Policy Changes Resulting from NAFTA

United States. Historically, U.S. tariffs on cattle entering from Canada and Mexico have been quite low. Purebred breeding cattle and cattle imported for dairy purposes were admitted duty-free, while other cattle were charged 2.2 cents per kilogram. Under CFTA, the United States began to gradually eliminate its tariffs on cattle imports from Canada. This process, originally intended to last 9 years beginning on January 1, 1989, was accelerated to completion by January 1, 1993. Under NAFTA, the United States immediately eliminated its duties on Mexican cattle on January 1, 1994.

Canada. Even before CFTA, Canada's import regime for U.S. cattle largely resembled the U.S. regime for Canadian cattle. Purebred breeding cattle and cattle intended for dairy purposes were admitted duty-free, while other cattle were charged 2.2 cents per kilogram. Under CFTA, the gradual elimination of Canadian tariffs on U.S. cattle was scheduled for the 9-year period that began on January 1, 1989. However, Canada accelerated this process to completion by January 1, 1993. Canada completely eliminated its duties on Mexican cattle upon NAFTA's implementation on January 1, 1994.

Mexico. In late 1992, Mexico raised its tariffs on non-breeding cattle from zero to 15 percent. Once NAFTA took effect in 1994, Mexico eliminated its tariffs on U.S. and Canadian cattle.

Cattle Trade under CFTA and NAFTA

The United States trades three basic classes of cattle with Canada and Mexico: cattle for slaughter, feeder calves, and purebred breeding cattle. Breeding cattle trade between the NAFTA countries has been free of tariffs for many years, even before 1989. Thus, CFTA and NAFTA have not had a direct effect on trade in breeding stock.

Mexican and Canadian cattle tend to be leaner than cattle produced in the United States, although the reasons for this relative leanness vary between the two countries. Mexican cattle are considerably leaner than U.S. cattle, as Mexico does little grain-feeding of its cattle. Canada feeds its cattle much as the United States does, but Canada's grading system differs from that of the United States. The U.S. grading system rewards marbling, small flecks of fat mixed in the muscle, and Canada's does not. Moreover, USDA only grades beef carcasses in the United States, so animals that are killed and processed in Canada cannot receive USDA quality grades. Given the premiums that USDA Choice cattle and beef get in the United States, Canadian producers have a strong incentive to ship cattle to the United States so that, once slaughtered, they can meet USDA grade standards.

U.S.-Canada trade in slaughter cattle runs in both directions, although Canadian slaughter cattle exports to the United States are higher than the trade in the other direction. U.S. shipments of slaughter cattle to Canada have increased under CFTA and NAFTA, but the United States remains a substantial net importer of slaughter cattle from Canada. Because there were few impediments to U.S.-Canada slaughter cattle trade prior to 1989, little of the recent increase in this trade can be directly attributed to the two agreements. U.S.-Mexico slaughter cattle trade consists primarily of U.S. exports to Mexico. The year 1995 was one exception to this general pattern, as recession and drought in Mexico led to a large number of Mexican cattle being shipped to the United States for slaughter.

U.S. cattle exports to Mexico have continued to fluctuate under NAFTA, largely due to short-term changes in the U.S. and Mexican markets. For example, the peso crisis and subsequent recession in Mexico caused U.S. exports to drop to 14,641 head in 1995, a decrease of 89 percent from the previous year. Another
short-term fluctuation took place between 1999 and 2000, when U.S. cattle exports to Mexico climbed from 100,481 to 126,704 head. This increase appears to be linked to drought in the U.S. Southwest. Dry conditions led to more culling of cows than usual, and many of the additional culled cattle were shipped to Mexico. Although similar factors affected U.S. cattle exports to Mexico prior to NAFTA, year-to-year changes in Mexican policy created additional instability. Since NAFTA's implementation, the Mexican government has pursued a more stable beef and cattle import policy.

The general pattern of feeder-cattle trade is opposite that of slaughter-cattle trade. Slaughter cattle generally move south, with Canada exporting to the United States and the United States exporting to Mexico. The United States is a net exporter of feeder cattle to Canada and a net importer from Mexico.

As is the case with slaughter cattle, feeder cattle trade among the NAFTA countries changes greatly from year to year, mostly due to idiosyncratic factors. Mexican cattle exports to the United States have fluctuated within the same range under NAFTA as they did in the years immediately prior to the agreement. The Mexican recession in 1995 led to the shipment of about 1.6 million cattle out of Mexico. In contrast, Mexican exports to the United States remained under 1 million head each year during 1996-99, although they grew to more than 1.2 million in 2000. This increase is partly due to the same drought that boosted U.S. slaughter cattle exports. Feeder cattle were shipped north to U.S. feedlots, as there was insufficient pasture in Mexico.

NAFTA's effect on Mexican cattle exports to the United States appears to be small. Export levels are remarkably similar before and after the start of NAFTA. As is the case for U.S. cattle exports to Mexico, NAFTA's most important influence is probably its stabilization of Mexican trade policy.

Post-NAFTA agreements have had a major effect on U.S. feeder calf exports to Canada. In 1997, the United States and Canada started a program called the North-West Pilot Program. Under this program, U.S. feeder calves could be shipped to selected Canadian feedlots without going through the usual quarantine procedures. The diseases that Canadian authorities were most concerned about were blue tongue and anaplasmosis. As more feedlots signed on to this program, which is now called the Restricted Feed Cattle Program, U.S. cattle exports to Canada increased from around 40,000 head in 1996 and 1997 to 349,536 head in 2000.

Trade Issues

U.S. ITC Cattle and Beef Study. The U.S. International Trade Commission (ITC) investigated the impact of NAFTA and URAA on the trade of slaughter cattle and beef, as well as the steps taken by the United States since 1994 to prevent the transshipment of cattle and beef through Mexico and Canada to the U.S. market. An ITC report entitled “Cattle and Beef: Impact of the NAFTA and Uruguay Round Agreements on U.S. Trade” was released on July 7, 1997. The report noted the policy changes in beef and cattle trade due to NAFTA and URAA, and it concluded that neither agreement had yet had a major impact on U.S. cattle markets.

