CASE STUDY: PORK

Introduction

Mexican producers have filed three separate antidumping petitions against the U.S. pork industry since 1998. In June 1998, the Mexican Pork Council filed an antidumping petition claiming the U.S. slaughter hogs were being sold in Mexico at below production costs, and these imports were causing injury to the domestic industry. As a result, SECOFI, the agency charged with administering Mexican antidumping legislation, imposed duties on U.S. hog imports beginning on February 1, 1999. After the United States challenged the finding at the World Trade Organization (WTO), Mexico voluntarily ended the antidumping duties on May 23, 2003.

The withdrawal of antidumping duties on live swine was of little comfort to U.S. pork producers, who were by then subject to a second antidumping investigation. The Secretariat of Economy (SE), the successor to SECOFI, initiated an antidumping investigation regarding the import of pork meat from the United States on January 7, 2003 at the request of the Mexican Pork Council. Over one and a half years later, SECOFI announced that could not quantify any injury or threat of injury to the domestic industry due to U.S. imports, thus the petition was dismissed. However, in the same announcement SECOFI self-initiated an antidumping petition against U.S. imports of pork legs. The investigation is ongoing.

Background: The North American Pork Industry

The United States is the world's third largest producer of pork in the world. The current U.S. hog herd is approximately 60 million animals located on nearly 80,000 farms. Although the number of farms raising hogs has gradually declined over the past 50 years, this is primarily due to technological advancements and structural changes in the industry that has increased the size of the average hog farm. Today, production is highly concentrated; in 2002, 2.7 percent of U.S. hog producers had more than 5,000 hogs and accounted for slightly over half of the total hog herd.1 Pork is the seventh largest U.S. farm commodity in size of cash receipts. Nearly 19 billion pounds of pork were processed from 97 million hogs in 2001; annual farm sales typically exceed $11 billion.2 North Carolina and Iowa accounted for approximately 45 percent of all hogs sold in 2002; other leading producers include Illinois, Minnesota, Missouri, Nebraska, Oklahoma, and South Dakota. In total, approximately 68 percent of U.S. hogs are located in the “Corn Belt,” while another 20 percent are located in the Southeastern United States.3

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1 U.S. Department of Agriculture, 2002 Census of Agriculture.
3 The Corn Belt is typically defined as Iowa, Indiana, most of Illinois, and parts of Kansas, Missouri, Nebraska, South Dakota, Minnesota, Ohio and Wisconsin.
Hog operations typically fall into one of three categories. “Farrow-to-finish” operations raise hogs from birth to slaughter weight; in contrast, “feeder pig” operations raise pigs from birth to approximately 20 to 60 pounds, then sell them to “feeder pig finishers” who grow the young pigs to slaughter weight. Although historically most firms were farrow-to-finish operations, restructuring in the industry has resulted in more specialized farms. For example, many operations in the Corn Belt specialize in finishing feeder pigs using locally grown corn and soybeans. The move toward large scale operations and specialization has reduced costs in the hog production industry and, thus, prices. In 1998, the industry suffered record low prices for live hogs.

A female pig or sow gives birth to an average of nine piglets in 16 weeks; following birth, piglets nurse for an additional two to three weeks. The sow can be bred again shortly after weaning the piglets. It typically takes six weeks for the young pigs to reach the feeder pig stage of 20 to 60 pounds, then an additional 16 to 20 weeks of intense feeding to reach slaughter weight. Although hogs are produced year round in the United States, production peaks between September and December. After they reach full weight, the hogs are sold to meat packing plants. Like hog production, the meat packing industry has undergone structural change, and is now dominated by new, very large slaughter plants. Three packers now process close to 35 percent of U.S. pork. Processors typically operate on extremely small profit margins.

