



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

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Kentucky is an important producer and exporter of agricultural products. In 2002, the State's cash farm receipts totaled \$3.3 billion. Kentucky ranked 21st among all 50 States in 2002 with agricultural exports estimated at \$870 million. Agricultural exports help boost farm prices and income, while supporting about 12,963 jobs both on the farm and off the farm in food processing, storage, and transportation. Exports are important to Kentucky's agricultural and statewide economy. Measured as exports divided by farm cash receipts, the State's reliance on agricultural exports was 26 percent in 2002.

Kentucky's top five agricultural exports in 2002 were:

- tobacco leaf -- \$255 million
- live animals and red meats -- \$202 million
- soybeans and products -- \$124 million
- feed grains and products -- \$103 million
- wheat and products -- \$73 million

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

### **Kentucky Benefits From Trade Agreements**

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

- Kentucky benefited as some top international markets significantly reduced tariffs on chilled and frozen beef. In 2001, South Korea eliminated its chilled and frozen beef import quotas, 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 (NAFTA), 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.

- Kentucky benefited under NAFTA when Mexico converted its import licensing system for corn to a transitional tariff-rate quota (TRQ) 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 agreement, 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 a producer of soybeans, Kentucky benefits under the Uruguay Round agreement as South Korea reduces its tariffs on soybean oil by 14.5 percent from 1995 to 2004. Thus far, the tariff reduction has supported a threefold increase in export volume, with total sales reaching \$34 million in 2002. The Philippines is reducing its tariffs on soybean meal from 10 to 3 percent during the same period. This tariff reduction has supported a 27-percent increase in U.S. soybean meal exports, topping \$146 million in 2002. China's accession to the World Trade Organization (WTO) has helped raise U.S. exports of soybeans fourfold from 1999 to 2002, reaching nearly \$1 billion last year.
- Kentucky benefited from limits set on subsidized wheat exports as a result of the Uruguay Round agreement. These limits influenced the European Union's (EU) decision to change its Common Agricultural Policy, ultimately lowering internal EU market prices to world price levels. As a result, annual EU wheat exports dropped from 22 million tons to about 14 million tons as lower market prices stimulated domestic use, and 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.

Kentucky 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. In its WTO accession agreement, China agreed to lock in TRQs and lower tariffs, and end export subsidies; all concessions that provide opportunities to increase U.S. wheat exports. This should facilitate trade in future years, but had little impact last year because of ample domestic production in China.