



Do Protectionist Trade Policies Protect? The Unintended Consequences of an Antidumping Tariff

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Introduction

Economics is an essential input into policy decision making if for no other reason than its ability to identify unintended consequences of otherwise well-intended policy initiatives (Harberger, 1993). This is perhaps especially true for trade policy, where interest groups seek policy benefits while ignoring the feedback effects from international markets. The costs of these feedback effects are often borne by others.

Over the past decade, farmers and food processors in the United States have sought domestic protection from foreign competition for various commodities. Examples of such efforts include tariffs, duties, and/or quotas on imports of pasta from Italy and Turkey (1996), fresh tomatoes from Mexico (1996), wheat gluten from the European Union (1998), live cattle from Canada (1998), lamb from Australia and New Zealand (1999), sugar from the European Union (1999), honey from Thailand and China (2001), greenhouse tomatoes from Canada (2001), frozen red raspberries from Chile (2001), mussels from Canada (2001), durum and hard red spring wheat from Canada (2002), and softwood lumber from Canada (2002).

In the trade environment (as in other policy areas of public policy), policy advocates sometimes suffer buyer's remorse from unintended consequences of such policy pursuits. A prime example is provided by the antidumping and countervailing petition against the Canadian cattle industry filed by the Ranchers-Cattlemen Action Legal Fund (R-CALF) in 1998. R-CALF, a producer organization created in 1998, claimed that fed and feeder cattle



Buyer's Remorse? Policy advocates sometimes suffer buyer's remorse from unintended consequences of policies designed to protect farmers and food processors from foreign competition. A prime example is provided by the antidumping petition against the Canadian cattle industry.

price declines between 1993 and 1998 (about 27% in real terms) were largely due to increased US imports of fed cattle from Canada (see sidebar, page 42). Many of R-CALF's members were ranchers in the Northern Great Plains and Rockies region. These ranchers typically sell feeder cattle to US feedlots.

In January 1999, the US International Trade Commission (ITC) ruled that US cattle producers may have been materially injured by US imports of Canadian fed cattle. On June 30, 1999, the US Department of Commerce's Import Administra-

Why Did US Cattle Prices Decline Between 1993 and 1998?

US real (1982-1984 constant dollar) cattle prices have declined over the past 30 years. For example, from 1972 to 2000, real feeder steer price declined from \$97.27/cwt to \$54.79/cwt, while real fed steer price declined from \$85.45 to \$40.45/cwt. Nominal feeder and fed cattle prices are persistently countercyclical with beef supplies. Nonetheless, real feeder and fed cattle prices suffered particularly steep declines of about 27% between 1993 and 1998. During this same period, US imports of Canadian fed cattle increased.

Agricultural commodity prices decline when either demand declines, supplies increase, or supplies increase more rapidly than demand. From the mid-1970s throughout the 1990s, US domestic demand for beef decreased sharply (Purcell, 1999; Schroeder, 2000). Specifically, beef demand declined about 69% from 1975 to 1998. Increased competing meat supplies, consumer health concerns about red meat consumption, and consumer demands for increased convenience, quality, and consistency have all been cited as reasons for reductions in demand (Brester, Schroeder, & Mintert, 1997). However, decreases in domestic beef demand cannot solely account for sharp declines in cattle prices in the middle to late 1990s.

Between 1993 and 1998, US domestic beef output increased by about 13% from 21.6 to 24.3 billion pounds. Over the same period, total US beef imports from sources other than Canada decreased by about 15% from 2.44 to 2.07 billion pounds, but beef and fed cattle imports from Canada increased by about 42% from 1.31 to 1.86 billion pounds. Between 1993 and 1998, therefore, total US beef and cattle imports from all sources increased by about 5% from 3.75 to 3.93 billion pounds.

Between 1993 and 1998, therefore, US total beef supplies expanded by 11% from 25.4 to 28.2 billion pounds. Thus, about 96% of the increase in US total beef supplies was attributable to increased domestic production. Consequently, the decline in US cattle prices between 1993 and 1998 was largely the result of increased domestic production and reduced beef demand.

tion issued a preliminary ruling instructing the US Customs Service to require cash deposits or bonds totaling 4.73% (later increased to 5.57%) of the value of imported Canadian fed cattle. The ruling was based on a preliminary conclusion that Canadian feedlot managers had sold fed cattle to US purchasers below the "normal value" of those cattle in Canada. In November 1999, the ITC issued its final ruling, in which five of the six commissioners voted to rescind the preliminary tariff. Initially, R-CALF appealed the ITC's negative decision under the Chapter 19 provisions of NAFTA. However, the appeal was later retracted.

The R-CALF initiative to impose tariffs on fed cattle imports from Canada was misguided for three reasons. First, because Canadian fed cattle exports to the United States account for only a

small proportion of total US beef supplies, a tariff was likely to have had little impact on US fed cattle prices and even smaller impacts on US feeder cattle prices. Second, although Canadian fed cattle exports account for only a small share of US beef supplies, they are a much larger share of total Canadian cattle production. A tariff that reduced Canadian fed cattle exports to the United States was likely to have a proportionately larger negative effect on prices of Canadian fed cattle and, consequently, on prices paid by Canadian feedlots for feeder cattle. Ironically, given the increased importance of Canadian feedlots to northern-tier US feeder cattle producers, the adverse Canadian feeder cattle price effects could have offset any positive effects on US cattle prices. Third, Canada is the US's fourth largest export market (10-12% market share) for beef. An antidumping tariff was likely to generate retaliatory actions and reduce market opportunities for the US beef industry.

