Leaflet 11. Pork and the World Trade Organization

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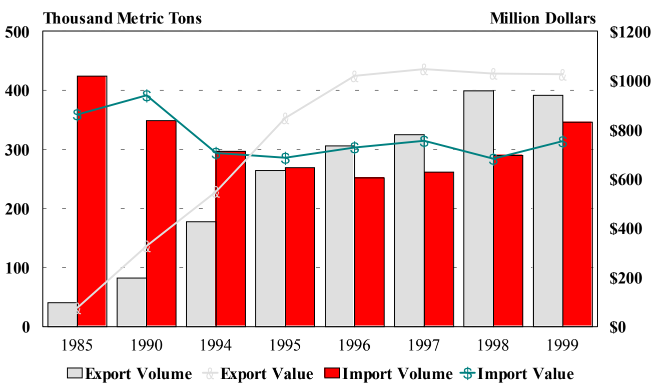
Trade Situation and Outlook

The United States is a net exporter of pork, with a trade surplus of $272 million in 1999. 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 rose to its highest level, 399,000 metric tons in 1998, declining to 391,000 tons in 1999. Exports represent about 6.5 percent of U.S. pork production. The value of pork exports has remained relatively stable at $1.03 billion for the last few years. As with beef, the largest export market for U.S. pork is Japan, importing

U.S. Pork Trade, 1985 - 1999

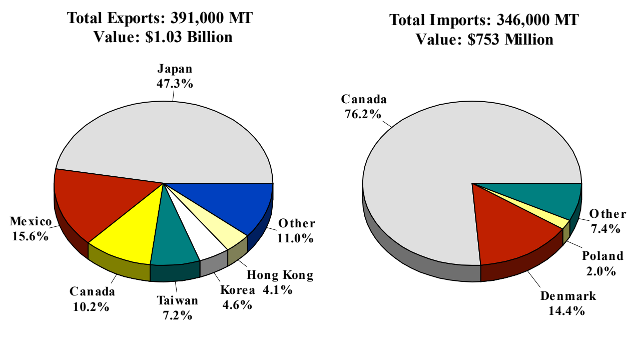


Source: FATUS, USDA/ERS

185,000 metric tons ($639 million) in 1998. The next largest markets for U.S. pork are Mexico (61,000 metric tons), Canada (40,000 mt), and Taiwan (28,000 mt), with the order of importance alternating among the countries in recent years. U.S. pork exports to Korea have doubled in 2000, reaching nearly 26,000 mt. Exports to Russia fell significantly from 1998 levels due to declining economic conditions and competition from the European Union.

The United States imported 346,000 metric tons of pork valued at $753 million in 1999, 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

U.S. Pork Exports and Imports, 1999



Percent of Export and Import Volume

Source: FATUS, USDA/FAS

represent 3.8 percent of U.S. consumption. Canada is the largest import supplier of pork to the U.S. market with 269,000 metric tons ($500 million) in 1999, or 78 percent of the total imported quantity, and 66 percent of the total value of U.S. pork imports. The only other significant sources of pork imports are Denmark (EU) and Poland.

Major Pork Trade Issues

<u>*Mexican Anti-dumping Duty*</u>. U.S. pork exports to Mexico have nearly quadrupled since NAFTA, prompting Mexican hog producers to request import relief under countervailing duty regulations. In 1999 Mexico implemented a 48 percent ad valorem anti-dumping compensatory duty on U.S. live hog exports. This duty caused a 23 percent drop in exports to 176,000 head. Likely to remain throughout 2000, the duty is expected to reduce exports 53 percent to 75,000 head. The duty will provide a competitive advantage to Mexican pork. While Mexico has potential as a market for pork, it has been slow to liberalize trade due to political

pressure from domestic hog producers and pork processors.

Animal Health Issues. Japan's recent termination of pork imports from Korea due to an aftosa outbreak has allowed U.S. exports to double during the first quarter of 2000. Korea, a traditional pork supplier to Taiwan, was banned due to the outbreak of Foot and Mouth Disease (FMD) in March 2000. This opened new markets for U.S. pork products in Taiwan and Korea. Exports during the remainder of 2000 are expected to slow due to an E.coli alarm. The incident was proven to be false, but summer ham and sausage orders fell significantly. U.S. pork exports, however, are forecast to total 180,000 mt up 7% from 1999.

WTO Accession for Taiwan. Taiwan, the third largest export market for U.S. pork, is nearing admission to the WTO. The changes to Taiwan's pork import policies include a lifting of its import ban on "other pork cuts" and replacement with a 15 percent duty. A Tariff Rate Quota (TRQ) of 6,160 mt will be established for pork belly and a 10,000 mt TRQ will be implemented for pork offals. The in-quota rate for pork belly will begin at 15 percent and the over-quota rate will begin at 60 percent. The duty rates for in-quota and over-quota pork offals are 25 and 310 percent, respectively. Effective January 1, 2005, Taiwan must open its market to pork, implementing n a 15 percent tariff for variety meats. These duty reductions, coupled with economic growth, should stimulate U.S. pork exports to Taiwan.

Trade Sanctions. In June 2000, the United States lifted export sanctions on Cuba, Iran, Libya, North Korea, and Sudan. U.S. firms will be allowed to export to Cuba, but sales must be cash and between private parties. Cuba imported about 10,000 mt of pork in 1998 and some analysts believe more potential markets will develop there as the economy improves and consumers upgrade their diets. Cuba is comparable to Taiwan in market size and represents a larger market for pork than all other Caribbean countries combined. One serious impediment to trade and economic growth, however, is the continuing prohibition on Cuban exports to the Untied States. Without a market for its exports, market growth in Cuba will be slowed and there will be limited potential for U.S. products.

Japanese Market Safeguards. Japan protects domestic hog producers from import competition using a minimum threshold price for pork imports. Pork imports below the minimum price face a variable levy. When pork imports exceed 19% of the previous three year average tonnage, a safeguard tariff is imposed. If imports exceed 105% of the previous year's total, a 'special' safeguard tariff is implemented. Through the threshold price and special safeguard, Japan is able to maintain domestic prices well above world market clearing levels, thereby stimulating domestic production and processing. U.S. pork is precluded from entering the Japanese market, leading to lower prices and returns to U.S. producers.