# *Trade and Agriculture*
# What's at Stake for Texas?

U.S. Department of Agriculture
Foreign Agricultural Service
September 2003

Texas is an important producer and exporter of agricultural products. In 2002, the State's cash farm receipts totaled $12.6 billion. Texas ranked sixth among all 50 States in agricultural exports, with an estimated $2.9 billion in sales to foreign markets in 2002. Agricultural exports help boost farm prices and income, while supporting about 43,210 jobs both on the farm and off the farm in food processing, storage, and transportation. Measured as exports divided by farm cash receipts, the State's reliance on agricultural exports was 23 percent in 2002.

The State's top five agricultural exports in 2002 were:

- live animals and red meats -- $696 million
- cotton -- $426 million
- hides and skins -- $284 million
- feeds and fodders -- $271 million
- feed grains and products -- $260 million

World demand is increasing, but so is competition among suppliers. If farmers, ranchers, and food processors in Texas are to compete successfully for opportunities of the 21st century, they need *fair trade* and *more open access* to growing global markets.

**Texas Benefits From Trade Agreements**

Texas is already benefiting from a number of agricultural trade agreements. While there is much to be done, examples of market opportunities include:

- As the third largest exporting State for live animals and meat, Texas benefited as some of the top international markets significantly reduced tariffs on chilled and frozen beef. In 2001, South Korea eliminated its import quotas on chilled and frozen beef, and will reduce its tariffs to 40 percent by 2004. Supported in part by these changes, South Korea's imports of U.S. beef rose from 60,000 tons valued at $227 million in 1994 to 213,000 tons worth $610 million in 2002.

  Under the North American Free Trade Agreement, Mexico eliminated its 15-percent tariff on live slaughter cattle, its 20-percent tariff on chilled beef, and its 25-percent tariff on frozen beef. Its 20-percent tariff on beef offal was eliminated in 2003. Mexico has been one of the fastest growing markets for U.S. beef, supported in part by the elimination of tariff barriers. U.S. beef exports to Mexico rose from the 1993 pre-NAFTA level of 39,000 tons valued at $116 million to 207,000 tons valued at $596 million in 2002.

- Texas, the No. 1 cotton-exporting State, benefited under NAFTA with new rules of origin that increase demand for U.S. textiles in Canada and Mexico. Mexico=s 10-percent tariff on cotton has been eliminated. This tariff reduction supports U.S. cotton exports to Mexico, which rose from 558,000 bales to 2.2 million bales from marketing year 1995 to 2002. U.S. industry estimates that the Caribbean Basin Initiative and the Africa Growth and Opportunity Act will increase annual cotton sales by 100,000 bales.

- As the eighth largest exporter of feed grains and products, Texas benefited under NAFTA when Mexico converted its import licensing system for corn to a transitional tariff-rate quota that will remain in effect until 2008. Under this new system, the volume of U.S. corn exports to Mexico has risen over 42 percent since 1994, reaching 120 million bushels valued at $585 million in 2002. Under the Uruguay Round, the Philippines converted its import ban on corn to tariffs. Since then, the United States has exported well over 1 million tons of corn to the Philippines.

- As the fourth largest exporting State for wheat and products, Texas benefited from limits set on subsidized wheat exports during the Uruguay Round. These limits influenced the EU's decision to make changes to its Common Agricultural Policy and ultimately lowered internal EU market prices to world price levels. Annual EU wheat exports dropped from 22 million tons to about 14 million tons as lower market prices stimulated domestic use. Meanwhile, annual EU wheat imports jumped from 1.5 million tons to 7 million tons as the levied margin of protection fell. This translates to an 11-percent reduction in global export competition and a 5.5-million-ton increase in EU wheat imports, a third of which is supplied by the United States.

  Texas has also benefited from NAFTA and could benefit from China’s accession to the WTO. Under NAFTA, Mexico eliminated import licensing for wheat and is phasing out tariffs. Since 1994, average annual U.S. wheat exports to Mexico have more than tripled from 23 million bushels to 85 million bushels valued at $349 million in 2002. China agreed in its WTO accession to lock in tariff-rate quotas and lower tariffs, and end export subsidies B all concessions that provide an opportunity to increase U.S. wheat exports. This should facilitate trade in future years, but has had little impact in the past year or so because of ample domestic production in China.

- Texas, the sixth largest exporter of poultry and products, benefits under the Uruguay Round agreement because South Korea eliminated its import quotas on frozen chicken (whole and parts) in 1997, and is progressively reducing its tariffs to between 18 to 20 percent by 2004. These market-opening steps supported a rise in U.S. poultry exports to Korea from 22,000 tons valued at $28 million in

1996 to 120,000 tons valued at $79 million in 2002. The Philippines opened a tariff-rate quota for poultry meat of 16,701 tons in 1998, which will reach up to 23,500 tons by 2004. This arrangement permitted U.S. poultry exports to rise from 2,700 tons valued at $3 million in 1997 to over 17,000 tons valued at $14 million in 2002.

Under NAFTA, poultry products, except leg quarters, thighs, and drumsticks, are imported duty free as tariff-rate quotas (TRQ) were eliminated on Jan. 1, 2003. The safeguard measure agreement between the U.S. and Mexico places a TRQ on leg quarters, thighs, and drumsticks until 2007. From 1993 to 2001, U.S. poultry exports to Mexico rose from 164,000 tons valued at $188 million to 280,000 tons valued at $258 million. U.S. exports to Mexico in 2002 were hampered by outbreaks of Avian Influenza and Exotic Newcastle Disease within the United States. Under the 1999 U.S.-China Agricultural Cooperation Agreement, China accepts all poultry meat that is certified wholesome by USDA. Since 1999, direct exports of U.S. poultry meat rose from 77,000 tons valued at $48 million, to more than 100,000 tons valued at $49 million.

- As the fifth largest rice-exporting State, Texas benefited has benefited from the opening of the Japanese rice market under the Uruguay Round. Japan opened its market to 375,000 tons of imported rice in 1995; by 2000, the tariff-rate quota had expanded to 682,200 tons. As a result, Japan has emerged as one of the largest export markets for U.S. rice, with sales increasing from nearly 66,000 tons in 1995 to 312,000 tons in 2002. The United States has supplied about half Japan's rice import needs since 1995, and the country is the top destination for U.S. medium and short grain rice.

  South Korea also opened its rice market to imports after the Uruguay Round and is currently committed to import 171,023 tons in the seventh year of the ten year implementation period. In the last two years, the United States has benefited from this arrangement as Korea purchased at total of 90,000 tons (product weight basis) of high quality U.S. medium grain rice. Following accession to the WTO, Taiwan opened its market to 144,720 tons (brown basis) of imported rice in 2002. The United States is estimated to have gained well over half of the new import market during this first year.

- Fruit producers in Texas benefit from the Uruguay Round as Japan and South Korea make substantial tariff reductions on a wide range of fresh and processed fruits. Also, under the 1999 U.S.-China Agricultural Cooperation Agreement, China lifted its import ban on citrus from this state. This agreement cleared away a major obstacle to trade with China. For the first time, U.S. exporters have direct access to the large central and northern coastal cities, creating a more efficient supply chain to meet China's demand for top-quality, fresh citrus.