R-CALF Dumping and Countervailing Duty (CVD) Petitions. In the fall of 1998, a group of U.S. cattle producers called the Ranchers-Cattlemen Action Legal Fund (R-CALF) filed a petition requesting that the ITC investigate charges that Canada and Mexico were dumping cattle in the U.S. market at less than their fair market value. R-CALF also alleged that Canadian subsidies help its producers to sell cattle in the United States at a discount. The Record of Understanding (ROU) signed by Canada and the United States in December 1998 states that if one country imposes new duties on cattle trade, the other may re-balance certain commitments made under the ROU for the duration of the duty increase.

On January 19, 1999, the ITC ruled 4-2 that there was evidence that Canadian cattle shipments pose a sufficient threat to U.S. industry to justify continuing the probes begun in December 1998 by the U.S. Department of Commerce (DOC). On May 11, 1999, DOC issued a preliminary determination that subsidies were not being provided to producers or exporters of live cattle in Canada. The final report issued in November 1999 found no evidence that Canadian cattle were being dumped into the U.S. market.

In its ruling dated January 19, 1999, the ITC also concluded that there was “no reasonable indication of material injury or threat of material injury” to the U.S.
The cattle industry due to cattle imports from Mexico. For the period under investigation (1995-98), ITC found that Mexican cattle shipments were small in terms of both volume and their overall share of the U.S. market. Moreover, ITC determined that this trade had not significantly affected domestic prices and that it was unlikely that U.S. cattle imports from Mexico would increase substantially in the future.

**Northern Plains Truck Interceptions.** In September 1998, the Governor of South Dakota directed the South Dakota Highway Patrol to intercept commercial truck traffic carrying Canadian cattle, hogs, or grain. The governor's actions won at least tacit support from governors of 4 neighboring States and led to threats by Canada to take the matter before NAFTA or the WTO. Resulting negotiations culminated on December 4, 1998, with the signing of a 17-point Record of Understanding by cabinet members from both countries. Canada agreed to revise and simplify its animal health regulations governing imports, including its regulations on the importation of U.S. feeder cattle. In addition, the two countries agreed to increase their cooperation regarding cattle trade data and to work towards the harmonization of animal drug registrations.

**NAFTA’s Impact on Cattle Trade**

U.S.-Canada cattle trade has been influenced more by the exemption of Canadian beef from the U.S. Meat Import Law than by tariff changes. Cattle tariffs between the two countries were low before CFTA, and they were eliminated completely by 1993. However, the tariff reductions associated with CFTA might have had a greater impact on cattle trade if beef imports from Canada were still subject to the Meat Import Law. Under this law, the weight of imported cattle was used to calculate the next year’s meat quota. Thus, higher imports of cattle in one year could lower the quota for the next year, as imported cattle weights were subtracted from domestic production.

When the Uruguay Round TRQ for beef was established, the effect of live cattle imports on production could not be considered as it had under the Meat Import Law. If Canada had been included in the TRQ, Canada would have avoided the over-quota tariffs by shipping live animals to the United States for slaughter. This would have increased U.S. cattle imports by some 20-30 percent. Likewise, U.S. cattle exports to Canada would have increased if U.S. beef exports rose to a level at which Canada imposed its over-quota duty of 25 percent.

NAFTA's greatest influence on U.S.-Mexico cattle trade is its immediate elimination of Mexico's 15-percent duty on live cattle imports. This tariff elimination probably boosted U.S. cattle exports to Mexico by 18-33 percent in the first year of NAFTA. The peso devaluation in late 1994 and the subsequent recession in 1995 complicate the analysis of NAFTA’s immediate effects. Also, before NAFTA was ratified, Mexico’s beef and cattle policies changed frequently as policy objectives changed. Usually, the Mexican government followed policies designed to keep beef prices low, and the 15-percent duty imposed on cattle imports in 1992 was an unusual step in the opposite direction. Mexico’s policies under NAFTA have been much more stable than its policies before the agreement, and this probably has led to increased levels of cattle trade in both directions.

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**Beef**

**Policy Changes Resulting from NAFTA**

**United States.** Under CFTA and NAFTA, the United States exempted both Canada and Mexico from the U.S. Meat Import Law. This exemption from quantitative restrictions on the shipment of fresh, chilled, or frozen beef was carried forward in calculating the TRQ's under the Uruguay Round. The United States also applies a tariff of 2 cents per pound on most types of imported beef. Under CFTA, this duty originally was to be eliminated over a 9-year period beginning on January 1, 1989. However, this process was accelerated to completion, and most U.S.-Canada trade in fresh, chilled, or frozen beef enjoyed duty-free status as of July 1993. Under NAFTA, the United States immediately eliminated its tariffs on Mexican beef on January 1, 1994.

**Mexico.** In late 1992, Mexico raised its beef tariffs from zero to 20 percent for fresh beef and 25 percent for frozen beef. Once NAFTA took effect, Mexico eliminated these tariffs for U.S. and Canadian beef.

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Prior to NAFTA, Mexico also levied a 20-percent tariff on beef offal from Canada and the United States. This tariff is being phased out over the 9-year period that ends on January 1, 2003. For 2001, the tariff equals 8 percent.

Canada. Canada exempted both the United States and Mexico from its Meat Import Law and subsequent TRQ calculations. Canada phased out its tariffs on U.S. beef under an accelerated schedule, and it eliminated its tariffs on Mexican beef at the start of NAFTA.

**Beef Trade under CFTA and NAFTA**

The low U.S. and Canadian tariffs that existed prior to CFTA did little to restrict U.S.-Canada beef trade. The Meat Import Laws of both countries were more important barriers to trade, and even these restrictions were non-binding during about half of the year. U.S. beef exports to Canada experienced limited long-term growth during the 1990's. This trade equaled 87,480 metric tons in 2000, somewhat less than its 1991 level of 90,892 metric tons. In contrast, U.S. beef imports from Canada increased almost without interruption over the last decade, climbing from 81,138 metric tons in 1990 to 335,163 metric tons in 2000. The relative strength of the U.S. dollar has played an important role in this expansion.

Upon NAFTA's implementation, Mexico immediately eliminated its 20-percent tariff on U.S. (and Canadian) beef. As a result, U.S. beef exports to Mexico climbed from 39,444 metric tons in 1993 to 72,341 metric tons in 1994, an increase of 83 percent. However, this increase is far less dramatic when one remembers that Mexico had raised its tariff on all imported beef from zero to 20 percent at the end of 1992. In fact, the volume of this trade in 1994 was only 5 percent higher than the volume in 1992, prior to the tariff's implementation.

