International Trade in Livestock and Products:
Issues and Observations

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International Trade in Livestock and Products: Issues and Observations

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Executive Summary

The Millennium Round of the World Trade Organization will be critical in continuing the process of market expansion begun in the Uruguay Round of the GATT. Greater access to international markets is important to the continued growth and prosperity of U.S. agriculture. Trade growth is considered by some analysts to be crucial as U.S. farm programs change and producers become more dependent on commercial markets to maintain the size and scale of their farm and ranch operations.

Some of the most likely areas to be considered for negotiation are:

1. Market Access - TRQ administration, transparency, and guaranteed minimum access will be major issues. Dirty tariffication, methods of tariff reduction, and specific request tariff reductions also will be key issues for market access negotiations. Minimum domestic purchase requirements used by some Latin American countries for grains may emerge as significant impediments to U.S. market access. Beef, pork, poultry, dairy products, grains, fruits and vegetables, oilseeds, sugar, and cotton may be most affected.

2. Export Subsidies - Export subsidy issues will relate to the need to develop a broader and clearer definition of subsidies, the possible inclusion of export credit as an export subsidy, and EU reform of the CAP and its impact on subsidy use. Beef and poultry, dairy products, wheat, rice, fruits and vegetables, wines, and sugar will be most affected by subsidy issues.

3. Domestic Support - Domestic support issues will focus on the amount of cushion available to each country under the AMS cap, the increased use of Green Box policies and possible calls for reductions in their use, and methods for further reducing trade distortions, with one possible alternative being to concentrate efforts on border measure reductions.

4. Sanitary and Phytosanitary Regulations - Negotiations will focus on whether to reopen the URA on SPS, how to handle GMO issues, EU labeling requirements for GMOs, and the need for international standards for GMOs. Most agricultural and food products could be affected if the negotiations are reopened.

5. Technical Barriers to Trade - Technical trade barrier negotiations may focus on transparency of regulations, possible inclusion of GMOs, and the need for harmonization among international institutions. Fruits, vegetables, meats, and grains should be the most affected.

6. State Trading Enterprises - Lack of pricing and operational transparency and the extent to which STEs violate the non-tariff trade barrier principle of WTO will be key issues. This round of multilateral trade negotiations will be the first attempt to discipline STEs under multilateral trade rules. STEs are most prominent in dairy products, grains, cotton, and vegetable oils.

7. WTO Dispute Settlement - Modification of dispute resolution procedures may include the calculation of damages due to improper trade restrictions, product seasonality and perishability issues for agriculture, enforcement, and compliance with WTO rulings.
Other possible areas for negotiation could include:

8. Genetically Modified Organisms - Trade rules regarding genetically modified organisms will focus on whether to include GMOs in the current SPS agreement or TBT agreement, or whether to create a separate GMO agreement, labeling and segregation requirements for GMOs, and the need for international standards for GMOs. Corn, soybeans, beef, pork, poultry, fruits and vegetables are commodities most affected by this issue.

9. Multifunctionality - Multifunctionality, or the use of market intervention and trade distorting policies to abate non-trade concerns, has become increasingly important. EU concerns about food safety and food security, the environment, and rural development are being used to justify calls for the increased use of trade distorting policies. Political stability and food security, fostering the economic well-being of rural peasantry, reducing population pressures in cities, the conservation of foreign exchange, and the importance of stimulating agricultural growth are arguments posed by some Asian countries.

10. Export Sanctions - Though the imposition of sanctions is a domestic policy decision, some issues in the upcoming round of WTO negotiations could affect the future use of sanctions. Given the progress on market opening that was accomplished in the Uruguay Round Agreements, some countries have expressed concern about the impact of further liberalization on food security, possible retaliation by trading partners, and the inequitable distribution of sanction impacts. U.S. rice exports have been impacted the most by export sanctions in recent years.

