

Jerry Hagstrom



Tequila-fueled trade deficits

WHEN YOU ORDER a margarita, does it ever cross your mind you're contributing to the agricultural trade deficit?

Probably not. But that tequila comes from Mexico and, according to the Agriculture Department, the agricultural trade surplus that the United States long enjoyed has shifted to a deficit. For fiscal 2024, the Economic Research Service and the Foreign Agricultural Service have projected exports at \$172 billion and imports at \$199.5 billion.

In 2022, distilled spirits, beer, and wine accounted for 14 percent of all U.S. agricultural imports. Distilled spirits are the largest and fastest-growing segment of these products, and tequila is the growth leader in that category.

The popularity of tequila imports, highlighted in a September ERS report, helps explain that understanding U.S. agricultural exports and imports is not as simple as adding up numbers. While exports of U.S. commodities are down, partly due to competition from Brazil and conflict with China, the gap between U.S. exports and imports can also be attributed to American consumers' purchases of foreign alcoholic beverages and fruits and vegetables in seasons when they are not available in North America.

Trade lobbyists say the agricultural trade deficit means that Congress and the Biden administration should agree to trade negotiations that involve tariff reductions in other countries. But that's unlikely. In past negotiations, the trade-off for tariff reductions for U.S. agricultural products in other countries has been tariff reductions on manufactured products—and anger among working-class Americans that well-paying manufacturing jobs have been moved overseas. That anger was a key factor in the rise of former President Trump, who continues to champion trade protectionism, going so far as to propose a 10 percent tariff on all imports. President Biden is also courting the trade-union vote and doesn't deviate much from Trump's policies.

The most important action that the U.S. government can take is to promote the sale of U.S. farm products and their value-added products. Alcoholic beverages are a good example of the potential for growth in U.S. exports. In 2022, total U.S. beer-import values reached \$6.7 billion, and wine imports reached \$7.8 billion. The United States exported \$3.9 billion of alcoholic beverages in 2022. "U.S. exports of distilled spirits, largely bourbon, have grown, while wine and beer exports have remained flat," the ERS said.

The administration has addressed this situation with a series of trade missions to markets where officials see more

potential for U.S. sales. This week, Agriculture Undersecretary Alexis Taylor is leading a mission to Chile that will also include buyers from Peru and Ecuador. Agriculture officials from Colorado, North Dakota, Missouri, and Nebraska, as well as representatives of 14 U.S. companies, are on the trip.

"With its economic stability and high purchasing power, Chile presents U.S. exporters with a perfect opportunity to increase their sales and expand their businesses," Taylor said in a release. "Customers in Chile are especially interested in U.S. consumer-oriented products, such as dairy, beef, poultry, pork, condiments and distilled spirits, providing U.S. exporters with many new and exciting opportunities."

The Chile trip is the latest organized by the Agriculture Department following a pause in trade missions due to the pandemic. The administration organized missions earlier this year to Japan, the Netherlands, and Panama, and has trips planned this fall to Southeast Asia and Angola.

The trade missions are a public-private partnership. While participants pay their own airfare and lodging costs, USDA arranges business-to-business meetings, on-the-ground logistics, and language interpretation.

USDA operates two programs, the Foreign Market Development Program and the Market Access

Program, to help associations of commodity producers and branded products reduce foreign-market constraints and promote products overseas.

Farm leaders have been urging Congress to put more money into trade promotion in the next farm bill but, with money short, Senate Agriculture Committee Chairwoman Debbie Stabenow and ranking member John Boozman recently asked Agriculture Secretary Tom Vilsack to tap the Commodity Credit Corporation, USDA's line of credit at the Treasury, for more money for trade promotion and international food aid. "The issues that Senators Stabenow and Boozman raise with respect to trade and food aid are concerns we share at USDA," said a Vilsack spokesman via email. Boozman said Wednesday that Vilsack has told him informally that USDA will agree to provide funds from the CCC but hasn't yet made a formal announcement.

As long as Americans keep drinking tequila (perhaps in funeral toasts to Jimmy Buffett), U.S. agriculture may need more government help to even the trade balance. □



Foreign spirits are a big part of the import-export gap.

Contributing Editor Jerry Hagstrom is the founder and executive editor of The Hagstrom Report, which may be found at www.HagstromReport.com.