The recession that followed the peso crisis caused U.S. beef exports to Mexico to drop sharply in 1995, and exports did not recover fully until 1997. This trade has grown steadily since 1995, and its volume is now more than 2½ times greater than its pre-NAFTA levels. Much of this increase is due to continuing improvement in the Mexican economy. In 2000, U.S. beef exports to Mexico totaled 178,749 metric tons, with a value of $531 million.

Mexico ships only a small amount of beef to the United States, and it is by far a net importer of beef from the United States. Given the premium placed on higher-grading beef in the United States, it makes more sense for Mexican producers to sell calves to the United States for feeding than to ship beef.

**Trade Issues**

Beef trade has been subject to trade disputes between the United States and Canada over the equivalency of inspections and among all three NAFTA signatories over charges of dumping. Mexican producers have charged that the United States has dumped beef in the Mexican market, while U.S. cattlemen have alleged dumping of cattle by Canadian and Mexican producers. Although none of these disputes have resulted in a major disruption of trade, both issues are irritants. In 1998, the Governors of several States in the Northern Plains resorted to stopping Canadian trucks in order to pressure Canada to limit shipments.

**Mexican Antidumping Investigation Against U.S. Beef.** An antidumping dispute with Mexico surfaced in June 1994, with charges that U.S. exporters engaged in discriminatory pricing practices between August 1993 and January 1994. After a brief investigation, the Mexican government published a preliminary finding showing some margin of price discrimination on the part of some U.S. packers, but not a threat of injury sufficient to justify the immediate imposition of antidumping duties. Before a final ruling was issued, the Mexican Confederation of Cattle Producers and the U.S. National Cattlemen's Association reached an understanding to improve communication between the two groups. Subsequently, the complaint was withdrawn.

However, charges were made once again in 1998 that the United States was dumping beef in Mexico. On August 1, 1999, Mexico announced antidumping tariffs that varied by company. U.S. beef exporters appealed these tariffs, and on October 10, 2000, Mexico published a set of revised antidumping tariffs for certain beef exporters. These duties range from zero to 80 cents per kilogram, depending on the company and the type of beef.

**NAFTA’s Impact on Beef Trade**

Calculating Canada's share of the quota under the U.S. Meat Import Law indicates that Canada would have been allowed to ship 130 to 135 million pounds of beef (58,968 to 61,236 metric tons) in 1994. Actual shipments that year equaled 178,091 metric tons. Moreover, if the Uruguay Round's TRQ had applied to...
Canada, that country would have been able to export only about 145 million pounds (65,772 metric tons) per year to the United States beginning in 1995. The average level of U.S. beef imports from Canada during 1995-2000 is roughly 4 times this amount, indicating substantially higher imports due to CFTA and NAFTA.

Similarly, the United States has benefited from the elimination of Canadian import restrictions. Although Canada had not invoked its Meat Import Act since 1985, it closely monitors beef imports from countries outside NAFTA. In 1993, Canada imposed a TRQ on boneless beef from countries other than the United States. The initial TRQ was set at 72,000 metric tons, with an over-quota tariff of 25 percent. The United States exported 67,000 metric tons, or 37 percent of Canada's boneless beef imports. Canada relaxed the rules associated with the TRQ in 1994, expanding the effective TRQ to 91,000 metric tons. Most of the boneless beef imported by Canada (and the United States) from countries outside NAFTA is cow and bull meat. This lean meat is used in the manufacturing of hamburger and other processed meats. The rules were relaxed to relieve pressure on this segment of the beef market.

In 1995, Canada replaced its Meat Import Act with a TRQ of 76,409 metric tons and an over-quota duty of 30.3 percent. Although the pre-Uruguay Round surcharge affected lower-value manufacturing beef, had the United States not been exempt from these restrictions, it is likely that between one-third and one-half of U.S. exports to Canada would have been subject to over-quota duties. This implies that CFTA and NAFTA may have doubled U.S. beef exports to Canada. Since 1989, the United States has maintained a 40- to 50-percent share of the Canadian import market, considerably above its 10- to 15-percent share before CFTA, when the United States was subject to Canada's Meat Import Act.

NAFTA’s impact on U.S. beef exports to Mexico is more difficult to estimate. Mexico’s beef tariff of 20 percent was eliminated with NAFTA. However, this tariff was imposed only in late 1992 and represented a major change in Mexican beef policy. The level of beef exports in 1992 prior to the 20-percent tariff is remarkably similar to the level in 1994, when the tariff was eliminated as part of NAFTA. Improvements in the Mexican economy have driven much of the recent growth in U.S. beef exports to Mexico. Despite countervailing duties on U.S. beef, these exports are expected to continue to grow.

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Hogs

Policy Changes Resulting from NAFTA

United States. The United States does not levy tariffs on hog imports, nor did it do so immediately prior to CFTA and NAFTA. However, the United States did maintain a countervailing duty on Canadian hogs from 1984 to 1999 (see trade issues section).

Canada. Canada does not levy a duty on hog imports, a policy that predates CFTA.

Mexico. Prior to 1994, Mexico maintained a 20-percent duty on non-purebred hogs. Under NAFTA, this duty is being phased out over the 9-year period that ends on January 1, 2003. In addition, a safeguard TRQ was placed on imports. If imports rise above the levels specified by the TRQ, the duty reverts to the lower of the current most-favored-nation (MFN) or the pre-NAFTA level. This safeguard, initially set at 46,900 head for hogs under 50 kilograms and 324,300 for hogs greater than or equal to 50 kilograms, expands 3 percent each year. For 2001, the two safeguard thresholds equal 57,681 and 398,848, respectively. The safeguard provision expires on January 1, 2003.

Hog Trade under CFTA and NAFTA

With the exception of certain regions, Mexico is considered to be hog-cholera endemic, and any hogs exported to the United States are subject to a 90-day quarantine. This effectively precludes most hog imports from Mexico.2 In addition, U.S. hog exports to Canada are extremely small in number due to disease problems - pseudorabies - in the United States. In 2000, this trade totaled 4,536 hogs, of which 2,005 were purebred breeding animals. Thus, North American hog trade consists almost exclusively of

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2 Hog cholera was eradicated from the United States in 1978, following systematic diagnosis, quarantine, destruction of infected herds, safe disposal, and cleaning and disinfection of affected premises. Hog cholera is caused by a virus that infects only swine. The disease spreads easily among swine of all ages, causing high fever, weakness, reddening of the skin, and high death rates in infected herds (McKean, p. 285).
Canadian exports to the United States and U.S. exports to Mexico.