11. WTO Accession - If China is admitted with equal market access to other countries, U.S. cotton, wheat, corn, tobacco, and textiles may face more competition in foreign markets. U.S. market access will increase, however, partially offsetting the competitive effects. New WTO members will be under rules and disciplines to which they were not previously subjected.

12. Trade and the Environment - Trade and environmental issues will most likely focus on the impacts of increased regulation on competition, methods to ensure that environmental proliferation is not allowed to unduly restrict trade, and the potential for the harmonization or the development of more consistent environmental regulations across countries.

13. Antidumping and Countervailing Regulations - Antidumping and countervailing issues will likely include methodological questions related to consistency of laws regarding the use of positive determinations to establish material injury, the need to establish causality between imports and material injury, and at what point foreign raw materials and foreign processed goods become a domestic product. Cattle, hogs, tomatoes, beef and pork have all been affected by these issues.
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Agricultural Trade Overview

U.S. agricultural exports have increased 42 percent in tonnage since 1985, growing from 118 mmt to a peak of 167 mmt in 1996. Concurrently, the value of U.S. agricultural exports more than doubled, from $29 billion to $60 billion. Since then, exports have declined 18 percent in tonnage and 13 percent in value, dropping to $52 billion in 1998. About 90 percent of the drop in tonnage is due to lower exports of wheat, feed grains, and oilseeds, most of which was previously destined for Asian markets. The decline in export value was due to lower commodity prices as tonnage for red meats and poultry, dairy products, vegetables, fruits, cotton, and rice has continued to rise.

While U.S. agricultural exports to Asia have fallen due to recession, Japan remains the number one market for U.S. agriculture with purchases of $9.1 billion in 1998. Other top markets in 1998 were the European Union ($7.9 billion), Canada ($7.0 billion), Mexico ($6.2 billion), and Korea ($2.2 billion). Taiwan ($1.8 billion), Hong Kong ($1.5 billion), China ($1.3 billion), Egypt ($904 million), and Russia ($835 million) rounded out the top ten markets for U.S. agricultural exports.

U.S. agricultural imports have increased 88 percent since 1985, going from 17 mmt in 1985 to 32 mmt in 1998. Import value expanded by 85 percent during the same period, from $20 billion to $37 billion. Imports of feed grains, fruits, vegetables, and vegetable oils have all doubled since 1985, while imports of red meats have increased 18 percent. One of the fastest growing imports has been malt beverages, increasing 106 percent since 1985. Major imports suppliers in 1998 were Canada ($7.8 billion), the EU ($7.4 billion), Mexico ($4.7 billion), Indonesia ($1.4 billion), and Colombia ($1.3 billion). Other top 10 suppliers were Brazil ($1.2 billion), Australia ($1.1 billion), New Zealand ($958 million), Thailand ($749 million), and China ($741 million).

Agriculture has been one of the few U.S. industries to consistently generate a trade surplus, doing so each year since 1960. The peak U.S. agricultural trade surplus occurred in 1996 at $27 billion. Since then, the agricultural trade surplus has fallen 44 percent to $15 billion in 1998.


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**U.S. Cattle Trade, 1985 - 1998**

The United States is a net importer of cattle, typically importing about ten to twenty times as many head as it exports. The United States exported 285,000 head of cattle in 1998 worth $163 million, representing less than one percent of U.S. cattle production. Mexico accounted for 160,000 head ($86 million) of U.S. cattle exports, or 56 percent of the total. Mexico has typically been the leading market for U.S. cattle with the exception of 1995 when Mexico imported only 14,600 head ($14 million) as a result of a weak peso and economic recession. The United States exported almost three times as many cattle to Canada in 1998 compared to 1997. Most of this increase was due to more cattle feeding spurred by greater slaughter capacity in Canada.

