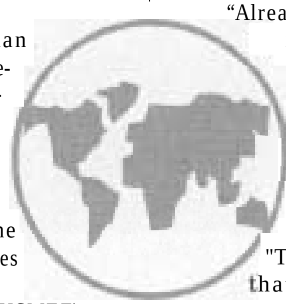
# Expanding Our Borders

*Will U.S. Agriculture Benefit from the North American Free Trade Agreement?*

*by Cindy Folck*

The North American Free Trade Agreement (NAFTA) has been hotly debated, and with both sides passionately stating their opinions, the issue seems confusing. On the nightly news, reporters have given their versions of NAFTA's effect; newspaper and magazine columnists write their opinions. Leading economists have given their advice on NAFTA's influence toward the economy and jobs. Even Ross Perot has given his opinion about NAFTA during his info-commercials.

Much of the NAFTA debate centers on perceived effects the agreement will have on the U.S. manufacturing industry. How will NAFTA affect agriculture, and more specifically, the beef industry?



NAFTA recognizes the current U.S. and Canadian free trade agreement which allows for free trade between the two countries. This agreement was implemented in 1989 and removed most tariffs on products traded. The agreement set up an arbitration board to take care of trade disputes. NAFTA will simply re-establish the boundaries of this treaty and expand free trade to include Mexico. The created free-trade zone between the three countries will involve a market of 360 million consumers.

According to the U.S. Meat Export Federation (USMEF). the three primary goals of NAFTA are to eliminate obstacles to trade and investment, protect intellectual property rights and establish a mechanism for settling trade disputes.

"The evidence is that with respect to agriculture in general, NAFTA will be a positive," says Carl Zulauf, agriculture economist at Ohio State University. Because we already have a trade agreement with Canada, Mexico represents the most opportunity for the United States. When NAFTA goes into effect, all non-tarrif trade barriers between Mexico and the United States will be lifted. Some commodities will have a "phase-out" period of five to 10 years where the current tariffs are slowly lifted.q The only beef products with a phase-out period are offals and variety meats, which currently have a 20 percent duty.

Mexico will be most affected by NAFTA from an economic and trade perspective. In 1991 the per capita income of the gross domestic product in Mexico was only $2,630. This is compared to the United State's per capita income of $21,800 of the gross national product and Canada's per capita income of $19,500 of the gross domestic product.

Zulauf observes that if NAFTA is implemented, the United States will not see major changes over five or 10 years because we have a much bigger economy than Mexico. While Mexico's gross domestic product in 1991 was $236 billion, the U.S. gross domestic product was more than 22 times larger at $5.4 trillion.

However, NAFTA is expected to make the Mexican economy grow and dramatically increase per capita income. Zulauf says that accelerated economic development in Mexico will be beneficial to the U.S. beef industry. "The increased amount of income is a well-known positive with demand for food, quality protein and red meat," he says. According to the USMEF, Mexican beef consumption expanded 60 percent from 1986-89 as per capita gross national product increased 35 percent.

Phil Seng, CEO and president of the U.S. Meat Export Federation, sees tremendous increases in beef exports with NAFTA. "We could see greater than an equivalent of 2.5 million head of cattle exported as beef to Mexico," he says. He sees a fast and expanding beef market as the Mexican economy continues to grow.

As the possibility of NAFTA becomes more real, many beef exporters are starting to get a foothold in the Mexican market. "Already, our packers are tying in with companies, turning it into a positive market," says Seng.

The Certified Angus Beef Program is also beginning to look south for increased marketing. Tracey Erickson, export division director for Certified Angus Beef Program, says they have begun to work with a distributor in Mexico City and have seen positive results already.

"We've seen a lot of interest here lately," she says. "The middle class is growing and all indications show that income will continue to grow." Several upscale restaurants have been licensed to serve Certified Angus Beef™ product and many more are interested.

In November 1992, Mexico put a 25 percent tarrif on frozen-beef imports and 20 percent tariff on chilled-beef imports. This has been very difficult for value-added products like Certified Angus Beef products says Erickson. "Opening up the market without the tariffs will be wonderful," she says. With NAFTA, the United States will have a competitive edge over Australia, the European Community and South American countries that are exporting beef to Mexico and will continue to have tariffs or their beef products.

With the excitement of increased beef exports to Mexico, there is some concern over live cattle imports from Mexico to the United States. In 1991 we imported 1.03 million head of cattle from Mexico, mostly feeder cattle fed in the southwest.

Bill Able, formerly with the International Meat and Livestock Program at Kansas State University and now head of the animal and dairy science department of Mississippi State University sees NAFTA as beneficial for beef producers, even with the feeder cattle variable.

He cites an impact study that studied the effects of Mexican feeder cattle on the U.S. market. The conclusion was the feeder cattle imports had little effect on the market, because as the incomes of Mexican workers continues to rise, their demand for beef increases and offsets the feeder cattle imports.