In recent years, U.S. imports of live hogs from Canada have occurred along two main tracks, and the development of this pattern was independent of CFTA and NAFTA. The United States imports live hogs for slaughter, primarily from producers in western Canada and Ontario, but it also imports feeder pigs from Manitoba and Saskatchewan for finishing in the United States. Imports of both feeder pigs and slaughter hogs have increased significantly since 1992. In 2000, the United States imported 4.4 million live swine, compared with some 670,000 in 1992. The dramatic growth in imports is the consequence of expanding Canadian production capacity, lower CVD’s, available slaughter capacity in the United States, and low feed prices.

Restructuring in the Canadian slaughter industry is ongoing and significant. One likely inducement of restructuring was the recent series of decreases in the CVD, which highlighted differences in the wage structures of the U.S. and Canadian slaughter industries. Lower wages in the U.S. slaughter industry allow U.S. packers to outbid Canadian packers for hogs. The higher wage structure in Canada has been a determining factor in the closure of several Canadian slaughter facilities over the past several years. In 1998, lower wage contracts were adopted in several major Canadian slaughter facilities, but work stoppages preceding contract ratification temporarily increased the flow of Canadian hogs to the United States.

In 2000, Maple Leaf Foods, Inc., opened a large, state-of-the-art facility in Brandon, Manitoba to slaughter and process hogs. The presence of such a plant in a prairie province validates the westward shift of the Canadian pork industry. Although this new facility increases Canadian slaughter capacity by more than 10 percent, Canada’s ability to produce hogs will likely continue to exceed its capacity to slaughter and process them. Thus, the flow of Canadian hog exports to the United States is expected to continue at its present rate - over 4 million head per year - for the foreseeable future.

U.S. hog exports to Mexico largely depend on the health of the Mexican economy. This trade peaked just prior to the peso crisis and then dropped precipitously, from 123,430 hogs in 1994 to just 4,956 hogs in 1995. Exports recovered slowly, reaching 40,637 hogs in 1996 and 38,769 hogs in 1997. Record low hog prices in the United States in 1998 boosted exports to 207,922 hogs, which in turn precipitated an antidumping action by the Mexican government (see trade issues section). Exports fell to 51,915 hogs in 2000, and it is anticipated that trade will remain at low levels as long as the antidumping measures are in place.

Trade Issues

Sunset Review of U.S. Countervailing Duty. From 1984 to 1999, the United States maintained a countervailing duty (CVD) on Canadian hogs. However, policy changes in Canada prompted the U.S. Department of Commerce (DOC) to declare the CVD rate to be de minimis, or effectively zero, in September 1998. Following a Sunset Review of the CVD order, the DOC concluded that its revocation “would not be likely to lead to continuation or recurrence of a countervailable subsidy.” As a result, the CVD order was revoked, effective January 1, 2000.

Regionalization of Hog Cholera Restrictions. In 1994, Mexico officially requested that the United States recognize the states of Sonora, Sinaloa, Chihuahua, Baja California Sur, and Baja California Norte as low-risk regions for hog cholera in order to ship pork to U.S. markets. In 1995, Mexico added Yucatan to this list. In July 1997, a final rule recognizing Sonora to be free of hog cholera was published in the Federal Register. In October 1997, the United States published final rules that established procedures for recognizing regions and the levels of risk among regions with regard to U.S. importation of live animals and animal products.

Regulation of Pseudorabies. On December 3, 1998, Canada amended its Health of Animal Regulation to permit the importation of U.S. slaughter swine from certain States. This amendment exempts imported slaughter hogs from States with Stage IV or Stage V status under the U.S. Pseudorabies Eradication

3 Such Sunset Reviews are part of the commitments made by the United States in the Uruguay Round. The Uruguay Round Agreements Act revised the amended Tariff Act of 1930 by requiring that CVD orders be revoked after 5 years, unless revocation or termination would likely lead to a continuation or recurrence of a countervailable subsidy, and material injury to the domestic industry.
Program from undergoing disease testing and quarantine requirements.  

Although the new regulations allowed imports where they were prohibited in the past, they still strongly discouraged Canadian packers from importing U.S. hogs. Requirements that were deemed excessively onerous include truck washdowns, disposal of manure in the trucks and waterwash, reconfiguration of plant grounds to segregate U.S. hogs, and special bangle ear tags on U.S. hogs. Canadian packers also contested requirements to slaughter U.S. hogs within 4 hours after arriving at the plant and within 24 hours after arriving in Canada. In addition, these animals were to have traveled to Canadian slaughter plants along defined routes and within defined time frames.

On March 30, 1999, the Canadian Food Inspection Agency (CFIA) met with various Canadian stakeholders (including producer associations, packers, and meat industry officials) to explore various strategies to address their concerns. The challenge facing CFIA was to open the channels of trade without weakening the risk-protection aspects of the regulation.

New regulations amending the Health of Animals Act were published in the Canada Gazette on October 27, 1999. The regulations amended previous requirements for animals imported from U.S. States with Stage IV or Stage V classification with regard to truck washing, manure handling and disposal, veterinary supervision, and animal identification.

The new regulations have done little to induce U.S hog exports to Canada. The minimal flow of this trade is more a consequence of price rather than policy, as U.S. packers typically offer higher prices for hogs than Canadian slaughter operations. In 2000, a total of 2,531 slaughter hogs and feeder pigs were exported to Canada.


In September 1993, the Mexican government found that there was evidence of dumping, with margins ranging from zero to 32 percent. The duties were held in abeyance until a determination was made as to whether the pork in question was injuring or threatening injury to the Mexican pork industry. On August 26, 1994, the Mexican Secretariat of Commerce and Industrial Promotion (SECOFI) found that there was no evidence of injury or threat of injury. The case was closed and no antidumping duties were levied.

On October 21, 1998, SECOFI initiated an antidumping investigation of U.S. hog exporters at the request of the Mexican Pork Producers’ Council. On January 31, 1999, Mexico announced its plan to impose “compensatory” duties on U.S. hogs. The duty equals the difference between the export price and the “normal reference value” for production and marketing, fixed at $1.08 per kilogram. Thus, the duty raised the U.S. export price to $1.08 per kilogram. This duty remained in effect until June 1999, when it was re-specified to equal the fixed rate of $0.351 per kilogram. On October 20, 1999, SECOFI issued its final decision, continuing the duty of $0.351 per kilogram.

