

Protectionism in the foreign trade of the poultry industry in Jalisco, Mexico.

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ABSTRACT: Tariff and non-tariff regulations, being subsidies, import ban, import coupons, zoo-sanitary measures, countervailing duties, safeguard. They have represented a protection, and a difficulty on international trade. Mexico and the United States are main commercial partners and maintain a trade agreement. Both countries are distinguished in poultry production and commercialization. However, the focus is on Jalisco, Mexico. Due to its production importance in comparison to the rest of the country. And its poultry trade with the United States. The authors argue that tariff and non-tariff measures disrupt free trade to protect their own industries. In this study, poultry companies from Jalisco and an American enterprise that has one of the most important markets in Mexico were interviewed. Information was obtained on the protectionist evolution in bilateral trade with NAFTA, today the USMCA. It was found that Mexico has imposed measures such as safeguards, taxes, and import quotas on US companies to protect the national industry. However, Jalisco fights to eliminate the avian influenza virus, since the zoo-sanitary measure does not allow it to export. Finding market opportunities such as albumin and heat-treated products.

Keywords –Protectionism, Tariff and non-tariff measures, International trade, Poultry industry, Mexico.

I. INTRODUCTION

Protectionist regulations have represented difficulty between countries all over the world. Mexico and the United States are the main commercial partners and maintain a trade agreement. Which is why the analysis of both industrial structures is interesting. Especially in the poultry industry, since both countries excel in poultry production and marketing. However, the focus is on the State of Jalisco, Mexico. As it stands out with 53% of egg production, and 7% of chicken meat (Unión Nacional de Avicultores, 2019), standing out compared to the numbers of the other states. Despite this, Mexican poultry farmers mention that although there is a free trade agreement, Jalisco has failed to export fresh eggs to the neighboring country in recent years (Unión Nacional de Avicultores, 2016).

According to authors such as Kang & Dagli (2018), Cheng, Yang, & Fan (2018), Valverde & Latorre (2017), Quaye, Sekyere & Acheampong (2017), Bojnec & Fertő (2017), Kutlina-Dimitrova (2017), Jouanjean, Maur & Shepherd (2016), The World Trade Organization (2020), Glauber (2016); protectionist measures are not only tariff, but also non-tariff. Arguing that even subsidies represent a way to boost national companies, putting aside the free market.

The paper aims to understand the protectionist measures that the Mexican government has imposed on US companies under NAFTA, today the USMCA. As well as their specific motivations. With a focus on the poultry industry, since it is one of the strongest industries in Jalisco when it comes to the basic basket.

The study is organized in the theoretical framework of protectionism. Giving support to the specific measures that were considered to carry out the interviews with the companies. An explanation of the research method is given. Which is through an in-depth interview with managers of poultry companies that have TIF certification. Which is a requirement of zoo-sanitary measures for export. In the results section, a description is given of how each protectionist measure has affected each of the companies. In addition, the policies that affected the companies are represented in a table. Giving as a conclusion to what was expressed by the poultry farmers of a null amount of exports of fresh eggs from Jalisco. This is due to the zoo-sanitary measures, which require products free of pathogenicity. Since Jalisco has been in "low prevalence" of the avian influenza virus since 2012. Likewise, with the total reduction of tariffs in 2003. The Mexican industry was forced to compete

with lower prices for foreign products. The safeguard is imposed. Then, in the face of lawsuits for unfair practices, another safeguard is imposed (Diario Oficial de la Federación, August 6th, 2012). In addition to import quotas, according to poultry managers.

II. THEORETICAL FRAMEWORK

Protectionist policies are measures that can take different forms, whether tariff or non-tariff, for the care and promotion of domestic markets.

According to Kang & Dagli (2018), protectionism represents import taxes in a country, called tariffs, when the government's strategy is to discourage foreign consumption by making products more expensive. Looking for the benefit of domestic industries. Cheng, Yang, & Fan (2018) add that globalization attracts the attention of cheaper inputs and products from abroad, so that tariffs provide national protectionist support.