The United States is the second largest consumer of pork and pork products in the world. Pork accounts for about a fourth of domestic meat consumption, making it the third most important meat product consumed in the United States following beef and chicken. Consumption has fluctuated over the years, although over the long run per capita consumption decreased 10 percent between 1960 and 2003. Although most pork consumed in the United States is produced domestically, imports account for about 5 percent of total consumption. Pork tends to be a more popular worldwide, accounting for 50 percent of daily meat protein consumption.

In the early 2000s, the United States became the second largest pork exporter in the world, shipping over 2 billion pounds of fresh and frozen pork cuts overseas. Exports now account for about 6 percent of domestic production. Between 2000 and 2004, net pork exports from the United States increased more than five fold. The leading market for U.S. pork is Japan, which account for nearly half of total U.S. pork exports; other leading destinations include Mexico and Canada. From the mid-1980s to the early 2000s, Mexico was the destination of over three-fourths of U.S. live hog exports; approximately three-fourths of these exports were slaughter hogs with the rest made up of breeding

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4 Slaughter weight is typically defined as 240 to 270 pounds.
6 Although imports account for only a small share of domestic consumption, the United States is the third largest importer of pork products accounting for slightly less than one-fifth of total imports. Most U.S. pork imports originate in Canada and Denmark. The United States is also a major importer of hogs from Canada, most of which are feeder animals.
7 The United States only became a net exporter of pork in 1995.
animals. Mexican demand for U.S. hogs is strongest in the fourth quarter of the year, during the peak production period in the United States.

Like the U.S. pork industry, the Mexican pork industry has undergone a great deal of restructuring over the past 30 years. In the 1970s, Mexico introduced technologically advanced farms that rapidly increased productivity. The Mexican government subsidized the cost of sorghum for feed use, thus keeping production costs low. By the early 1980s, pork was the leading meat product produced in Mexico, accounting for nearly half of all meat production, due to low costs, high productivity, and growing demand. However, in 1984, the Mexican government ended sorghum subsidies, increasing costs. Moreover, the devaluation of the peso in the 1980s and 1990s drastically reduced demand for pork as consumers substituted lower priced meat.

The Mexican market opened to hog and pork imports in the 1990s. Upon enactment of the North American Free Trade Agreement (NAFTA) in 1994, Mexico eliminated its 10 percent tariff on imports of U.S. and Canadian swine for breeding. At the same time, Mexico established a tariff rate quota (TRQ) for imports of slaughter swine and pork products. Under the TRQ, imports within the quota paid a much lower tariff than those imported outside of the quota. NAFTA specified that Mexico would gradually eliminate the 20 percent within-quota tariff over 10 years and increase the quota by three percent per year. As noted above, Mexico quickly became one of the largest foreign markets for U.S. pork and live hogs. U.S. pork exports to Mexico tripled between 1995 and 1999. The United States accounted for more than 80 percent of Mexican imports of pork in 2004. In 1997, Mexico had a 91.6 percent market share in domestic pork consumption; by 2000 its market share had fallen to 78.0 percent. It was in this environment that Mexican pork producers filed their first antidumping petition.

The First Antidumping Case: Live Swine

In June 1998, the Mexican Pork Producers Council (CMP) filed an antidumping petition alleging that U.S. slaughter hogs, in particular lightweight hogs below 100 kilograms, were being sold in the Mexican market at prices below production costs, and these imports were causing or threatening to cause material injury to the domestic industry. Specifically, the petition alleged that falling U.S. hog prices caused Mexican hog prices to drop from 12 pesos to 9.50 pesos per kilo over the course of the year. Producers particularly asked for a halt to Mexico's favorable in-quota TRQ duties under NAFTA.

As can be seen from Figure [I], U.S. exports of live swine to Mexico did increase dramatically between 1997 and 1998, growing over 250 percent. As noted above, U.S. hog prices reached record lows in 1998; high production levels combined with falling capacity levels at pork processing plants resulted in a flood of hogs on the market and dramatically lower prices. Many of these hogs found their way to Mexico. As can be seen in Figure [II], the average price per hog of U.S. exports to Mexico fell between 1997 and 1998. More specifically, the average price of U.S. hogs above 50 kilograms shipped to Mexico fell by approximately 2.3 percent.
**Figure I**

U.S. Exports of Live Swine for Slaughter
(Number of Hogs)

Source: U.S. Census Bureau.