U.S. cattle imports were 2,034,000 head ($1.14 billion) in 1998, which was on trend for the period which began in 1990. Cattle imports represented 5.5 percent of U.S. slaughter, down from the peak of 7.5 percent in 1995. During 1998, the United States imported 1,313,000 head ($937 million) from Canada and 720,000 head ($206 million) from Mexico. Only in 1995 were cattle imports an uncharacteristically high 2,790,000 head ($1.41 billion), when Mexico was forced to significantly decrease herd size due to high costs and drought, and the declining peso which stimulated Mexican exports. Following 1995, Mexico lost its position to Canada as the leading import supplier of cattle to the U.S. market. Because Mexico is rebuilding its herd, and Canadian slaughter capacity is growing, U.S. live cattle imports from Mexico and Canada should become more equal over the next several years. However, the value of cattle imports from Canada will most likely stay significantly higher than from Mexico since Canada primarily ships fed steers ready for slaughter while Mexico ships mainly calves and feeders.

**Trade Barriers and Other Issues**

- Resolution of U.S. antidumping/countervailing duty petition against Canada.
- Trans-shipment of non-NAFTA origin cattle through Mexico.

**U.S. Cattle Exports, 1985 - 1998**

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**U.S. Cattle Imports, 1985 -1998**

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**U.S. Hog Trade, 1985 - 1998**

The United States is a net importer of live hogs, with an even larger deficit than live cattle. The United States exported 229,000 head of hogs in 1998 worth $23 million, with 208,000 head ($18 million) going to Mexico. Mexico accounted for 91 percent of hog export volume and 76 percent of value. Mexico is usually the leading market for U.S. hog exports with the exception of 1995, when Korea surpassed Mexico as the number one market. The second largest market for U.S. hogs has typically been Canada, followed by Japan and Korea.

U.S. live hog imports reached a record level of 4,123,000 head worth $273 million in 1998. This was 33 percent increase above 1997 and almost 50 percent over 1996. However, the 1998 value of U.S. live hog imports was actually 11 percent less than the 1997 value of $306 million, and just slightly surpassed the 1997 value of hog imports of $271 million. An anti-dumping/countervailing duty petition was filed with the ITC by U.S. pork producers against Canada. Canada has consistently supplied all hog imports to the U.S. market. While Canada will remain as the number one import supplier of hogs to the U.S., the future volumes will be at least in part contingent upon the resolution of the AD/CVD petition.

**Trade Barriers and Other Issues**

- Concerns over imports from Canada.
- Resolution of AD/CVD petition.
- Concerns about hog cholera in the EU.

**U.S. Hog Exports, 1985 - 1998**

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**U.S. Hog Imports, 1985 - 1998**

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U.S. Beef Trade, 1985 - 1998

The United States was a net exporter of beef in 1998, generating a trade surplus of $500 million. Because of differences in the types of beef traded, however, import volume exceeded exports by 200,000 mt. U.S. beef exports have increased six fold since 1985, growing from 110,000 metric tons (mt) to 714,000 mt in 1998. The value of U.S. beef exports declined to $2.3 billion in 1998, down from the record $2.6 billion in 1995. The decline in value was due to lower prices, as tonnage continued to increase. The international market also has become more important to beef producers, indicated by the fact that the share of U.S. beef production entering the export market has increased from about two percent in the mid 1980s to 8.1 percent in 1998. This share is expected to exceed 10 percent by 2005. Japan imported 369,000 mt of beef ($1.3 billion) in 1998, continuing its lead as the largest market for U.S. beef and larger than the next largest three markets, Mexico, Canada and Korea, combined. Mexican imports of U.S. beef have expanded 400 percent since 1985, reaching 142,000 mt ($398 million) in 1998, solidifying Mexico’s position as the second largest export market for U.S. beef.