With U.S. slaughter hogs averaging 57 cents per kilogram (26 cents per pound) in January 1999, U.S. hog exports to Mexico are clearly at risk. The break-even price for U.S. hog producers is about 88 cents per kilogram (40 cents per pound). U.S. hog exports to Mexico averaged 17,327 hogs per month in 1998. In 2000, they averaged 4,326 per month, clearly showing the effects of the duty, and since September 2000, exports have remained below 700 per month. On October 10, 2000, the Mexican government initiated its first annual review of its antidumping action. The results of this review are still pending.

Northern Plains Truck Interceptions. In September 1998, the Governor of South Dakota directed the South Dakota Highway Patrol to intercept commercial truck traffic carrying Canadian cattle, hogs, or grain. These actions won at least tacit support from the Governors of 4 neighboring States across the northern tier and led to threats by Canada to take the matter before NAFTA or the WTO. Resulting negotiations culminated on December 4 with the signing of a 17-point Record of Understanding by cabinet members from both countries. Canada agreed to revise and simplify its animal health regulations governing imports, including its testing and quarantine restrictions on U.S. slaughter swine. In addition, the two

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4 Pseudorabies is an acute, frequently fatal disease that affects a portion of the U.S. swine herd. The disease is caused by a herpes virus and is capable of causing a variety of clinical manifestations, including death in newborn and adult swine, and fetal death with abortion in pregnant swine (Thawley, Gustafson, and Ormiston).
countries agreed to work towards harmonizing animal drug registrations.

**NAFTA's Impact on Hog Trade**

The direct impact of CFTA and NAFTA on U.S.-Canada hog trade is fairly limited, but the two agreements have affected hog trade through several indirect channels. Canadian analysts believe that CFTA and NAFTA cleared the way for investment in the hog industry in western Canada. In addition, lower feed prices in Canada's prairie provinces (in part due to the elimination of Canadian rail subsidies under the Western Grain Transportation Act - WGTA) have increased the incentives for raising livestock there. There also has been significant growth over the past decade in the export of live hogs from Manitoba and Ontario, as U.S. packers have outbid packers in those provinces. With the exception of health restrictions, there are currently no U.S. barriers to Canadian hog imports.

With respect to U.S. hog exports to Mexico, Mexico's Safeguard TRQ may function to hold the number of hogs exported below what would have occurred in the absence of such restrictions. Likely as important, however, is the collective effect on exports of such factors as Mexican antidumping duties, domestic hog prices in the United States, the U.S.-Mexico exchange rate, and the varying growth rate of the Mexican economy.

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**Pork**

**Policy Changes Resulting from NAFTA**

**United States.** The majority of U.S. pork imports enter the country duty-free, but there are duties on several categories of processed pork, ranging from 1.2 cents per kilogram for sausages to 6.4 cents per kilogram for canned hams. Originally under CFTA, duties on Canadian pork were to have been phased out over the 9-year period that ended on January 1, 1998, but this schedule was accelerated to completion. U.S. duties on Mexican pork were eliminated at the start of NAFTA. However, some Mexican states are still considered to be hog-cholera endemic. Any pork imported from these states must be cooked and then sealed in air-tight containers.

**Canada.** Although CFTA called for Canadian duties on U.S. pork to be phased out over a 9-year period, this process was accelerated to completion. Canada eliminated its duties on Mexican pork at the start of NAFTA, but any pork imported from Mexico must be cooked and then sealed in air-tight containers.

**Mexico.** Prior to 1994, Mexico levied a duty of 20 percent on most pork imports. Under NAFTA, the duties for Canada and the United States are to be eliminated gradually over the 9-year period that ends on January 1, 2003. A safeguard quota was placed on certain cuts of pork. If imports rise above that level, the duty reverts to the lower of the current MFN or pre-NAFTA levels. The safeguard, initially set at about 68,500 metric tons for all categories, expands 3 percent each year. The safeguard provision expires at the end of the 9-year transition.

**Pork Trade under CFTA and NAFTA**

U.S.-Canada pork trade is now relatively free of trade barriers. Canadian exports generally move from Ontario and Quebec to the eastern United States, while U.S. processors primarily export hams to eastern Canada. The United States remains a net importer of pork from Canada, but U.S. pork exports to Canada experienced substantial growth during the last decade. Between 1990 and 2000, exports increased from 7,273 to 45,699 metric tons, with most of the growth occurring before 1997. In contrast, U.S. pork imports from Canada peaked at 200,752 metric tons in 1989 and then remained below 200,000 metric tons each year until 1998. In the last several years, imports have increased tremendously, from 188,355 metric tons in 1997 to 322,301 metric tons in 2000.

Since the implementation of NAFTA, U.S. pork exports to Mexico have grown from an annual average of 26,663 metric tons during 1989-93 to 49,372 metric tons during 1994-2000, while the average annual value of this trade increased from $59 million to $93 million. The volume of U.S. pork imports from Mexico continues to be extremely small due to disease problems in Mexico.

In the first year of NAFTA (1994), U.S. pork exports to Mexico grew dramatically, increasing 75 percent in volume and 63 percent in value. The greatest increase occurred in fresh, chilled, and frozen pork, although exports of prepared and preserved products also increased. In the wake of the peso crisis, Mexican demand for U.S. pork declined appreciably, causing exports to drop from 50,642 metric tons in 1994 to 20,962 metric tons in 1995.
Initially, lower-value pork products led the recovery in this trade. In 1996, U.S. exports to Mexico of prepared and preserved pork grew 27 percent in volume, while exports of fresh, chilled, and frozen pork continued to decline. Since then, higher-value products have registered the biggest increase in volume. Between 1996 and 2000, exports of fresh, chilled, and frozen pork climbed from 13,728 to 94,839 metric tons. Driven by continued economic expansion in Mexico, U.S. pork exports to Mexico have expanded at double-digit rates over the last 4 years. In 2000, this trade reached an all-time high of 109,223 metric tons, valued at $197 million. Although the unit value of U.S. pork exports to Mexico is still relatively low, Mexico is the second largest foreign market for U.S. pork in terms of volume, following Japan.

