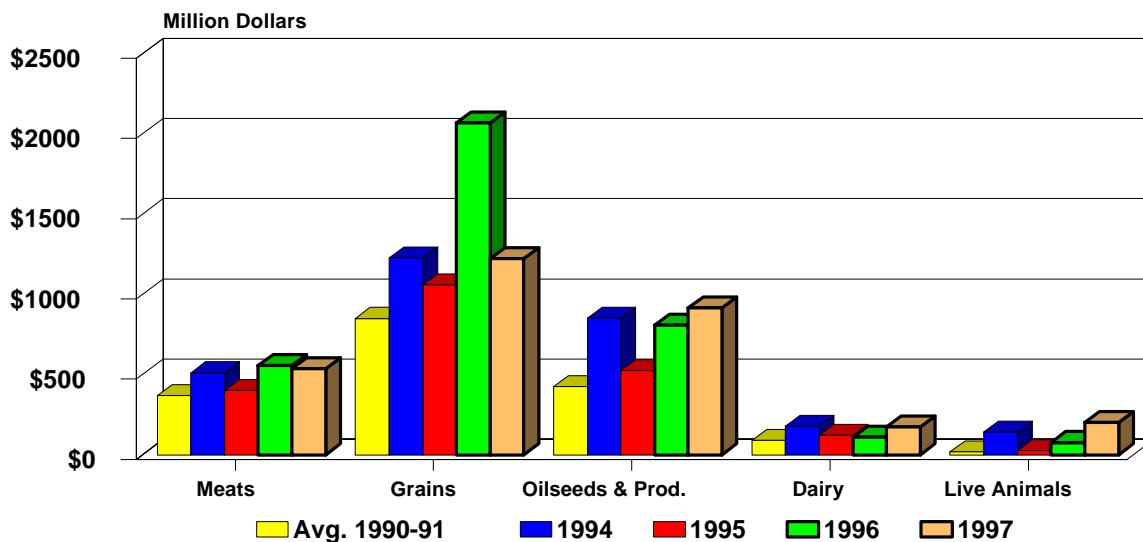
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! Potential for Agricultural Trade

- ☞ Mexico third largest market for U.S. agricultural export
- ☞ NAFTA expanded competitive imports from Mexico

Figure 1. US Agricultural Exports to Mexico, Pre and Post-NAFTA

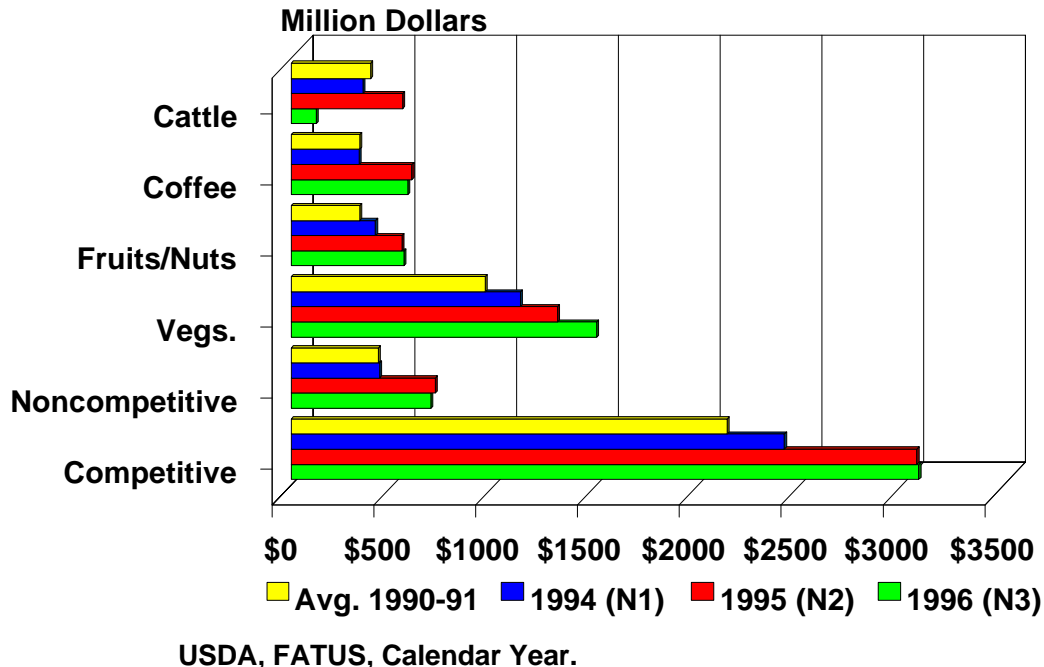




! NAFTA Commodity Impacts

- ☞ Expected positive overall impact on U.S. agriculture
- ☞ Mexico likely to benefit from lower prices

Figure 2. US Agricultural Imports from Mexico
Pre and Post-NAFTA





! Beef and Cattle

- ☞ Higher prices for beef and beef by-products
- ☞ Larger exports will benefit feedlots, meat packers, processors, and feed grain producers
- ☞ Low cost Mexican cattle may impacts U.S. ranchers

! Feed Grains

- ☞ Mexican demand for U.S. feed grains increasing
- ☞ Growth expected in corn

! Wheat

- ☞ NAFTA will boost gains for input suppliers and grain elevators
- ☞ Small price impacts due to global factors

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! Rice

- ☞ Moderate expansion of exports to Mexico
- ☞ Mexico represents 10% of U.S. exports

! Cotton

- ☞ U.S. producers benefit from higher prices and expanded exports
- ☞ Mexico may expand exports

! Peanuts

- ☞ Increased demand for U.S. peanuts
- ☞ Growing markets for products



! Fruits and Vegetables

- ☞ Lower returns for some U.S. producers
- ☞ U.S. exports of non-citrus and fresh deciduous fruits will increase
- ☞ NAFTA is projected to have a slight negative impact on U.S. citrus
- ☞ Agribusiness expect varied results

! Dairy Products

- ☞ Potential for greater exports of milk powder and evaporated milk
- ☞ U.S. cheese will have access to larger market
- ☞ Higher price and expanded exports in U.S. fluid milk