U.S. beef imports have increased 29 percent since 1995. In 1998, the United States imported 892,000 mt of beef valued at $1.8 billion. Beef imports have increased from 8.0 percent of total U.S. beef consumption in 1985 to 10.2 percent in 1998. Much of the increase in beef imports has been due to a strong U.S. dollar, competitively priced ground beef from Australia and New Zealand, the elimination of U.S. tariffs on beef from Canada, and the implementation of a 20,000 mt fresh beef quota for each of Argentina and Uruguay. Canada is now the largest import supplier of beef to the U.S. market, with 306,000 mt ($736 million) in 1998, followed by Australia with 285,000 mt ($468 million), and New Zealand with 198,000 mt ($329 million). This represents a shift in the trade pattern prior to 1996 period, when Australia was the largest supplier to the United States, followed by New Zealand and Canada.

Trade Barriers and Other Issues

- Impacts and consequences of EU ban on hormone treated beef.
- Wider acceptance of U.S. beef products through increased market access.
- Imposition of countervailing duties on selected U.S. beef products by Mexico.
- Korean tender offer beef purchasing system.
- Latin American countries want greater access to global markets through more transparent implementation of TRQs.
- EU use of high export subsidies for beef and one of most export-subsidized products reported to WTO for 1996.
- Argentina and Uruguay now exporting fresh and chilled beef to U.S. markets under regionalization provision of the URA.

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**U.S. Pork Trade, 1985 - 1998**

The United States is a net exporter of pork. U.S. exports of pork increased significantly between 1985 and 1996, from 41,000 metric tons ($76 million) to 306,000 metric tons ($1.01 billion). Since that time, the quantity of pork exports has risen to its highest level, 399,000 metric tons in 1998, or 6.5 percent of U.S. pork production. The value of pork exports has remained relatively stable at $1.03 billion. As with beef, the largest export market for U.S. pork is Japan, importing 174,000 metric tons ($596 million) in 1998. The next largest markets for U.S. pork are Mexico (51,000 metric tons), Russia (41,000 mt) and Canada (40,000 mt), with the order of importance alternating among the countries in recent years.

The United States imported 290,000 metric tons of pork valued at $682 million in 1998, continuing a rather stable level in both volume and value which began in 1994, but down from higher levels in the late 1980's and early 1990's. Currently, pork imports represent 3.8 percent of U.S. consumption. Canada is the largest import supplier of pork to the U.S. market with 214,000 metric tons ($416 million) in 1998, or 74 percent of the total imported quantity, and 61 percent of the total value of U.S. pork imports. The only other significant sources of pork imports are the European Union (EU) and Hungary.

**Trade Barriers and Other Issues**

- Mexico recently imposed countervailing duty on U.S. pork.
- Concerns about hog cholera in the EU.

**U.S. Pork Exports, 1985 - 1998**

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**U.S. Pork Imports, 1985 -1998**

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U.S. Sheep and Lamb/Mutton Trade, 1985 - 1998

While U.S. lamb and mutton exports are comparatively small, recent attention has focused on imports of lamb and mutton and the position of the United States as net importer. The United States imported 52,000 mt ($171 million) of lamb and mutton in 1998, representing a 37 percent volume increase over. Australia has been the primary supplier of lamb/mutton to the United States throughout the 1990s, and in 1998 accounted for 69 percent of U.S. imports with 36,000 mt ($97 million). The only other significant supplier of lamb/mutton to the U.S. is New Zealand, which exported 16,000 mt ($74 million) to the U.S. in 1998. Australia and New Zealand combined account for over 99 percent of U.S. lamb/mutton imports.

U.S. import volumes and values of lamb/mutton represented more than 31 percent of U.S. lamb/mutton consumption in 1998. The U.S. sheep industry filed a Section 201 petition against Australia and New Zealand claiming harm the U.S. industry under the Trade Act of 1974. Upon unanimous finding in favor of the industry by the International Trade Commission, on July 7, 1999 President Clinton imposed a five-year tariff-rate quota on lamb meat from Australia and New Zealand. The initial quota level will be 70 million pounds, with an in-quota tariff of 9 percent and an over-quota tariffs as high as 40 percent. As a result, it is expected that U.S. lamb/mutton imports will remain relatively stable over the next several years.