Trade Issues

Health and Sanitary Issues. As in the case of live hogs, U.S. health restrictions regarding hog cholera have led Mexican pork producers to complain that they are being unjustly prevented from exporting pork to the United States. Because the United States is committed to the regionalization of disease restrictions, USDA’s Animal and Plant Health Inspection Service (APHIS) adopted rules in October 1997 that recognize regions, and levels of risk among those regions, with regard to the importation of animals and animal products. Moreover, in July 1997, the United States officially recognized the Mexican state of Sonora as being free of hog cholera.

NAFTA’s Impact on Pork Trade

CFTA and NAFTA have had a limited impact on North American pork trade. U.S.-Canada pork trade is relatively free of restrictions, while Mexico has reduced its tariffs on U.S. and Canadian pork from a pre-NAFTA level of 20 percent to 4 percent in 2001. While Mexico’s tariff reductions have been an important contributing factor to the growth of U.S. pork exports to Mexico, the far more significant drivers of export growth have been the rapid recovery of the Mexican economy following its recession in 1995 and continuing economic growth since then.

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Poultry Meat

Policy Changes Resulting from NAFTA

United States. Prior to NAFTA, the United States imposed tariffs on poultry meat ranging from 2 to 10.6 cents per kilogram. Under CFTA, U.S. tariffs on Canadian poultry meat were to be gradually reduced over a 9-year period, beginning on January 1, 1989. As with other meats, the tariff reductions for poultry were accelerated to completion, and Canadian poultry now enter the United States duty-free.

Under NAFTA, the United States immediately eliminated its tariffs on Mexican poultry meat on January 1, 1994. However, all poultry products imported from Mexico must be cooked and sealed. The United States is in the process of determining whether parts of Mexico are free of both highly pathogenic avian influenza and exotic Newcastle disease. In May 1999, USDA issued a proposal to ease restrictions on the importation of poultry and poultry products from the Mexican states of Sinaloa and Sonora. Under the proposal, these imports would be subject to documentation that the poultry was indeed from those states and had not been in contact with exotic Newcastle disease. Also, since April 24, 2000, the United States has allowed processors in Sinaloa and Sonora to import live birds from the United States for slaughter and processing and then ship the processed parts back to the United States.

Canada. Prior to URAA, Canada’s import quotas were tied to production decisions for its domestic supply controls. The import quota for broilers was set at 6.3 percent of the previous year’s broiler production, and the import quota for turkeys was set at 2 percent of the current year’s expected production. Under CFTA (and subsumed by NAFTA), the global quota allocations were increased to 7.5 percent for broilers and 3.5 percent for turkeys. Canada has also offered supplemental quotas, which in many cases raise imports well above the formal quotas. Under URAA, Canada converted its MFN quotas to a TRQ with a high over-quota tariff. Canada’s new TRQ also includes poultry products, which had not been included in its previous global quotas.

Mexico. Prior to URAA, Mexico controlled poultry imports through import licenses and a 10-percent duty. Under NAFTA, a set of initial TRQ’s totaling 95,000 metric tons was established on a variety of poultry
categories. Quantities above that amount initially were subject to over-quota duties ranging from 133 to 260 percent. The TRQ's expand 3 percent each year, and the over-quota tariffs are being phased out over the 9-year period that ends on January 1, 2003. To date, the Mexican government has chosen not to enforce its poultry TRQ's. Mexico's poultry imports from the United States, especially in parts and mechanically deboned meat (MDM), have greatly surpassed the duty-free levels set by the TRQ's.

**Poultry Trade under CFTA and NAFTA**

Prior to NAFTA, Canada had poultry production quotas and import limitations. These two policies make Canadian poultry meat prices higher than U.S. prices. The import controls were necessary to make the quotas an effective, price-increasing policy. The government had considerable discretion in setting quotas, and it was common for these quotas to be expanded using supplemental quotas. Even with supplemental quotas, Canadian prices were above U.S. prices.

Canada did not abandon its production quotas under NAFTA, but it did increase its import quotas. NAFTA did not alter Canada's basic mechanism for setting and allocating these quotas to Canadian importers. Canadian poultry meat imports were limited to set percentages of either the previous year's production or an estimate of current-year production. However, these quotas could be and often were expanded through the use of supplemental quotas. U.S. poultry meat exports to Canada were limited to these quotas.

Canada changed its poultry import scheme in response to URAA, replacing strict quotas with a TRQ with a restrictive, over-quota tariff rate. However, this policy change produces the same result: U.S. exports to Canada are limited to the quota. Twice since the implementation of NAFTA, Canada has changed how it allocates the quota among individual firms. On January 1, 1996, Canada made its first revision to its method of allocating import permits for chicken. The revised system established new allocation pools for each of the following categories of importer: processors, distributors, or food service. Participants might have either joined one of those pools or retained a fixed traditional import allocation.

Since 1999, Canada has allocated the chicken TRQ in the following fashion. Firms that imported chicken prior to the introduction of import controls in 1979 receive an allocation comparable to their initial share, as do processors making chicken products that compete with non-controlled imports, such as TV dinners. Food service companies share an allocation of 2,500 metric tons on the basis of market share. The remainder of the TRQ is split 70/30 between processors (on the basis of market share) and distributors (on the basis of equal share). The new system is designed to increase the import allocation share of firms that contribute to employment and value-added activities in Canada, while eliminating allocations to firms that have not been actively involved in the chicken industry.

The expansion of import quotas has facilitated a marked increase in U.S. poultry meat exports to Canada. During the 1990's, this trade has more than doubled in volume, climbing from 51,192 metric tons in 1990 to 115,406 metric tons in 2000, while the value of this trade increased from $125 million to $243 million. Poultry meat imports from Canada are much smaller in volume but have increased substantially in recent years, from about 4,800 metric tons in 1995 and 1996 to 16,377 metric tons in 2000. Chicken accounts for much of this expansion. Between 1988 and 2000, U.S. chicken meat exports to Canada (fresh or frozen) increased from 24,130 to 86,662 metric tons, while the value of this trade increased from $32 million to $132 million.

As with other meats, U.S. poultry meat exports to Mexico have increased substantially under NAFTA. The value of this trade has climbed from an annual average of $120 million during 1989-93 to $216 million during 1994-2000, while the average annual volume has expanded from 103,032 metric tons to 214,375 metric tons. Much of this growth is due to continuing improvement in the Mexican economy, and sales generally have exceeded the within-quota levels of Mexico's TRQ's.