The Mexican feeding industry is limited, and Able doesn't see it expanding quickly. "There is a possibility that if grain becomes cheaper, Mexico could start finishing (cattle)," says Able. However, he adds if the Mexicans start feeding more cattle, they would

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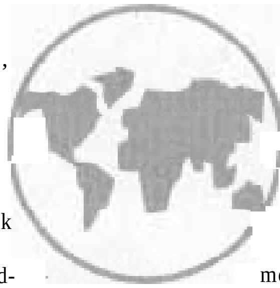
most likely buy the grain from the United States, strengthening our grain market.



**Specifically, Angus breeders** will benefit from NAFTA as the Mexicans look for improved genetics and breeding stock for their cow herds. Mexico has been a strong supporter of U.S. breeding stock and Able sees this increasing.

"The Mexicans have been trying to get better bloodlines to meet the needs of the customers of their feeder cattle," he says.

Bob Drake of Drake Farms, Davis, Okla., and first vice president of the National Cattlemen's Association (NCA) sees NAFTA as beneficial for purebred producers.

"In the Angus breed and other breeds, it will open up for the transfer of semen on cattle," he says. He notes that the reduction of tariffs and regulations will expand opportunities for purebred breeders, as well as commercial producers.

Barry Ambrosia, executive secretary of the Canadian Aberdeen-Angus Association sees NAFTA as a positive for both Canadian and U.S. Angus breeders.

"There is a good trade linkage between our countries," he says. "There are breeders coming up and Canadians going down to buy semen and pedigrees." He sees the trade growing even more, and including Angus breeders from coast to coast.

Ambrosia says the Canadians are looking forward to increasing trade with Mexico. "We're doing some trade, there is potential," he says. "Trade with Mexico is starting to become a high priority for the Canadian government. The United States has the advantage of a closer location and a larger economy, but the whole trade agreement benefits from the scales of economy that we haven't had before," he says.

Health concerns are prominent in the mind of beef producers with the increase of live-animal trade between the three countries. Drake says the health concerns are beginning to be discussed, particularly with Mexico. 'They are beginning to address it through NCA and have had meetings with Mexico working on health issues."

The concern many U.S. industries have with NAFTA is the lure to relocate factories in Mexico because of the lower labor costs. According to *Business* Week, Nov. 12, 1990, the average Mexican hourly worker in 1989 earned $1.63 per hour. The average U.S. hourly worker earned $14.32 during the same year. Would the positives of lower labor costs encourage some agriculture industries to relocate in Mexico?

Zulauf believes agriculture will see little movement of industries south of the border. "It's not labor that's constraining as the quality of labor and the capital behind it," he says.

Developed agriculture is very capital intensive which would discourage large movements of operations. The fruit and vegetable sector may experience the most competition from Mexico. Even then, he believes the United States will still have an advantage because of Mexico's limited water and land supply for agriculture production. These limitations also extend to livestock and crop production.

"At this point, it would be more prudent to reason that Mexican production will not grow fast enough to meet its population," Zulauf says.

Mexico's population is more than 90 million and continues to grow at an estimated rate of 2.3 percent. Thirty-six percent of the population is under the age of 14. This is compared to an aging population in both the United States and Canada, where less than 25 percent of the population is under the age of 14. With Mexico's growing population, its potential as a consumer market continues to grow and will be strengthened with NAFTA.

"It will increase spending power for Mexico to buy more of our red meat," says Seng.

The implementation of NAFTA is still in the future. In December 1992, former U.S. President George Bush, Mexican President Salinas de Gortari and Canadian Prime Minister Mulrooney signed the agreement. The Canadian House of Commons approved the agreement on May 27; the Canadian Senate soon followed suit. The Mexican government is still discussing the NAFTA agreement and has not ratified it.

When Bill Clinton was a presidential candidate, he supported NAFTA with added provisions for the labor and environment. Zulauf says President Clinton still holds to this and will not submit NAFTA to Congress without side agreements for labor and environmental issues. These issues were being worked out at press time.

Zulauf is concerned whether the Mexican government will consider these side agreements to be in their best national interest. Also, the U.S. court system is discussing whether the rules of the National Environmental Policy Act should include international trade treaties. In June, a U.S. District Court ruled that the administration must file an environmental-impact statement that could take several months, or possibly years to complete. The White House contends that the President has constitutional authority when dealing with foreign policy, which includes international trade treaties. The case is still in the appeals process.

The target date for implementing NAFTA is Jan. 1. 1994 — if the U.S. Congress and Senate ratify NAFTA by Oct. 1. According to the Congressional Research Office, this was simply a target date and the agreement can be ratified and implemented at a later time.

Seng sees NAFTA being ratified. "I think it's in the interest of all the countries. I think our Congress will recognize this," he says.

Zulauf says U.S. agriculture could lose potential markets if NAFTA isn't ratified. "Ratification of NAFTA to the farm sector as a whole should be its first priority," he says.

As we move toward a more global market, many see NAFTA as a step in the process. "Barely do you see the kind of consensus that's emerging from the economic community supporting NAFTA," says Zulauf. Though the results for the United States may be long term, many economists see NAFTA as a positive investment in our future.

