

Background on the Mexican Trucking Issue and Pork

Implementation of NAFTA in 1994 provided U.S. agriculture substantial new market access opportunities for a broad range of products -- with pork at the forefront. Under NAFTA, U.S. agricultural exports to Mexico increased by 257% and pork exports by 580%. Mexico went from being an inconsequential market for U.S. pork to our second largest U.S. export market valued in 2009 at over \$762 million. Through the first half of 2010 Mexico alone accounted for over 20% of total U.S. pork exports and approximately 4% of U.S. pork production.

As part of the overall NAFTA deal, the U.S. and Mexico agreed to permit each other's trucks to enter the interior of the other country after a phase-in period, expanding the border zone access that had been in place for years. The U.S. failed to implement its part of this deal, however, and after failing for three years to gain access, Mexico sought a ruling from a NAFTA dispute settlement panel to attempt to force U.S. compliance with the trucking agreement. In February 2001 that panel determined that the U.S. had indeed violated its obligations on trucking and authorized Mexico to retaliate against U.S. exports. Subsequent efforts by the Bush administration to implement the agreement convinced Mexico to hold off on retaliation for several additional years.

One of those efforts by the administration was to put in place a "pilot program" in 2007 that allowed some Mexican trucks to make deliveries to Chicago. Although only a small number of Mexican carriers were allowed into the U.S. as part of this program, there was major outcry against the program from the Teamsters union, and on March 11, 2009, Congress voted to cut funding for the program and shut it down. It is important to note that during the life of the program there was no evidence that Mexican trucks and drivers were any less safe than their American counterparts. In fact, supporters of the trucking agreement believe the reason the Teamsters wanted the pilot program to be killed was precisely because it was showing that Mexican trucks were as safe as U.S. trucks.

On March 18, 2009, Mexico finally retaliated against \$2.4 billion in U.S. exports. Pork was not on this initial list, and we are convinced that this was due to pork producers' longstanding efforts in support of the NAFTA. Other sectors were not so fortunate. Mexico's initial retaliation was estimated to put 12,000 agricultural and 14,000 manufacturing jobs at risk. We have heard from potato producers and processors that the retaliatory tariffs on frozen potato products caused U.S. exports to Mexico to decline by nearly 50%. Those lost sales were captured by Canadian producers.

Unfortunately, the revised retaliation list announced by Mexico added U.S. pork. The tariff rate on ham and shoulder cuts is now 5% effective August 19, 2010. The tariff on cooked skin pellets is now 20%, also effective August 19. Over 50% of the U.S. pork shipped to Mexico is unprocessed ham (leg of pork), which now will be assessed a 5% tariff. Cooked skin is a relatively small percentage of total U.S. pork exports to Mexico and now will pay a 20% tariff.

This action by Mexico was taken out of frustration with the fact that, despite over a year of statements by the United States that it was working hard to find a solution to the issue, nothing materialized. Modifying retaliation after a period of time to maintain pressure on a trading

partner to abide by a trade agreement is a tactic first introduced by the U.S. in its complaint against the EU in the beef hormone case.

The United States is the No. 1 global exporter of pork. The profitability of U.S. pork producers is tied closely to export performance. Although the 5% tariff is relatively low, it will put U.S. pork exports in a less favorable position vis a vis domestic Mexican pork and pork exports from Canada and Chile, both of which continue to have zero-tariff access to Mexico because of their respective free trade agreements with that country.

The National Pork Producers Council will continue to take a leadership role in the private sector to convince the Obama administration and Congress to bring the U.S. into conformity with its trade obligations -- as we expect other countries to do.