However, Valverde & Latorre (2017) mention that not only are there tariff barriers to foreign trade in negotiations between countries, but also that non-tariff barriers are a form of protectionism.

Quaye, Sekyere & Acheampong (2017) generate an example of a non-tariff measure, the subsidy. Which is a fund of money that is destined to the industries to support them in their production or export. Giving benefited companies a competitive advantage in the short term.

However, Bojnec & Fertő (2017) argue that subsidies do not develop companies in the long term. Since they do not have an impact on innovation, neither strategically nor technologically to generate sustainable competitive advantage.

In the same way, Kutlina-Dimitrova (2017) add the import ban, mentioning that this government measure can be used in retaliation against another country when it has imposed some other protectionist measure. However, the World Trade Organization (2020) describes its application as a protection to life when the product is not certified. Although he recommends free trade.

Zoo-sanitary measures represent another non-tariff measure that, according to what the World Trade Organization mentions, is related to the prohibition of imports and exports. Jouanjean, Maur & Shepherd (2016) describe this measure as a barrier to foreign trade that represents a challenge for producers due to the technical requirements and high costs that are necessary to obtain the certifications that indicate that they will not affect health.

Another measure is the countervailing duty quota, Glauber (2016) argues that these quotas arise from the commercial dispute between two countries, caused by unfair practices, in which the affected country demands the incident. And the other country is charged compensation or a tax. Which could be temporary and discriminatory on imports.

The World Trade Organization (2020) mentions the safeguard as a protectionist measure, which arises to protect national industries, when the foreign purchase of products has been excessive and has caused economic damage. They can be presented as import quotas, or increased restrictions, that make it difficult for goods to enter a given country.

III. RESEARCH METHODS

For this research, the qualitative method was applied. Through an in-depth interview with managers of poultry companies in the State of Jalisco, experts in the competitive structure of the market, and the difficulties in foreign trade.

The characteristics of the poultry companies that were considered, to be studied are:

- Being a poultry producer and marketer.
- Maintain operations within the State of Jalisco.
- That it exports, imports, or has made efforts to do so.
- That it has TIF certification as a guarantee of export intentions.

According to the National Institute of Statistics and Geography, through its database Directorio Estadístico Nacional de Unidades Económicas (2019), there are seven companies in the region that meet the parameters, of which four companies granted the interview. In addition, the General Director of the Unión Nacional de Avicultores de Jalisco, an expert on the subject, also gave an interview.

IV. RESEARCH RESULTS

The General Director of the Unión Nacional de Avicultores de Jalisco explains that the egg and chicken situation have been different realities. Jalisco egg exports had been halted since 2012 due to outbreaks of avian influenza. Which could be counteracted and can now be exported again.

On the other hand, poultry meat products present another situation. Chickens are fed with corn, soybean meal, and sorghum. Mexico does not have enough food, so it must import it. Raising production costs, since freight, storage, and treatment are paid. This creates a competitive disadvantage. However, an advantage

that Mexico has, is the port of Manzanillo. With an exit point to Asia, who demand legs and ridges, although Mexico cannot cover the entire demand.

Mexico and the United States are complementary economies. As the United States consumes breast, while Mexico consumes legs and thighs. For outbreaks of avian influenza in certain US states, Mexico prohibits importation until the entire flock is controlled or eliminated. The manager agrees with what is mentioned in the Diario Oficial de la Federación (June 21th, 2011), being important the preservation of life.

On the other hand, the companies interviewed provided the following information:

Enterprise 1

Enterprise 1 mentions that it does not receive a subsidy from the government and does not know if they exist for its type of product, since they process chicken meat to turn it into pasta, which will be manufactured to produce sausages.

In the tariff approach, with NAFTA, now USMCA. The tariffs for 2012, the year in which operations began, were already fully deducted.