U.S. sheep exports have been unstable in recent years, ranging between 500,000 and 1.4 million head. Mexico accounts for 99 percent of all export in most years. The elimination of the U.S. wool and mohair program, Mexican peso devaluation, and drought have been the most important factors affecting U.S. sheep exports.

Trade Barriers and Other Issues

- Possible retaliation by Australia and New Zealand for U.S. tariff-rate quota.
- Competitiveness of U.S. industry following reduction in federal support.
- Perception of inconsistent U.S. trade policy by U.S. trading partners.

U.S. Pork Exports, 1985 - 1998

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U.S. Pork Imports, 1985 -1998

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The United States was a net exporter of poultry meat in 1998, generating a trade surplus of $1.7 billion. U.S. broiler output represented 33 percent of total world production, and U.S. exports represented over 40 percent of total world exports. U.S. exports of broiler meat have increased dramatically since 1985, from 198,000 metric tons to 2.2 million metric tons (mmt) in 1998. This represents an increase of over 1,000 percent, and was 17 percent of U.S. broiler production compared to 3 percent of production in 1985. While the value of U.S. broiler exports was $1.74 billion in 1998, this was a decrease from the $1.9 billion record in 1997. Most of the lower value was due to lower prices. The largest export market for the U.S. broiler meat in 1998 was Russia at 678,000 mt ($483 million), down from a peak of 930,000 mt ($715 million) in 1997. The next largest markets were Hong Kong (509,000 mt), Mexico (126,000 mt), Japan (93,000 mt) and Canada (75,000 mt). Mexico replaced Japan as the number three U.S. broiler meat export market in 1997. Mexico has also been the leading importer of U.S. turkey meat throughout the 1990s.

The United States produced 51 percent of total world turkey production in 1998 and shipped 46 percent of total world exports during that same year. The share of U.S. production entering the export market has increased from less than one percent in the mid 1980s to 9 percent in 1998. U.S. exports have increased fourteen fold since the mid-1980s, growing from 12,340 metric tons in 1985 to 182,000 metric tons 1998, with a record level of exports of 253,000 metric tons in 1997. The value of U.S. exports declined to $202 million in 1998 from the record $290 million in 1997. The largest export markets for U.S. turkey products in 1998 were Mexico at 107,000 mt ($122 million), Russia at 26,000 mt ($26 million), and Hong Kong at 16,000 mt ($16 million).

In 1998, imports of poultry meat were 8,600 mt for a total of $28 million. Canada accounted for 93 percent of U.S. poultry meat import volume, and 86 percent of value. While imports have gradually risen throughout the decade, they currently represent only .02 percent of poultry meat consumption in the United States.

**Trade Barriers and Other Issues**

- Canada has restrictive tariff-rate quota; 60,000 mt quota for U.S. chicken meat, 40,000 mt for all other countries, and 238% bound tariff.
- Canada and Australia have now agreed to accept cooked poultry imports.
- EU uses high export subsidies for poultry meat.
U.S. Poultry Exports, 1985 - 1998

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U.S. Poultry Imports, 1985 -1998

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U.S. dairy products trade consists primarily of non-fat dry milk (NFDM) and cheese exports and imports of cheese. The United States exported 81,000 mt of NFDM in 1998 worth $136 million. The United States had no NFDM imports. U.S. exports of NFDM are down from the 1985 level of 350,000 mt worth almost $200 million; however, 1998 exports of NFDM were the highest reported during the 1990s. U.S. exports of NFDM represented 28 percent of production. The largest market for 1998 U.S. NFDM exports was Mexico at 15,000 mt ($25 million). The Philippines was the second largest market in 1997, but dropped to fourth in 1998. Algeria has consistently been a major market, though at much lower levels in 1998 than 1995.