**Figure II**

U.S. Exports of Live Swine to Mexico
(Swine over 50 kilograms for slaughter)

Source: U.S. Census Bureau.
On February 1, 1999, SECOFI released its preliminary determination, imposing antidumping duties on U.S. hogs for slaughter designed to raise the U.S. export price to a reference price of $1.08 per kilogram, or $0.49 per pound. To compare, the U.S. Department of Agriculture projected in January 1999 that U.S. pork prices would rebound to approximately $0.27 per pound in 1998. According to the announcement by SECOFI, an investigation of market data from October 1997 through March 1998 revealed that further increase in U.S. exports at dumping level prices posed a threat to Mexican hog producers, which could cause serious deterioration of national production. SECOFI revised the dumping margin in their final determination on October 20, 1999, setting the antidumping duties at $0.351 per kilogram ($0.159 per pound), or approximately 48.13 percent.

On July 10, 2000, the U.S. government requested consultations with the Mexican government regarding the antidumping determination through the World Trade Organization. Typically, a request for consultations is the first step in the WTO dispute settlement process. The U.S. request focused on a number alleged shortcomings in the antidumping investigation, and particularly in the determination that U.S. hog imports threatened the Mexican industry with material injury. For example, the United States claimed that Mexico failed to evaluate all relevant economic factors that could impact the health of the domestic industry. Moreover, Mexico failed to conduct an objective examination of the impact of imports on domestic producers and prove that material injury would occur unless protective action were taken as required when making the determination that there is a threat of material injury.

The United States also put forth the argument that Mexico violated several aspects of the WTO antidumping agreement when it failed to provide U.S. producers with opportunities to see and prepare responses to the information used by SECOFI in its determination. According to the U.S. complaint, SECOFI failed to inform U.S. producers of the facts under consideration in their determination.

The U.S. complaint never progressed to a WTO dispute settlement panel. Instead, Mexico’s Secretariat of Economy (SE), the successor to SECOFI, announced on May 23, 2003 that it would voluntarily eliminate the antidumping duties. Specifically, SE noted that it had the right to annually review the need to continue the imposition of antidumping duties. Based on import data from January 2000 to May 2000, the agency determined that compensatory duties were no longer needed.

It is unclear to what extent Mexico’s imposition of antidumping duties on live swine from the United States between February 1, 1999 and May 23, 2003 impacted U.S. exports. As can be seen from Figure [I], U.S. exports of swine actually continued to increase through 2001, increasing 81 percent between 1998 and 2001. However, exports plummeted in 2002, falling 25.7 percent.
The Second Antidumping Case: Pork Products

On January 7, 2003, Mexico’s Secretariat of Economy (SE), the successor of SECOFI, announced that it was initiating an antidumping investigation against U.S. pork meat in response to a petition submitted by the CMP. The petition alleged that U.S. pork meat exporters, particularly those exporting hams and pork shoulders, shipped products to Mexico at less than fair value between April 1, 2002 and September 30, 2002. The CMP claimed that discriminatory pricing practices resulted in lower prices for domestically-produced pork products and that increasing U.S. imports would cause increasing levels of damage to Mexican producers.

As can be seen in Figure [III], U.S. exports of pork products to Mexico actually decreased in 2002, falling 25 percent from the previous year. Moreover exports from April through September of 2002 were 31 percent less than from the same time period a year earlier. Moreover, as can be seen in Figure [II], the average unit price of U.S. pork exports to Mexico actually increased slightly between 2001 and 2002. However, the average unit price of U.S. exports in August and September of 2002, the period right before the petition was submitted, was 21 percent lower than in the same period in 2001, which may have prompted the petition.

