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Mexico Imposes New Round of Tariffs on U.S. Products to Show Displeasure with Slow Progress on Truck Issue

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In the latest chapter of the never-ending dispute between the US and Mexico regarding the lack of US access to Mexican trucks, the Mexican government imposed a new round of retaliatory tariffs on imports of certain US products in mid-August, prompting the US interest group that is most responsible for keeping the Mexican trucks out, the International Brotherhood of Teamsters, to call on US President Barack Obama's administration to renegotiate the North American Free Trade Agreement (NAFTA). The Teamsters and allies in the environmental movement have long argued that Mexican trucks are unsafe and harmful to the environment and that Mexican truck drivers do not receive proper training (SourceMex, January 19, 2000)). The Teamsters have added another concern to their list of objections, warning that drug traffickers are going to use Mexican trucks to smuggle their product into the US.

Mexico's tariff additions comply with NAFTA

The Mexican government announced its decision to impose new tariffs on US products on Aug. 16 because of a lack of progress by US President Barack Obama's administration to develop a plan to allow Mexican truck drivers to haul goods into the US. Obama promised to revive a pilot program implemented by his predecessor, ex-President George W. Bush, in 2007 allowing Mexican truck drivers to obtain certification to transport goods into the US. Under the program, the vehicles would also have to undergo strict inspections (SourceMex, February 28, 2007).

The pilot program, which was never fully implemented, was ended when the US Congress removed funding in March 2009(SourceMex, March 11, 2009). The demise of the pilot program prompted the Mexican government to impose tariffs on 89 agricultural and industrial products in 2009, worth about US$2.4 billion. The tariffs, along with the global economic crisis, contributed to a 24% reduction in US exports to Mexico in 2009 relative to 2008.

In August of this year, Mexico made changes to the tariffs to include 10 more products, targeting some items that the US considered key exports to Mexico, such as fresh apples, oranges, grapefruit, pistachios, certain cuts of pork, sweet corn, some cheeses, candy, and chewing gum. These products previously entered Mexico without an import tax but are now levied a tariff of between 5% and 25%. Mexico's action now affects 43 states, with Delaware, Mississippi, and South Dakota added to the list.

Under NAFTA rules, Mexico is allowed to modify its tariff schedule as long as the value of products subject to import taxes remains at about US$2.5 billion. While Mexico added tariffs on some products, it removed them from others, including some cuts of pork and peanuts.

Mexico's Economy Secretary Bruno Ferrari said President Felipe Calderón's administration had no choice but to change and/or expand the tariffs, given the lack of progress in resolving the impasse on the truck dispute. "Mexico has not received a formal proposal to resolve this situation, which is

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affecting Mexican truckers and has hurt trade and competitiveness in North America," Ferrari said at a news conference.

Ferrari said the administration would continue to revise the tariffs schedule if progress is not made on the trucking issue, especially because there is still room to include additional items. "We will not hesitate to make these types of decisions," Ferrari said in a meeting with foreign reporters.

Mexico's new trade sanctions prompted the Obama administration to move quickly to try to work out a solution. US Transportation Department spokeswoman Olivia Alair said the agency was "developing a new proposal" that would meet US commitments under NAFTA and address concerns raised in Congress about Mexican long-haul truckers. She did not offer details, however.

US Trade Representative (USTR) Ron Kirk offered assurances that the Obama government would do all it could to address this issue. "Mexico is an important US export market, and President Obama understands the economic pain that these tariffs cause for American farmers, companies, and workers," Kirk said in a statement.

Teamsters union urges US to renegotiate or abandon NAFTA

The Mexican government's decision to expand the retaliatory tariffs drew a variety of reactions in the US, with the Teamsters union as the most vocal critic.

In a letter to Obama, Teamsters president James Hoffa described the tariffs as excessive and suggested that the US government take appropriate actions. "Instead of slapping additional tariffs on US goods, Mexico should be living up to its end of the bargain by making sure its drivers and trucks are safe enough to use our highways," Hoffa said.

