

## Wall Street Journal March 18, 2009 Mexico Retaliates

When the U.S. closed the southern border to Mexican trucking last week -- in violation of the North American Free Trade Agreement -- Mexico promised to retaliate. Yesterday it did, releasing a list of 89 U.S. products that will face new tariffs of 10% to 45%.

Mexico's decision wasn't taken lightly. Since 1995, three successive Mexican administrations have worked to get the U.S. to respect its Nafta obligation of allowing long-haul trucks across the border. In 2007 the two countries agreed to a pilot program that permitted a limited number of Mexican carriers into the U.S. under rigid safety regulations. After 18 months that program proved that Mexican carriers are as safe as their U.S. counterparts. That was bad news for the anti-competition Teamsters union, and last week it got Congress to kill the pilot program. Yesterday Mexico fired back.

Trade wars are never pretty. But given the downturn in demand that already exists in the U.S. economy, this one could be ugly, and dangerous. Mexico is the U.S.'s third largest trading partner and the new tariffs will affect some \$2.4 billion in goods across 40 states.

California, an important supplier of fresh fruits, dried fruits and nuts to Mexico, will be hit hard. Table grapes will face a 45% duty at the Mexican border; wine, almonds and juices among other agricultural products will pay 20%. Some 90% of Christmas-tree exports from California and 65% from Oregon go to Mexico. It's doubtful volumes will hold up beneath a 20% tariff.

Alongside Oregon, Washington state will pay dearly to protect the Teamsters. Four out of 10 pears that the U.S. exports go to Mexico and half of those come from Washington. Under the new rules, American pears now face a 20% tariff, as do a host of paper products from the Pacific Northwest and Wisconsin.

Wisconsin's scrap battery industry, which exports \$128 million annually to Mexico, won't be as competitive after it pays a 20% tariff. Nor will New York's \$24 million annual exports in personal hygiene products or its exports of \$250 million in precious-metals jewelry. President Obama's home state of Illinois can't be happy to learn it will lose competitiveness under a 20% tariff on its plastic tableware and kitchenware exports to Mexico (\$57 million annually) and on its printed leaflets and brochures (\$68.7 million).

North Dakota Senator Byron Dorgan sponsored the amendment that closed the border and his constituents will pay. North Dakota only exports \$1 million in oil seeds annually but 80% of that goes to Mexico. They now face a 15% tariff.

With the cost of imported U.S. products now higher, Mexicans will substitute these U.S. brands with products from Europe, Canada and Latin America. The retaliation appears to take care not to punish Mexican consumers or producers nor give new protection to any special interest in the domestic market. Its purpose is to focus Washington on its Nafta commitments.

While Americans wait for that moment, U.S. exporters will lose market share. That will put more American jobs, household incomes, and, yes, even mortgage payments at risk. President Obama said earlier this week that he wants to work with Congress to see if he can reopen the border. When he sees how much banning trucks is going to cost the flat U.S. economy, he may want to step on it.

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