The poultry enterprise expresses its knowledge of the export processes. He has tried to sell to the United States. However, due to the "low prevalence" status of avian influenza in Jalisco, the United States is prohibited from importing it. Although he explains that his supplies are sold frozen at -20 degrees Celsius to other companies that transform them. The virus does not survive at this temperature, if there is one. Mexico is prohibited from importing fresh pieces from some counties in the United States, where the virus status is positive. Before they imported, but now with the exchange rate, market prices increase, so customers are not willing to pay more.

Regarding the import quotas that Mexico imposed on United States companies due to dumping practices, they were in effect from 2013 to 2015. However, they did not affect the enterprise since the measure was established for 300 thousand tons, and only imported 178 thousand tons (Diario Oficial de la Federación, August 6th, 2012).

Likewise, due to these unfair practices by US companies, the countervailing duty measure was also imposed. However, coinciding with the Diario Oficial de la Federación, (July 25th, 2003), it did not affect Enterprise 1 either, since they were imposed on the leg and thigh. And they use the brisket, leg and pasta. Like the safeguard, which was imposed by Mexico for the competitive protection of its industries, in the period from 2003 to 2008.

The zoo-sanitary measures are expensive to obtain the TIF certification, mentions the Enterprise 1. There were two TIF traces only of pulps and pulps before 2018, and two more were recently opened. This gives them a competitive advantage over other trades, since obtaining and maintaining certification requires a lot of effort and capital.

Enterprise 2

The enterprise claims to have received subsidies from the government. Due to its age, it has been affected by changes in protectionist measures. With NAFTA, currently USMCA; poultry products from the United States gained strength in the Mexican market. Affecting it competitively. The safeguard imposed by Mexico on US companies, due to the fact that the entry of foreign input was seriously affecting the domestic industry, from 2003 to 2008, allowed a recovery.

In 2013-2015, as part of a new safeguard, Arkansas County imports of products were banned: fresh legs, thighs, chunks and offal; which negatively affected the enterprise, since they have a plant in the region, which provides it with competitive advantages.

However, despite the "low prevalence" status of the avian virus in Jalisco, which does not allow it to export due to zoo-sanitary measures, the enterprise exports frozen products through other states to the United States. Mainly to a plant in Oklahoma. The safeguard from 2013 to 2015, in the form of import coupons, did not affect the enterprise because the imported quantity was not exceeded.

Enterprise 3

Pasteurized liquid egg is a product that Enterprise 3 sells in large quantities, and when demand in the Mexican market drops, they export it to the United States. In addition, it exports fresh eggs, so they have to comply with the requirements requested by the FDA in the US, a safety certificate, a biosafety certificate, and proof that the product is free of any bacteria or contaminated.

The enterprise adds that they have also had to import when poultry culls are high. They have obtained subsidies destined to the import of hen that contributes the genetics for the reproduction.

The reduction of tariffs with NAFTA, nowadays the USMCA, has generated a decrease in the competitive strength of the enterprise, due to the increases in the national demand for foreign products with a focus on prices. So, the enterprise has had to develop competitive advantages such as differentiation.

Enterprise 4

Within the State of Jalisco, Enterprise 4 does not have TIF certification. However, it does have them in the states of Durango, Querétaro, and San Luis Potosí. This enterprise being one of the two strongest

competitors, together with Enterprise 2, since it has a market share of between 25% and 30%, the manager mentions. It maintains operations in Jalisco, it is considered the largest enterprise to market poultry meat. Its origin is American, it has quality standards, as well as extensive distribution networks.

The enterprise imports and exports from the United States, even though it cannot export from Jalisco due to the status of "low prevalence" of the avian influenza virus, since it is a zoo-sanitary requirement for the care of life. Carrying out your foreign business operations from other states. And importing from US counties that do not have outbreaks of bird flu, since Mexico does not allow imports.

It has production plants in Mexico and takes advantage of Mexican birds. It has received government recognition for its exports, trade promotion, job creation, as well as economic benefits. This has attracted government support for its momentum.