Mexico is the fourth largest U.S. export market for chicken meat, accounting for 7 percent of the total value of U.S. chicken exports in 2000. Exports of chicken meat have nearly doubled under NAFTA, increasing from an annual average of 61,007 metric tons during 1989-93 to 120,649 metric tons during 1994-2000. The average value of these exports increased from $57 million to $88 million across the same two periods.

Mexico is also the most important foreign market for U.S. turkey meat, accounting for 61 percent of export value in 2000. Turkey meat exports to Mexico have
nearly tripled under NAFTA, climbing from an average of 29,958 metric tons in 1989-93 to 82,976 metric tons in 1994-2000. The value of this trade expanded from $42 million to $105 million across the same two periods.

In contrast, U.S. turkey meat exports to Canada (fresh or frozen) have experienced substantial growth only in the last several years. After peaking at 2,478 metric tons in 1989, this trade averaged just 1,619 metric tons per year during 1990-95. Since 1996, annual export volume has surpassed the 1989 level, except in 1997. In 2000, U.S. turkey meat exports to Canada totaled 3,115 metric tons, with a value of $10 million.

Mexican sausage manufacturers have argued successfully that charging over-quota rates on mechanically deboned poultry meat would put them at a price disadvantage by substantially raising the price of a major input. Imported sausage enters under a lower duty than poultry meat, and the Mexican poultry sector cannot supply sufficient quantities of low-priced mechanically deboned meat (MDM) to serve the domestic sausage industry. In response to this argument, the Mexican government has increased the within-quota quantities for certain kinds of poultry, thereby providing an additional impetus to U.S. poultry exports to Mexico.

Trade Issues

Canada's Poultry TRQ under URRAA. Canada's conversion of absolute quotas on poultry to a TRQ system under URRAA resulted in a significant trade dispute between the United States and Canada. The United States argued that under NAFTA, neither country may impose higher tariffs on imports from the other country than agreed to under NAFTA. The United States also argued that each country must eliminate tariffs in accordance with NAFTA. Canada's view was that it had the right to convert non-tariff barriers to TRQ's under URRAA and to apply those TRQ's to the United States under NAFTA. On December 2, 1996, a NAFTA panel issued its final report, finding that Canada's application of its new TRQ's to U.S. goods conforms with its NAFTA obligations. NAFTA's dispute settlement mechanism contains no appeal process.

Sanitary Issues Concerning U.S.-Mexico Poultry Trade. Discussions between Mexico and the United States are continuing as to how the concept of regionalism can be applied to Mexican poultry. Questions still to be resolved include the disease-free status of the Mexican states under consideration and the procedures to be used to restrict interstate poultry shipments from Mexican states not declared to be disease-free.

On April 14, 1999, Mexico implemented a new rule requiring that all raw poultry imports, except those destined for further processing, have a certificate stating that they came from flocks free of avian influenza. The tests must be done within 15 days of slaughter.

Also, Sinaloa and Sonora may now import live poultry for slaughter and processing and then ship the meat back to the United States, under a rule issued by USDA on April 24, 2000. However, as of the end of 2000, no such import/re-export activities have taken place. While APHIS has approved the disease-free status of these two Mexican states, USDA's Food Safety Inspection Service (FSIS) has yet to approve any facilities there.

NAFTA's Impact on Poultry Trade

It is difficult to assess the impact of CFTA and NAFTA on U.S. poultry exports to Canada. Had Canada strictly enforced its pre-NAFTA quotas of 6.3 percent of production for broilers and 2 percent for turkeys, U.S. poultry meat exports to Canada could have been 40-50 percent less than under the CFTA quotas. However, Canada has a history of offering supplemental permits to meet internal demand. While broiler exports declined between 1993 and 1996, they have since risen sharply. Broiler exports rose 16 percent in 2000 alone.

Although Mexico could have limited U.S. exports to its TRQ levels, it has been allowing larger in-quota imports than set under NAFTA. It is likely that this waiver would have occurred in the absence of NAFTA and URRA due to pressure from sausage manufacturers. In 2000, Mexico was the third largest market for broiler exports on a quantity basis and by far the largest export market for U.S. turkey products.

None of the policy reforms undertaken by the United States have had much effect on poultry imports from Canada and Mexico. The United States is one of the world's low-cost poultry producers and consequently imports very little poultry from any source.

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Dairy

Policy Changes Resulting from NAFTA

**United States.** For many years, the United States maintained a series of quotas on dairy products under Section 22 of the Agricultural Adjustment Act of 1932. Under CFTA and NAFTA, the United States eliminated its tariffs on Canadian dairy products over the 9-year period that ended on January 1, 1998, but it retained its quotas until the URAA took effect. Now, the United States maintains a system of TRQ's for dairy product imports, as it is entitled to do under the URAA and NAFTA.

Under NAFTA, the United States provided Mexico with a basket of TRQ's for dairy products, including several duty-free TRQ's, meaning that the within-quota amount enters duty-free. For milk powder, the initial quotas were 422 metric tons and 43 metric tons, depending on the type of powder. For cheese, the initial quota was 5,550 metric tons. Initially, the over-quota tariffs on milk powder ranged from 78 to 93.6 percent, and the tariff on cheese equaled 69.5 percent. Other products were assessed a tariff equal to the average of import protection during 1989-91. The TRQ's expand by roughly 3 percent each year over a 9-year period, and on January 1, 2003, the TRQ's and corresponding over-quota tariffs will be eliminated altogether. Under URAA, the United States replaced its quotas with a system of TRQ's and high over-quota duties. The market access granted to Mexico under NAFTA was incorporated into the URAA's TRQ's.

**Canada.** Prior to URAA, Canada maintained a system of import quotas and licensing requirements to protect its domestic supply management regime for dairy. Although Canada gradually eliminated its tariffs on U.S. dairy products under CFTA and NAFTA, most quotas and licenses remained in place until the implementation of URAA. Under that agreement, Canada converted its import quotas for dairy products to a series of TRQ's. These TRQ's were calculated on the basis of 5-percent minimum access for all dairy products, with some products receiving greater protection than others. Given the continuation of these quantitative restrictions, CFTA and NAFTA tariff reductions have offered few opportunities for the expansion of U.S. dairy exports to Canada. Moreover, Canada and Mexico agreed in NAFTA to exclude their bilateral dairy trade from trade liberalization.

