U.S. Agricultural Production Affected by Mexican Tariffs

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Background

The North American Free Trade Agreement (NAFTA) granted complete cross-border access for land transportation. Due to safety and environmental concerns, however, the United States did not comply with the provisions which led to a NAFTA dispute resolution in favor of Mexico in 2001. Subsequently, 100 Mexican trucking firms were granted access to U.S. roadways under a pilot program implemented in 2007, but funding was eliminated. Mexico retaliated on March 18, 2009 by imposing tariffs on selected U.S. agricultural exports and other goods including cosmetics, dental products and housewares. The tariffs were modified on September 17, 2010, with agricultural goods representing 71 percent of all products under tariff. Tariffs on agricultural products range from a low of five percent on pork shoulders to a high of 25 percent on cheeses. A total of $1.5 billion in agricultural products are now under tariff. The highest tariff on non-agricultural goods (refrigerators and washing machines) is 20 percent, with tariffs on other non-agricultural products ranging from five to 15 percent. The impact these tariffs is to lower prices for U.S. producers and raise prices for Mexican consumers and reduce U.S. exports.

Agricultural Production Impacts

While these tariffs impact about 12 percent of all U.S. agricultural exports to Mexico, the amount of production they affect is large and the regional coverage is extensive (see figure). Nearly every U.S. state is affected by Mexican retaliatory tariffs.

Nationally, $153 billion in agricultural production is impacted. The largest impacts are in Iowa, $28 billion, with hog production representing $27 billion. California's production affected by tariffs is $26 billion, with wine ($10.5 billion), cheeses ($6.7 billion) and fresh produce accounting for most of the impacts ($6.5 billion). Minnesota has $10.5 billion at stake, with hogs representing $8.2 billion and cheeses, $2.2 billion. North Carolina production affected is $10.2 billion, entirely impacting hogs. Wisconsin impacts are $9.5 billion, with cheeses representing $8.6 billion.

Hog production in several other key states is also impacted by Mexican tariffs. Those states include: Illinois, Indiana, Missouri, Nebraska, Oklahoma, South Dakota, Pennsylvania, Virginia, South Carolina, Tennessee, Wisconsin and Kansas.

Cheese production impacted in other states includes: Idaho, New York, New Mexico, Pennsylvania, South Dakota, and Ohio. Apple production in Washington, New York, Michigan, Oregon and Idaho is also affected by tariffs. Sweet corn most impacted by tariffs is produced in Florida, California, Georgia, Washington, New York and Ohio.

Summary

Five states are impacted the most by Mexican tariffs on U.S. agricultural exports: Iowa, California, Minnesota, North Carolina and Wisconsin. Fourteen other states have impacts exceeding $1.0 billion each. The major impact of Mexican tariffs falls on hog production, cheeses and fresh produce. Eliminating these tariffs would raise prices for U.S. producers, lower costs to Mexican consumers and lead to increased U.S. exports.

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