Like the companies in this study, Enterprise 4 was not affected by the import quotas in the safeguard from 2013 to 2015, since the established limit was not reached.

The enterprise arrived in Mexico in 1987, therefore, with the entry into force of NAFTA, trade operations were facilitated, including prices due to tariff relief. Well, by 2003, the leg and thigh were already 100% tax-deductible. Given this, the Mexican industry was unprotected before the preference of foreign products. Therefore, the President of the Republic, Vicente Fox Quesada, had to implement a measure to safeguard imports of legs and thighs from the United States, which lasted from 2003 to 2008, balancing national and international trade. This event directly affected Enterprise 4, since its commercial operations include significant amounts in both countries.

Similarly, the event of the Mexican safeguard for sales at dumped prices directly affected the enterprise. The Mexican industry sued US companies before the Secretaría de Economía, for unfair practices in 2010. Achieving an import tax of 25.7% with customs value, in the period from 2012 to 2017. Coinciding with what was agreed in the Diario Oficial de la Federación, (August 6th, 2012). Among the companies sued, was the Enterprise 4, so the quantities sold decreased. However, it was still strong in the market.

The following comparative table visually shows the protectionist measures that affected the companies interviewed:

Table 1 Protectionist measures that affected the poultry companies interviewed.

Context for import				
Protectionist measure	Enterprise 1	Enterprise 2	Enterprise 3	Enterprise 4
Subsidies		x	x	x
Duty		x	x	x
Import ban	x	x	x	x
Import quota				
Zoo-sanitary measures	x	x	x	x
Countervailing duties		x		x
Safeguard		x		x
Context for export				
Protectionist measure	Enterprise 1	Enterprise 2	Enterprise 3	Enterprise 4
Subsidies		x	x	x
Duty		x	x	x
Import ban	x	x	x	x
Import quota				
Zoo-sanitary measures	x	x	x	x
Countervailing duties				
Safeguard				

Source: Own elaboration based on the companies interviewed and the Diario Oficial de la Federación.

V. CONCLUSION

In accordance with the NAFTA agreement, the tariff reduction was completed in 2003 in poultry products. This caused a competitive disadvantage in prices to Mexican producers and traders. Which led Mexico to impose a safeguard measure in the period 2003 to 2008, involving import tariffs and quotas. Two years later, poultry companies, including Enterprise 2, went to the Secretaría de Economía with lawsuits against US companies, including Enterprise 4, which were importing chicken leg and thigh to Mexico at dumped prices, damaging the industry. The Mexican government resorted to countervailing duties on leg and thigh imports on the customs value of 25.7% for Enterprise 4, and three more. And 127.5% for all the others. This lasted from 2012 to 2017.

From 2013 to 2015, Mexico added an import quota of 300,000 tons of foreign poultry imports due to a significant amount of domestic demand, which put the Mexican industry at a disadvantage. However, the imported quantity only reached 178,000 tons.

The greatest difficulty in exporting from Jalisco is the zoo-sanitary measure. Jalisco has a current status of "low prevalence" avian influenza virus in birds, which prevents exports. It only markets at the national level, provided that the product is free of pathogenicity, or that it is treated with a thermal process. Similarly, Mexico does not accept products from US counties with positive virus status. This can translate into a market opportunity to offer more products such as powdered egg or albumin, and products with heat treatments, which have some differentiator from the competition.

VI. ANNEXES

The base questions for the interviews that began an in-depth discussion were:

What requirements must the enterprise meet to export its products?

Is it difficult to obtain the TIF certificate?

Does your enterprise export poultry products to the United States? Which? Why?

Does your enterprise import poultry products from the United States? Which? Why?

Has the enterprise ever received subsidies for export and other operations?

Has the enterprise faced a safeguard in foreign trade?

Has the government-imposed import or export quotas?

Has the country ever banned the import?

How has trade been affected by zoo-sanitary measures?

Has the industry requested countervailing duties?

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