Quantitative Estimates of the Impacts of the Tariff

The proposed 5.57% anti-dumping tariff on US imports of Canadian fed cattle would not have benefitted all segments of the US beef industry. Approximately 75% of US imports of Canadian cattle are fed cattle with the remainder being cull cows and bulls. The tariff would have increased the price of fed cattle in the US, but by an amount significantly less than the tariff. Because fed cattle imports from Canada represent 3-4% of total annual US cattle slaughter, the tariff could not have significantly affected US cattle prices.

We estimated the impacts of the proposed tariff on US and Canadian fed cattle and feeder cattle prices using a quantitative model. The model accounts for US import demand and Canadian export supply of fed cattle, and the relationships between fed and feeder cattle prices in both countries (Brester, Marsh, & Smith, 2002). Table 1 presents the results. US fed cattle prices were estimated to increase by \$0.13/cwt in the short-term to \$0.63/cwt in the long-term, assuming that carcass and boxed beef imports (not subject to the tariff) from Canada would not increase. Average US feeder cattle prices were estimated to increase by \$0.07 and \$0.90/cwt in short-term and long-term, respectively (or a 0.08% to 1.07% increase over

Table 1. Impacts of a 5.57% tariff on US imports of Canadian fed cattle and farm-level prices, assuming no increases in US imports of Canadian beef carcasses or boxed beef.

Changes in:	Short run		Long run	
	Price/quantity changes	Percentage changes	Price/quantity changes	Percentage changes
US fed cattle price	+\$0.13/cwt	+0.21%	+\$0.63/cwt	+1.02%
US feeder cattle price	+\$0.07/cwt	+0.08%	+\$0.90/cwt	+1.07%
Net price of northern-tier feeder cattle	+\$0.05/cwt	+0.06%	+\$0.86/cwt	+1.03%
Canadian bids for northern-tier feeder cattle	-\$0.02/cwt	-0.02%	-\$0.04/cwt	-0.05%
US imports of Canadian fed cattle (quarterly)	-13,338 head	-3.97%	-63,519 head	-18.91%
Canadian fed cattle price (in \$US)	-\$1.77/cwt	-2.88%	-\$2.13/cwt	-3.46%
Canadian feeder cattle price (in \$US)	-\$0.73/cwt	-0.91%	-\$2.24/cwt	-2.80%

1998 average prices). However, average feeder cattle prices in northern-tier states were estimated to increase by only \$0.05 and \$0.86/cwt (a smaller increase relative to the rest of the US) because of the adverse effects of reduced Canadian demand for feeder cattle.

Fed cattle imports from Canada were estimated to decline by between 4% and 19% in the short term and long term, respectively, from 1998 levels. Canadian fed cattle prices were estimated to decline by \$1.77 and \$2.17/cwt and Canadian feeder cattle prices by \$0.73 and \$2.24/cwt in the short term and long term, respectively. The estimated effects of the tariff on Canadian fed cattle and feeder cattle prices were considerably larger because pretariff sales to the US market from Canada account for about 40% of Canada's fed cattle production. However, to the extent that US packers may have increased imports of carcass and boxed beef, these negative effects on Canadian cattle prices would have been moderated.

Implications

R-CALF claimed that a tariff on US imports of Canadian fed cattle would have economically benefited US fed and feeder cattle producers. They argued that imports from Canada were dumped into the US market and were the major cause of low fed and feeder cattle prices in 1998. Furthermore, they argued that a tariff would redress the situation. The estimates presented here indicate that the effects of the relatively modest tariff proposed

by the US Department of Commerce would have been small—resulting in, at most, about a 1% increase in average US feeder cattle prices. In fact, some Northern Great Plains ranchers would likely have been harmed by the tariff, because their local markets serve Canadian feedlots. Those feedlots would have offered lower bids for feeder cattle because of reductions in Canadian fed cattle prices. In addition, the legal and bureaucratic costs associated with the trade dispute initiated by R-CALF were relatively large for US and Canadian livestock producers and their respective governments. It has been reported that producers on both sides of the border likely spent a combined \$6 million over this trade dispute.

R-CALF's assessment of the potential benefits of the tariff was flawed, because the organization only considered the bivariate relationship between imports and cattle prices. That is, they failed to consider the multiple factors that influenced market conditions and caused low cattle prices in 1997 and 1998—namely, a substantial increase in US red meat and poultry supplies driven largely by an increase in domestic production. In addition, the cumulative affects of a 25-year decline in consumer demand for beef added to price woes. Furthermore, R-CALF seemed to ignore the growing importance of Canadian feedlots as markets for northern-tier feeder cattle.

Fortunately, the International Trade Commission did pay attention to more careful economic analyses. Thus, Harberger's (1993) perspective that economists do play a critical role in enabling soci-

ety to identify the unintended consequences of perhaps otherwise well-intended policy initiatives was confirmed.

For More Information

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