Effects of GATT and NAFTA on the Cattle Business

John Holt
Food and Resource Economics Department
University of Florida, Gainesville

"How's the horse business going?" I asked an old horse-trading friend. "Steady," he said, "by fits and jerks."

So it is in the cattle business, and so it is with GATT and NAFTA.

The "steady" part of the cattle business is in cow-calf production, where there are all sizes of production units. But structural upheavals are ongoing in cattle feeding, slaughtering, distribution, and domestic and international marketing. And poultry and swine marketers are successfully attacking beef's share of meat markets.

So the "fits and jerks" in the cattle business are coming from the marketing side: markets and what is affecting them always concern cattlemen.

The "steady" part of international trade is inchworm groping for more trade, because all nations need, and want, to play in the big league: World Trade.

GATT, NAFTA, and other treaties among nations are the international trading rules. So the "fits and jerks" of international trade come from the responses of businesses in those nations to those rules. Those responses, reflected in trade statistics, are the major focus of this paper.

GATT Perspective

Formal jawboning about a general agreement on tariffs and trade began in 1947 when the World War II lesson was clear: it is better to trade words than bullets. It was true then, and also true now, that if nations can finally trade products rather than words, so much the better.

In that spirit, the Uruguay Round of GATT was begun in 1986, and concluded in December 1993. While falling far short of the original U.S. objective of eliminating all trade-distorting government interventions within 10 years, "...it should bring some modest improvements in market access, and stop and reverse the escalation of export subsidies." (Sanderson, p.1)

"Finally, keep in mind that the Agreement on Agriculture (within GATT) is only a small, but integral part of a vast undertaking that will bring substantial benefits to the U.S. and its trading partners. The overall effect of the Uruguay Round on world income is estimated to be about $200 billion annually when the agreement is fully implemented. Accelerated growth in world income will increase the demand for agricultural products." (Sanderson, p. 2)

The base years for calculating changes were to be an average of conditions in 1986–90. The major changes were to occur over six years, 1995–2000. In a nutshell, GATT's major provisions were:

- For all participating nations to reduce export subsidies over six years (1995–2000) by 21% in volume; 36% in expenditures.
- To improve market access by reducing tariff rate quotas at least 15% over six years.
- To reduce trading nations' internal support by 20%. (Such non-trade-distorting things as Extension and CRP payments were exempted.)
- Sanitary and phytosanitary standards were to be based on scientific standards.
- The World Trade Organization was formed to provide a sort of international court in which trading disputes could be settled.

NAFTA Perspective

So the GATT is an attempt to make world trade more "free." But in practice, there is precious little "free" trade. Most trade is, in some way or another, "managed" or restricted. Even within GATT, nations negotiate positions to protect their particular domestic Achilles heels. And nations, or trading blocks of nations, forge agreements such as NAFTA, outside of GATT, trying to gain some sort of competitive advantage over other trading nations.

While GATT discussions dragged on, the U.S. had signed a trading agreement with Canada, which (sort of) grew into NAFTA, the North Atlantic Free Trade Agreement, when Mexico was included. It was at least partially a regional strategic response to offset the trading muscle of the European Economic Community, and to counter a possible Asian trading block led by Japan. It hoped to enhance relations with our nearest continental neighbors, which were already our first and third largest export markets.

With GATT agreements stalled out at the time, NAFTA was a way to improve the possibilities for U.S. agricultural exports. The need is clear: domestic demand for agricultural products is expected to increase about 1 percent per year, but U.S. agricultural productivity is increasing about 1.5 percent per year. Only export growth —somewhere—can prevent downsizing U.S. agriculture.

So NAFTA passed, after several side agreements were reached to accommodate "level playing field" concerns of several groups. The intent was to eliminate non-tariff barriers to trade, and to eliminate tariffs among the three nations over the next 10 to 15 years.

The rhetorical wars about both GATT and NAFTA will continue. Both winners and losers from the trade agreements will be using trade statistics to try and modify those agreements to improve their positions.

About Trade

The real impact of trade agreements is long-term in nature, but current trade "blips" give the only clues available about long-term progress or the lack of it. Published trade statistics lag events by about two months, so more current statistics will be provided at the conference. (This is written in mid-March, in order to be published in the *Proceedings*).

The recent major "fits and jerks" in international trade are the Mexican Peso devaluation, which is having a major impact in at least the short-term; and the earthquake in Kobe, Japan, where most U.S. beef is landed. Current trade statistics have not yet reflected their impact.

The expected major impacts of NAFTA on the cattle business were these:

- Demand for high quality beef was estimated to increase by 10 to 14% by the year 2005. This increase would come primarily from increased incomes in the trading nations, especially our partners.
- Increased imports of grass-fed beef were expected to increase over that time period by 6 to 10%. The current Mexican peso devaluation has made Mexican feeder cattle cheaper in the U.S., so more of them are entering the U.S. as this is written.
- Cattle prices, overall, were expected to increase 5 to 7% above the baseline by 2005.

Some Facts

- Beef and veal imports were 9.42% of U.S. production in 1994. This percentage has been decreasing since 1992, but is expected to increase slightly in 1995.
- Beef and veal exports as a percentage of U.S. production have been increasing since 1985, reaching 6.6% in 1994, and are expected to increase slightly in 1995.
- Major beef importers to the U.S. are Australia, New Zealand, Canada, and Australia. Only Canada is increasing.
- Major beef export markets for U.S. beef are Japan, Canada, Mexico, and Korea. All are increasing their purchases from us, with the largest increases coming from Korea.
- These facts, and current beef cattle trade statistics, will be shown in full gory detail at the conference.

Points to Ponder

The U.S. is the only reliable supplier of any volume of high-quality beef in world markets. But the rub is that it is expensive: only developed nations can afford it. Nations develop by trade. Trade means just that: we must buy some things from other nations so that they can afford to buy *our* products. So it is clear that developing, improving, and growing international markets is a long-term proposition. Other U.S. agricultural commodities have squandered their leadership share of world markets. Let's hope it doesn't happen to beef.

References

Sanderson, Fred H. "The GATT Agreement on Agriculture". National Center for Food and Agricultural Policy, Discussion Paper Series, 1994, 43 pages.

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