Among his suggestions were that the US renegotiate NAFTA or that it withdrew from the agreement altogether. In particular, the Teamsters are interested in having the US change the NAFTA provisions that stipulate that Mexican truckers be allowed free access to the US. "During 15 years, the Teamsters have been able to keep the border closed to tired drivers and inferior equipment," said Hoffa. "We cannot allow unsafe trucks from Mexico to enter the US.

This is not the first time that an interest group has pushed for renegotiating NAFTA. The fiercest critics of the agreement in Mexico are agriculture interests, which argue that US farm products are heavily subsidized and compete unfairly in the Mexican market with domestic products(SourceMex, January 23, 2008).

In his letter to Obama, Hoffa also proposed that the USTR office bring the complaint about the tariffs to the World Trade Organization (WTO)

The Teamsters leader suggested that it was not a good idea to try to bring back the pilot program. "At a time of deepening budget deficits and a weak economy, it would be foolish to subject US taxpayers to such an expensive and very unsafe program," Hoffa said.

The Teamsters also raised concerns that easing restrictions for Mexican truck drivers could provide another avenue for drug traffickers to move their product into the US. "The growing power of the drug cartels has weakened the Mexican government to such extent that the chaos in Mexico is becoming a serious threat to the security of the US," Hoffa wrote in a letter to US Secretary of State Hillary Rodham Clinton.

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Business groups raise concerns about lack of compliance

The US business community had an opposite reaction to the Teamsters. Business organizations urged the Obama government to solve the dispute, which they said is threatening thousands of US jobs. "The basic underlying issue has not changed in that the US has violated the terms of a trade agreement and thousands of US manufacturing jobs are at risk if the administration and Congress don't take the necessary steps toward compliance," said Doug Goudie, director for international trade policy at the National Association of Manufacturers (NAM).

Similar sentiments came from groups that have direct ties to Mexico, including the Border Trade Alliance (BTA) in San Antonio, Texas, and the American Chamber of Commerce (AMCham) in Mexico City. "[The tariff changes] will have costs for both the Mexican and the US economies, but it will be the US producers who will be most affected," said Amy Glover, chair of AMCham's committee that deals with external relations.

Glover said the dispute could move affected business sectors to lobby Congress more vigorously to find a solution. "The idea is for affected groups in the US to put pressure on their members of the US Congress to make the decision to open the border to Mexican trucks."

The BTA wrote US Transportation Secretary Ray Lahood, urging the administration to take quick action on the trucking dispute with Mexico. The alliance said the delay in implementing the NAFTA provision "undermines the president's initiative to grow exports as a means to economic vitality and job creation, and it further compromises US credibility in future trade agreement negotiations."

The alliance made no secret of its support for Mexico's position regarding the trucking provision. "Fifteen years is far too long to be still debating how to comply with the NAFTA trucking articles," said BTA president Nelson Balido.

There was special concern from the producers of some products that will be affected by the tariffs. In Washington state, producers lamented the addition of fresh apples to the list, since Mexico accounts for almost one-third of the state's apple exports. In its first round of tariffs in March 2009, Mexico initially imposed tariffs on cherries, pears, and other agricultural products grown in Washington. "It's going to make it more difficult and more expensive to sell into that market," said Peter Verbrugge, president of Sage Fruit of Yakima, Washington.

The National Pork Producers Council (NPPC) is urging the Obama administration to work with Congress to resolve the issue. But organization officials said Mexico's retaliatory tariffs are probably not high enough to halt the flow of US pork products to buyers south of the border. Mexico is the second-largest market for US pork in terms of value.

Still, there is concern among some members of the industry. "With current prices of various pork cuts being so high, any extraneous event that can affect demand is going to be significant," independent hog trader Dan Norcini told Reuters.

The Mexican government's tariff decision also has some impact on the US candy industry, which will now face a 20% tariff on some exports to Mexico. US candy manufacturers export an average of about US$45 million in products to Mexico each year. "Dozens of US gum and chocolate makers, large and small, will immediately feel the effects of these duties," said Larry Graham, president of the National Confectioners Association (NCA).

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