



**Global Development and Environment Institute
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Hogging the Gains from Trade

The Real Winners from U.S. Trade and Agricultural Policies

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A common complaint about U.S. trade and agricultural policies is that they have favored the economically powerful while doing little for the average person. Labor and citizen groups say the North American Free Trade Agreement (NAFTA) gave unprecedented rights to multinational firms and investors at the expense of workers and communities. Family farm groups charge that U.S. agricultural subsidies go disproportionately to the biggest farms and that the abandonment of price support policies leaves farmers at the mercy of agribusiness firms while taxpayers foot the bill for rising subsidies.

In this policy brief we summarize the ways multinational livestock firms have benefited from both trade and agricultural policies. We explain the gains NAFTA gave them in both Mexico and the United States, in a wide variety of surprising ways. We also show how such firms have gained from U.S. agricultural policy reforms, again on both sides of the border, even though such companies are not the main recipients of U.S. farm subsidies. Finally, we show how the economic impacts of such policies, in both the United States and Mexico, have helped create the low-wage labor force that such firms rely on, a dynamic that is aided and abetted by U.S. immigration and labor policies.

We focus on the U.S. multinational pork giant Smithfield. We do so because Smithfield is the world's largest pork producer, it has been expanding its operations in both the United States and Mexico, and it has been implicated in significant violations of U.S. labor law. As we'll show, reforms in U.S. agricultural policies gave Smithfield a steady supply of cheap feed for its hog operations. NAFTA gave the firm the tariff-free exports of its pork, a welcome investment climate to expand into Mexico, and the tariff-free importation of cheap feed from the United States for its Mexican operations. Finally, the displacement of corn and pork producers in Mexico from the flood of U.S. imports gave Smithfield a steady supply of low-wage workers, not only for its expanding Mexican operations but also for its U.S. meatpacking plants, where a growing pool of undocumented workers allowed Smithfield to hold down wages and weaken unionization efforts.

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Feeding at the Trough of U.S. Agricultural Policy

Gains for firms such as Smithfield were partly the result of changes to U.S. agricultural policies. The 1996 Farm Bill was the final nail in the coffin of agricultural supply-management policies which had been the basis of U.S. farm policy since the Great Depression. Their demise meant that the U.S. government no longer used a mix of price supports, reserves, and land set-asides to manage the precarious balance between supply and demand, a balance that often resulted in supplies outstripping demand and prices falling to unsustainable levels. Those policies had the goals of keeping prices profitable for farmers, affordable for consumers, and relatively stable for both. After 1996, the goal was to provide limited income support to farmers while getting the government out of agricultural commodity markets and allowing prices to fall or rise according to market signals.

Total Savings from Low Feed Prices, 1997-2005 Top Four Hog-Producing Companies

Company	Market Share*	Total Savings 97-'05**	Annual Savings 97-'05***
Smithfield	30%	\$2.54 billion	\$284 million
Premium Standard	8%	\$680 million	\$76 million
Seaboard Corp.	7.5%	\$638 million	\$71 million
Prestage	5%	\$426 million	\$47 million

*Constant 2003 market share

**Savings is equal to the difference between the market price of hog feed and feed priced at the full cost of production.

Production costs based on USDA/ERS estimates of total economic costs of production for corn and soybean meal, the main components of hog feed. Between 1997 and 2005, hog feed was sold on the open market at an average of 26% below cost of production.

***Average annual savings over the 9-year period. Actual savings varied from year to year

Source: Starmer and Wise (2006), based on data from USDA/ERS 1996-2005

The reforms created an immediate crisis. Millions of acres of land that had been held out of agriculture came back into production. Land planted to eight major U.S. crops increased 6% and crop prices fell 40%, prompting a farm crisis that threatened to provoke a run on rural banks. The government stepped in with a series of emergency payments to farmers, which evolved into the mix of farm subsidies we see to this day. Farm program costs increased from their pre-1996 levels of around \$10 billion per year to around \$20 billion per year.¹

More important for firms such as Smithfield, the economic burden of U.S. farm programs shifted from consumers of farm products— mostly agribusiness firms – in the form of supported prices to U.S. taxpayers, who foot the bill for farm subsidies. Most U.S. row crops are sold not as food to consumers but as raw material to agribusinesses – feedlots, food companies, clothing makers, etc. Suddenly, these businesses saw a steady oversupply of raw materials at low prices. In fact, from 1997 through 2005, until the recent run-up in commodity prices, agribusiness firms were paying prices below the costs of production for many of their agricultural raw materials.

Feed is by far the largest operating expense for industrial hog and poultry operations, and feed is made up principally of corn and soybeans. We estimated that from 1997-2005 corn was sold at 23% below the average costs of production, while soybeans sold for 15% below cost. This “implicit subsidy” to animal feed gave industrial hog farmers a 26% break on their feed costs, which represented a 15% reduction in the firms’ operating costs.²

We estimated savings to the industry from below-cost feed at \$8.5 billion over that nine-year period. **Smithfield controlled roughly 30% of the hog market during that time, so its savings were about \$2.5 billion.**³ This gave Smithfield a competitive advantage, not over other industrial hog producers in the United States; they too benefited from below-cost feed. But it gave them all an edge over diversified hog farms on which farmers grew their own corn, soy and other fodder for their animals.