"Part of what NAFTA is about is the realization of the growing interdependency of the world," Zulauf says. "I believe in 100 years from now, NAFTA will exist. Are we bold enough at the present time to seize the future?"

# Questions and Answers About NAFTA

The following are answers to many common questions cattle producers have been asking about the North American Free Trade Agreement.

**Q:** ***How will a NAFTA work? Is it necessary?***

**A:** A NAFTA will create a North American free trade zone by eliminating most tariffs and non-tariff trade barriers between the United States, Mexico and Canada. The rules of the 1989 U.S./Canada Free Trade Agreement will continue to apply. The NAFTA will create the largest market in the world, with 370 million consumers and more than $6.5 trillion of production. The NAFTA is important in order to compete with other integrated regional markets, such as the European Community and Asia.

The NAFTA is the most effective way to immediately eliminate the Mexican tariffs on U.S. live cattle and beef imposed in November 1992. Right now those tariffs are: a 15 percent tariff on live slaughter cattle, a 20 percent tariff on chilled beef, and a 25 percent tariff on frozen beef. There also is a 20 percent tariff on beef variety meats to be phased out over 10 years. These tariffs already have stagnated the U.S. beef export market to Mexico, and will continue to do so if they are not eliminated. As the U.S. cow/calf herd continues in its expansion phase, we must keep our export markets growing, and Mexico is a natural market.

**Q:** ***Will the NAFTA change the number of fee&r cattle exported to the United States?***

**A:** Today Mexican feeder cattle exports to the United States are based on market forces. This will not change under a NAFTA, so the marketing pattern can be expected to remain the same, fluctuating with economic forces. The United States imported 200,000 less head of Mexican feeder cattle in 1992 than in 1991 because of a stronger domestic Mexican market. Currently the only substantial restrictions on number of Mexican feeder cattle coming into the United States are animal health restrictions. Those safeguards will continue with or without a NAFTA. Lower tariffs and quotas on U.S. feed grains over the next five to 10 years due to a NAFTA may encourage Mexicans to retain cattle for their own feeding operations. However, the U.S. cattle feeding industry is far more efficient than Mexico's cattle feeding industry, even with lower feed costs there.

**Q:** ***There has been a lot of news about animal diseases in Mexico, especially tuberculosis and screw worm. Won't the NAFTA just open the border and allow those disease problems to flow into the United States?***

**A:** No. With or without a NAFTA, Mexican cattle must pass strict U.S. animal health standards before they are allowed to be imported into the United States. Mexican cattle producers and government officials must establish effective animal disease control and eradication procedures if they want to be competitive in the U.S. market. It is in the best interest of cattle producers in both countries to maintain disease eradication programs. NCA producers and USDA officials will continue to provide input to Mexican cattle producers and government officials on animal disease eradication programs.

**Q:** ***How will jobs be affected by a NAFTA?***

**A:** A free trade zone means job growth for all trading parties. Exports create jobs, and increased access to Mexico's market of 90 million people will provide new opportunities for U.S. exports. A recent study concluded that U.S. livestock and poultry exports account for nearly 200,000 jobs, 135,000 of which are directly related to red meat exports. Mexico currently is our third largest beef export market. Some U.S. companies were forced to move to Mexico in order to compete in that market because of some currently existing trade barriers. Those barriers would be eliminated with a NAFTA, making that move unnecessary.

**Q:** ***How much beef does the United States sell to Mexico now? Will that amount increase with a NAFTA? What would be the effect on that market without a NAFTA?***

**A:** U.S. exports of beef and variety meats to Mexico amounted to about $260 million in 1992. That market has grown by about $50 million per year since 1989. A NAFTA will take away the threat of tariffs that disrupt marketing patterns, making Mexico a much less risky market. Faster economic growth in Mexico would increase Mexican per capita income and the ability to buy U.S. beef.

**Q:** ***There have been some concerns about the U.S./Canada Free Trade Agreement. Will the NAFTA be better?***

**A:** The U.S./Canada Free Trade Agreement is a good agreement. However, negotiators agree that the dispute resolution language needed improvement, and the agreement allowed too much discretion in border re-inspection of meat. With this in mind, NAFTA negotiators have included more explicit language in an attempt to prevent such problems under a NAFTA. The cultural differences between Mexico and the United States make this a very different agreement.

**Q:** ***What will happen to the environment under the NAFTA?***

**A:** Under the NAFTA, the United States will maintain its environmental, health and safety standards. The NAFTA protects federal, state and local environmental standards and assures the right of each country to strengthen those standards, as long as they are based on "sound science." Continued improvement in both the U.S. and Mexican environments requires continued economic growth. NAFTA will open Mexican markets to U.S. environmental technology, products, services and investments.

The office of U.S. Trade Representative (USTR) currently is appealing a recent U.S. District Court ruling that directs the United States to conduct an Environmental Impact Statement before proceeding with a NAFTA. This ruling, if upheld, interferes with presidential negotiating authority.

***—Betsy Marchesseault, NCA Washington Information***