The United States is a net importer of cheese. The U.S. exported 37,000 mt of cheese in 1998, off just slightly from the peak established in 1997. These exports represented slightly more than one percent of production and were worth $117 million. Japan, Mexico and Canada are typically the largest three export markets for U.S. cheese. U.S. cheese imports were 168,000 mt worth $635 million in 1998. Imports represented 31 percent of U.S. cheese consumption, the highest percentage on record. Historically, the largest supplier of U.S. cheese imports has been the EU, which shipped 88,000 mt ($387 million) of higher priced cheese varieties. New Zealand supplied 28,000 mt ($77 million), followed by Norway, Australia and Canada.

Trade Barriers and Other Issues

- Latin American countries want greater market access.
- Restrictive U.S. TRQs on dairy, with high bound tariffs on cheese, butter and NFDM.
- Canada uses restrictive TRQ for dairy.
- New Zealand Dairy Board may be converted to private cooperative.
- One of most export-subsidized products reported to WTO for 1996.
- The United States uses high export subsidies for NFDM.
- EU uses high export subsidies for cheese and other dairy.
- High STE participation in butter and milk powder trade around the world.
- Inconsistency of U.S. dairy policy with U.S. goals to increase market access.

U.S. Non-Fat Dry Milk Exports, 1985 - 1998

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U.S. Cheese Exports, 1985 - 1998
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U.S. Cheese Imports, 1985 -1998
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Conclusions and Observations

Despite problems to initiate a Seattle Round of multilateral trade negotiations, trade liberalization will be critical in continuing the process of market expansion begun in the Uruguay Round of the GATT. Greater access to international markets is considered by many analysts to be essential to the continued growth and prosperity of U.S. agriculture. Trade growth is considered especially important as U.S. farm programs change and producers become more dependent on commercial markets to maintain the size and scale of their farm and ranch operations.

Acceptance of GMOs, dirty tariffication, technical trade barriers, and the administration of tariff-rate quotas have emerged as key issues affecting negotiations on market access. Export subsidy issues relate to possibly redefining subsidies, the possible inclusion of export credit guarantees, and EU reform of the CAP and its impact on subsidy use and program costs.

Domestic support issues will focus on the amount of cushion available to each country under the AMS cap, the increased use of Green Box policies and possible calls for reductions in their use, and methods for further reducing trade distortions, with one possible alternative being to concentrate efforts on border measure reductions. Multifunctionality, or the use of market intervention and trade distorting policies to abate non-trade concerns, began with the debate over trade and the environment during the latter stages of negotiations on NAFTA and has continued since that time. Many argue that countries should be able to use trade distorting policies to address non-trade problems. Japan, Korea, and the EU support this view, citing food security, food safety, environmental quality, and the preservation of rural lifestyles as the main reasons.

Sanitary and phytosanitary negotiations will focus on whether to reopen the URA on SPS, how to handle GMO issues, EU labeling requirements for GMOs, and the need for international standards for GMOs. Trade and environmental issues will most likely focus on the impacts of increased regulation on competition, methods to ensure that environmental proliferation is not allowed to unduly restrict trade, and the potential for the harmonization or the development of more consistent environmental regulations across countries.

Modification of dispute resolution may include the calculation of damages due to unfounded trade restrictions, product seasonality and perishability issues for agriculture, enforcement and compliance with WTO rulings, and the ultimate credibility of the WTO dispute settlement body and process.

Some observers believe that it may be necessary to revert to bilateral or regional trade negotiations in order to maintain the momentum for market access in agriculture which resulted from the Uruguay Round. Others are calling for freezing reductions at their final agreed upon levels in 2001. Many developing countries were disappointed with the U.S. initiative to include labor and environmental issues as part of the trade package. Some countries believe the best course of action may be to put further negotiations on hold until the next ministerial in 2002. With the divergence of views and strong resistance by some, such as Japan and the EU, it may prove difficult to make much multilateral progress for several years.
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