NAFTA: Working Both Sides of the Border

Smithfield and other industrial livestock firms also gained a competitive advantage over many Mexican hog producers, an edge that grew in importance with the implementation of NAFTA in 1994. From the early 1990s to 2006-8, pork exports to Mexico increased over 700%, making Mexico the second most important export market for U.S. pork. With the implicit subsidy to feed, U.S. exporters could sell their pork at prices 10% below the prices they would have had to charge if they had paid full cost for their corn and soybeans between 1997 and 2005.⁴

This gave firms like Smithfield an added advantage over their Mexican competitors, at least over those hog farmers who were still growing their own feed or buying it from local farmers. Pork prices in Mexico fell 56% in real terms from the early 1990s until 2005. The restructuring of the Mexican hog industry, accelerated by the flood of imports from the United States and by the implicit subsidy to prices, put many small and mid-sized hog farmers out of business.

NAFTA's benefits for Smithfield and other industrial hog firms went much further. The treaty liberalized investment rules, which meant that the Mexican government was no longer allowed to impose restrictions on foreign investors. The Mexican government, which was already moving away from such policies before NAFTA, had previously banned 100% foreign ownership, insisted firms supply their operations with local inputs, mandated they hire and train local technical staff, and imposed a variety of other measures designed to ensure foreign investment stimulated local economic development.

NAFTA's implementation coincided with a period of international expansion for Smithfield. Soon after the treaty was signed, the firm set up a joint venture hog-feeding operation in Veracruz. It later purchased a major interest in Granjas Carroll's vast production and feeding operation, and entered into another joint venture with producer/processor Norson. Transnational firms now control an estimated 35% of Mexico's pork industry, and Smithfield may well account for half of that.

And how did Smithfield feed its expanding hog herds in Mexico? With feed made from imported U.S. corn and soybeans, which also flooded Mexico under NAFTA. The Mexican government declined to enforce NAFTA's tariff-rate quota system, a transition period put in place to prevent import surges in key products such as corn. With no significant restrictions on corn or soybean imports, Mexico saw corn imports quintuple from their levels in the early 1990s, while soybean imports jumped more than 150%.

This was a boon to industrial livestock firms like Smithfield. Corn came into Mexico from 1997-2005 at prices 19% below U.S. production costs. Soybeans saw a "dumping margin" of 12%. The resulting savings on feed helped Smithfield and other industrial livestock firms expand their operations in Mexico.

Filling the Pool of Cheap Labor

Cheap imported corn and soybeans benefited Smithfield and other industrial livestock firms in other ways. By 2005, real prices in Mexico for both crops dropped by two-thirds from their levels in the early 1990s. Rising imports of cheap commodities put tremendous economic pressure on Mexican producers, particularly the three million farmers who grow corn. The result has been a massive exodus from agriculture, as farm families left the land or sent family members to other parts of Mexico or to the United States in search of work. An estimated 2.3 million people left agriculture between 1993 and 2008.⁵

Where did they find work? Some of them joined displaced hog farmers as wage laborers in Smithfield's expanding Mexican operations. Others found their way to the United States, where some found work in the largely low-wage, non-union meatpacking industry.

Undocumented workers now make up more than one-quarter of the work force in “animal slaughter.”⁶ There is evidence that meatpackers intentionally hire undocumented workers to drive down wages and undercut unionization efforts. Human rights organizations have documented such practices at Smithfield.⁷

U.S. immigration and labor policies have helped sustain this low-wage work force for industrial livestock producers, adding to the boon from trade and agricultural policies. The United States did not liberalize the flow of labor under NAFTA, only the flows of goods, services, and capital. In fact, the U.S. government has increasingly criminalized undocumented immigration, particularly following the September 11, 2001 terrorist attacks. While trade and agricultural policies have increased the “push factors” that force Mexicans to leave home to sustain their livelihoods, immigration policies have made their existence in the United States increasingly precarious. Mexican migration to the United States roughly doubled since the early 1990s. Stepped up border enforcement has had the unintended consequence of deterring seasonal migration from Mexico, causing more of those migrants to remain in the United States permanently.⁸ This growing pool of highly insecure workers has given meatpackers and other industries the low-wage work force they desire.

Meanwhile, lax enforcement of weak U.S. labor laws made it very difficult for workers to defend themselves through unionization. The successful union drive in 2008 at Smithfield’s vast Tar Heel plant is the exception that proves the rule. The United Food and Commercial Workers spent 15 years trying to organize workers there, enduring a well-documented series of labor rights violations, including conscious efforts to pit African-American workers against Latinos and undocumented workers against those with legal status.⁹ The National Labor Relations Board did not rule on the 1994 and 1997 illegal firing of pro-union workers until 2000. Weak U.S. labor protections, combined with weak enforcement, gave Smithfield a further economic advantage.

Conclusion

The confluence of agriculture, trade, immigration, and labor policies have pushed cheap commodities south and driven people north. Every step of the way, and on both sides of the U.S.-Mexican border, transnational industrial livestock firms have benefited economically from such policies. They have gotten cheap feed for their animals, a favorable investment climate in Mexico, tariff-free exports of finished products and tariff-free imports of feed, and a growing supply of low-wage labor on both sides of the border. Government policies inevitably create winners and losers. It is clear that Smithfield and other large livestock firms stand with the winners.

Endnote

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