Mexico. Prior to 1994, Mexico regulated its dairy imports by requiring import licenses. Tariffs tended to be modest, ranging from zero to 20 percent. Under NAFTA, Mexico provided the United States with duty-free access for 40,000 metric tons of milk powder, with an over-quota tariff of 48 cents per kilogram but not less than 139 percent ad valorem. The TRQ grows by 3 percent per year, and the over-quota tariff is being gradually eliminated over the 14-year period that ends on January 1, 2008. For 2001, the quota equals approximately 49,195 metric tons, and the over-quota tariff rate is 28.3 cents per kilogram but not less than 82.1 percent. The base tariff rate for other dairy products ranged from 20-40 percent. These tariffs are being phased out over the 9-year period that ends on January 1, 2003.

Dairy Trade under CFTA and NAFTA

U.S.-Canada dairy trade has shifted a great deal in percentage terms from one year to the next. The United States has been a net exporter to Canada throughout the CFTA-NAFTA era. However, dairy trade between the two countries is a very small part of their total production and consumption. Thus, the large percentage fluctuations in trade have little significance.

Over the 1988-99 period, U.S. dairy imports from Canada increased from $22 million to $185 million. However, this trade dropped to $161 million in 2000, as Canada had to modify its dairy-pricing system in response to a WTO ruling that the system functioned as an export subsidy. U.S. cheese imports from Canada climbed from $8 million in 1988 to $28 million in 1999 and then declined to $21 million in 2000. In volume terms, this trade expanded from 2,556 to 7,611 metric tons between 1988 and 1999, before dropping to 4,373 metric tons in 2000.


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under CFTA and NAFTA. These imports equaled $16 million in 1999, but just $9 million in 2000. Imports of butter and butterfat mixtures did not break the mark of $1 million until 1997. This trade dropped from $14 million in 1999 to $8 million in 2000.

The United States maintains a surplus in its dairy product trade with Mexico, with exports of $184 million and imports of $21 million in 2000. However, this surplus has declined in recent years due to reduced sales of nonfat dry milk and increased imports of various dairy products from Mexico. U.S. dairy exports to Mexico peaked at $252 million in 1993, the year immediately prior to NAFTA's implementation. Over the last several years, this trade has been in the neighborhood of $180 million. The drop in export value is due to decreases in U.S. dairy export subsidies (mandated by URAA), declining international dairy prices, and other non-NAFTA factors.

Nonfat dry milk is the largest single category of U.S. dairy exports to Mexico, accounting for 29 percent of export value in 2000. Exports to Mexico of this product continue to fluctuate substantially under NAFTA, ranging from 2,030 metric tons in 1997 (with a value of $3 million) to 61,363 metric tons in 1999 (with a value of $88 million). This type of fluctuation in dairy trade with Mexico was common prior to NAFTA. U.S. nonfat dry milk exports fluctuate greatly as Mexico shifts between competing suppliers.

**Trade Issues**

Canada's TRQ's for Dairy Products. Canada's conversion of its dairy quotas to TRQ's under URAA prompted a serious trade dispute with the United States. The United States argued that NAFTA prohibits its member countries from imposing import tariffs for other member countries that are higher than what is specified in the agreement. In addition, the United States argued that each member country must eliminate tariffs in accordance with NAFTA. Canada's view was that URAA gave it the right to convert non-tariff barriers to TRQ's and to apply those TRQ's to the United States.

On December 2, 1996, the NAFTA dispute settlement panel issued its final report, finding that Canada's application of its new TRQ's to U.S. goods conforms with its NAFTA obligations. Consequently, U.S. access to the Canadian market for dairy products remains unchanged. There is no appeal process in NAFTA's dispute settlement mechanism.

**Tariff Classification for Butteroil/Sugar Blends.** Since 1995, Canadian processors have been importing a blend of 49 percent butteroil and 51 percent sugar from various countries, including the United States. This blend is primarily used to produce ice cream. When taken separately, the two products face high import barriers. Butterfat imports face a TRQ, while a countervailing duty applies to sugar. Currently, there is neither a tariff nor a quantitative limit concerning how much of the butteroil/sugar blend may enter Canada, so imports have increased considerably. Dairy producers in Canada claimed that the Canadian government applied the wrong tariff classification when the product was first imported and that imports circumvent Canada's TRQ's for dairy products. On March 26, 1999, the Canadian International Trade Tribunal (CITT) ruled that imports of butteroil/sugar blends should not be reclassified under a different tariff line. Producer entities have filed an appeal, but the appeal has not yet been decided.

**Canadian Export Subsidy Case at the WTO.** In May 2001, Canada, New Zealand, and the United States reconvened before a WTO panel for hearings regarding Canada's measures to come into compliance with an earlier WTO ruling against Canada's dairy export regime. The original WTO panel ruled that Canada's Special Milk Classes constituted export subsidies under URAA and that Canada therefore was not meeting its reduction commitments.

During the hearings, New Zealand and the United States expressed their continued discontent with the new provincial dairy programs that Canada implemented in August 2000. Although Canada has modified its export program, the United States feels that the newly instituted measures share all of the critical elements that made the former special class system an export subsidy. The WTO Panel is expected to present their ruling by August 2001.

**NAFTA's Impact on Dairy Trade**

CFTA and NAFTA have had little direct impact on U.S. dairy exports to Canada, as there was little change in dairy access under either agreement. On the whole, market access into Canada was limited by quotas and licenses prior to URAA and remains limited by prohibitive tariffs on over-TRQ quantities. There have been considerable year-to-year changes in U.S.-Canada dairy trade on a percentage basis. However, since the quantities traded between the two...
countries are small, minor changes in volume and value produce large percentage changes in trade.

Although NAFTA has expanded U.S. access to the Mexican market, factors other than NAFTA have caused U.S. dairy exports to Mexico to decrease, compared with their level immediately prior to the agreement. Under URAA, the United States agreed to cuts in export subsidies, and this has been a major factor in limiting U.S. dairy exports to Mexico. Mexico's TRQ's under NAFTA are not an impediment to U.S. dairy exports, as the United States only fills about 75 percent of Mexico's import quota for U.S. dairy products.

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