Impact of Mexico's 20% tariff on US Frozen Potatoes

Background

The NAFTA Agreement which took effect in 1994 required that both countries provide access to the border states by 1995 and to the remainder of both countries by 2001. In 2001 a NAFTA authorized arbitration panel ruled that the U.S. was not justified in not fulfilling their commitments regarding trucking in NAFTA. In an attempt to address this failure a pilot program to allow Mexican trucks into a limited area of the border states was agreed to with Mexico and implemented in 2007. The pilot program was designed to operate until 2010. In the Omnibus spending bill to fund FY 2009 government programs Congress eliminated funding for the Mexican truck pilot program. This action by Congress coupled with the arbitration panel decision allowed Mexico to exercise their legitimate right to retaliate against U.S. imports to Mexico.

Current Trade

Mexico is the third largest market for US frozen potato exports behind Japan and Canada. This level was achieved with constant and consistent growth in exports since the implementation of the NAFTA agreement. This growth had, begun to slow in 2007 and 2008 as prices for US frozen potato products increased and the peso devalued against the US dollar at a faster rate than to the Canadian dollar. US exports of frozen potato products to Mexico for the past five years were:

Calendar Year	2004	2005	2006	2007	2008
Quantity (metric tons)	68,235	84,933	90,565	85,402	87,614
Value ($)	$52,493,738	$67,173,307	$73,815,629	$75,301,316	$83,366,979

The US has the largest frozen potato market share in Mexico. The increasing price and improved position of the Canadian dollar versus the US dollar led to a loss of market share in marketing year 2007/2008 (July/June). Exports of frozen potato products from the major processing countries to Mexico for the past five years are as follows.

Metric tons	03/04	04/05	05/06	06/07	07/08
European Union	57	242	242	1,065	4,796
Canada	24,850	25,675	32,168	36,543	38,212
USA	59,956	77,634	87,352	90,240	84,093
US Market Share	71%	75%	73%	71%	66%

Impact of Tariff Increase

Frozen potato products from the US will now be at a 20% tariff disadvantage to Canadian products which will remain at the zero NAFTA tariff. The Mexican Most Favored Nation (MFN) tariff on HS code 2004.10.01 is 20%, so the US will be at the same level as other producing countries. However, product from Argentina faces an 18.4% tariff as a result of the Mexico-Argentina Partial Preferential Trade Agreement. No reduction was made to the frozen potato tariff under the Mexican – EU FTA, however it is supposed to be up for review at some point.

It will be difficult for importers to switch to non-US product in the short term as contracts are in place and supplies of product are relatively set. This will mean a 20% increase in the price of frozen potato products to restaurants and retailers in Mexico, one assumes that much of this increased cost will be passed on to consumers, though restaurants are reluctant to raise prices quickly. It is estimated that in the short term (April - June) demand for the higher priced US product will decline roughly 15% and replacement by product from Canada and other producers will result in an additional reduction of US exports of 10%, thus a 25% reduction (5476 MT) in US exports. In the medium term (July – September) it is anticipated that movement to other suppliers will result in a 20% reduction of US exports, while consumer demand will still be down 10%, thus a 30% reduction (6571 MT) in US exports. In the longer term (October – September 2010), it is expected that movement to alternative suppliers will result in a 30 to 40% reduction (29,433 MT) in US exports. Long term US exports would be reduced to only 20 to 30% of their current level or approximately 21,000 metric tons in exports per marketing year.

In dollar terms this would be an estimated loss of US export sales of $5,210,436 for the second quarter of 2009 and $6,252,523 for each of the 3rd and 4th quarters. This is total of $17,715,483 in lost sales for the remainder of 2009. One can expect that if the 20% tariff were continued the sales loss for 2010 would be approximately $40,000,000.

Industry Efforts

A broad coalition of agriculture and business organizations has been active in opposing any reduction or elimination of the program to allow Mexican trucks to enter the United States as required by the NAFTA agreement. Prior to the completion of the Omnibus spending bill the National Potato Council joined more than 80 other groups on a letter to President Obama urging him to “resist all efforts to halt or impede the U.S. Department of Transportation’s Cross Border Trucking Pilot Program with Mexico”. Signatories to the letter included General Electric, American Trucking Association, Nestle USA, ConAgra Foods, U.S. Chamber of Commerce, Caterpillar, Panasonic, PepsiCo, and virtually every major agriculture organization. This collation is committed to resolving this issue. Every member of the coalition whether they were targeted for retaliation or not understands that the Administration and Congress must resolve this situation by putting in place a program to allow access for Mexican trucks.