Figure III

U.S. Exports of Pork Products

Source: U.S. Census Bureau.
In lobbying for the termination of the antidumping investigation, the National Pork Producers Council (NPPC) of the United States argued that the investigation was initiated solely as a way to compel U.S. pork producers to agree to reverse the market access provisions of NAFTA associated with Mexican pork imports. According to a NPPC press release, Mexican Foreign Secretary Ernesto Derbez stated at a conference just two days before the initiation of the antidumping investigation that the agricultural aspects of NAFTA “need to be corrected, will be corrected.”

NPPC claimed in a submission to the SE that the CMP had no standing to file the antidumping petition. The WTO’s Antidumping Agreement specifies that petitions must be filed by or on behalf of the domestic industry, defined as domestic producers of the identical product targeted in the antidumping petition. In this case, NPCC argued, CMP represented hog producers while domestic producers of the identical product were hog slaughterers or packers. NPCC also argued that the petition did not include sufficient evidence of dumping or injury to justify the initiation of an investigation.

Source: U.S. Census Bureau.

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U.S. pork producers further stated that Mexico could neither prove that the domestic industry was materially injured nor threatened with material injury due to U.S. imports because of a number of key economic facts, including that the volume and market share of imports from the U.S. were not significant, the U.S. did not have the capacity to increase exports to Mexico in the future, and imports from the United States were not depressing domestic pork prices.\(^9\) Domestic price declines were instead a reflection of lower international prices for pork products and increased consumption of poultry. Furthermore, Mexican pork production had actually continued to grow during the investigation period; any reduction in the number of pork producers during the time period was a reflection of structural change in the industry rather than increased import competition.

On May 31, 2004, Mexico’s SE released its preliminary finding that the domestic industry had not been materially injured due to dumped imports from the United States, thus ending the investigation without the imposition of dumping duties. Specifically, SE noted in their report that although there was evidence that U.S. pork producers had been exporting pork products to Mexico at less than normal values, it was impossible to quantify objectively the damage or threat of damage to the domestic industry.\(^10\)

Outcome

As noted above, the Mexican government chose not to impose antidumping duties on all U.S. pork products. However, the same announcement that terminated the pork product investigation initiated a new antidumping investigation on the import of pork legs from the United States. Specifically, Mexico’s SE self-initiated an investigation to determine whether imports of pork legs from the United States were being sold at less than normal value and causing or threatening to cause injury to the domestic pork industry. In their announcement, SE stated that the market information obtained in the original antidumping investigation indicated that an additional antidumping investigation on pork legs needed to be undertaken.

Under the WTO Antidumping Agreement, countries may self-initiate investigations under “special circumstances” if they have sufficient evidence of dumping, injury, and a causal link between the two to justify the initiation. SE argued that the agency needed to initiate the investigation due to the fragmentation of the Mexican pork industry, rapid growth of U.S. ham imports, and evidence that the U.S. hams were being dumped in the Mexican market.

Although the investigation is still ongoing, the U.S. National Pork Producers Council has vigorously lobbied for the immediate termination of the new investigation. NPPC argues that SE self-initiated the investigation in order to avoid the fact that CMP had no standing

\(^9\) U.S. producers noted that Canada and Chile had increased their share of the Mexican market faster than the United States in recent years.
\(^10\) The WTO Antidumping Agreement specifies that all antidumping investigations should be concluded within one year, or at the latest 18 months, following their initiation. In this case, Mexico did not release their preliminary finding for 15 months.
to file the initial antidumping petition. Moreover, the association claims that SE is investigating injury to hog producers, while the petition actually calls for an investigation of injury to Mexican hog slaughterers and packers. Most importantly, NPPC alleges that SE did not have sufficient evidence to justify the initiation of the investigation.

Because antidumping duties have yet to be imposed, the investigation has not appeared to have impacted U.S. exports as of yet. U.S. pork exports increased 60 percent between 2003 and 2004.

References

