

# A POLICY LEADERSHIP COMMISSION FOR NAFTA

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## INTRODUCTION

*If there are to be positive and progressive next steps in the NAFTA process, there must be a Secretariat that is continuously pushing and monitoring progress. This Secretariat must have ways of concretely measuring progress—scoring the gains and losses. Economists have an important role to play in developing this scoring process. Such a Secretariat could have a series of special working groups to provide advice, facilitate dialog, and ease the transition (Knutson and Ochoa, 2001).*

This conclusion, reached in discussion at the Seventh Agricultural and Food Policy Information Workshop, forms the basis for this paper. The Secretariat idea arose out of a frustration and realization that the root causes of the conflicts that have developed under NAFTA are not being addressed in a manner that takes policy to the next level of harmonization.

Throughout the previous workshops the contributions of NAFTA have been identified and analyzed. In general terms, trading relations, terms of trade, and trade itself have all benefited as a consequence of the arrangements first negotiated between the United States and Canada in 1989, and later by signing the agreements known as NAFTA in 1995. However, these workshops have also determined that the agreements, the processes they established for resolving disputes, and, particularly, for moving forward in the achievement of freer trade indicate that much work remains to be done. Terms of trade in selected areas, differential subsidization (particularly in the crops area), data availability and analysis, market structure evolution and competition, and increasing incidence of trade disputes indicate that the present process of NAFTA has significant weak links.

Our purpose is to expand on the overall NAFTA Secretariat idea, to discuss the roles it might play, how it might operate, the problems it might solve, and the issues it would raise. This paper accepts the conclusion and charge of the seventh workshop to finish a task initiated by Knutson, Loyns, and Ochoa (2001) that compared and discussed policy and program compatibility across agriculture in the three NAFTA countries. In that paper, and in the general discussion that followed, there were a number of issues identified which led to the group conclusion that there is a need for a leadership body or agency within NAFTA with authority to become a focal point for dispute settlement; to provide data, analysis, and policy planning; and to exercise leadership that is reflective of NAFTA objectives. No such institution was built into the NAFTA agreements. The rubric used for this NAFTA Secretariat is the Policy Leadership Commission. What we hope to come from this paper and the discussion that follows is an articulation of the needs and role for a PLC as another contribution of the PDIC exercise.

Illustrative of the institutions that impede NAFTA performance is the area of trade disputes that has come to be dominated by domestic trade remedy laws (TRL). The comments of Franco Raynald indicate that the role of the NAFTA Secretariats in each country is not proactive and is limited to trade dispute referrals after the relevant TRLs have taken their course.

## **PREVIOUS WORKSHOPS**

It is not possible to cover all of the instances identified in previous workshops where authoritative leadership is needed to move NAFTA forward in the achievement of freer trade. The following, however, is designed to reflect some of the major conclusion that clearly indicate this need:

1. The overwhelming issue coming out of our workshops is the increase in frequency and cost of full-blown trade disputes among the NAFTA partners. These disputes are most frequently administered outside the NAFTA in the sense that they are brought and processed under domestic TRLs.
2. There is a serious NAFTA flaw in that individual countries can pursue their domestic subsidies without consideration of the effects on other countries. The ultimate irony is that these subsidies are contributing factors to TRL actions that also undermine NAFTA. The result is significant trade distortions in major field crops with spin-off effects on the livestock, dairy, and poultry sectors because of the feed grain connection. Fulton and Furtan (2000) argued that harmonization means equivalent levels of support to producers in all three countries irrespective of the particular programs, determined jointly by periodic consultation.
3. Closely related to item 2, there is a need for analyses, proposals, and leadership for integrating the excluded commodities from the original agreements into the NAFTA framework. At the risk of an exclusion, this includes tobacco, sugar, dairy, poultry, wheat, and barley. These exceptions are serious constraints on progress toward harmonizing trade among the three partners and in reducing trade and resource distortions.
4. There is a lack of analysis of the distributional consequences of trade agreements. As a result, charges and countercharges are not properly sorted out in the arena of objective research and education. This lack of information is a contributor to misconceptions about the impacts of NAFTA and, thereby, contributes to policy and trade stress. These workshops were conceived to contribute to objective analysis and information flows, but we are a drop in a veritable sea of charges, countercharges, and misinformation.
5. There are little data and analyses of the evolution of market structures and competition as business and trading relations react to more open trading conditions. The papers on structure and competition in the 2001 workshop were far from definitive in their conclusions, but they certainly pointed to data problems, the need for more analysis, and,

most importantly, to the inability of competition/antitrust policies in their present form to deal with evolving structure and competition issues.

6. On the positive side, a number of opportunities for increased harmony and freer trade among the NAFTA partners were identified by Knutson, Loyns, and Ochoa (2001) that should not encounter serious conflict. These opportunities include leveling the playing field in education, extension, research, economic information, grading systems, plant and animal protection, environmental regulation, disaster assistance, agricultural credit, food programs, and infrastructure. Taking advantage of these opportunities requires the initiative of a leadership body and varying degrees of cost sharing. In the case of Mexico, they are keys to encouraging capital investments by the agribusiness community, which, in turn, creates job opportunities for the rural poor and reduces pressures for immigration.

## **PLC FUNCTIONS**

What follows is designed to be a starting point for discussion of the functions that PLC might perform. In a sense, it is a wish list based on the experience of the authors in the agriculture and agri-food industries. This list does not consider the needs of other industries covered by NAFTA, although it is recognized that they may have comparable as well as unique needs. Those needs and the related issues are not addressed. With these constraints in mind, the following PLC functions are proposed for consideration:

1. Data and analysis: PLC would be a clearing-house for information, data, analysis, and performance assessment. The output from this function would feed into other PLC functions such as policy planning and as an objective source of information for mediation/dispute settlement processes. In carrying out this function, PLC would procure, compile, database manage, and distribute primary and secondary data on NAFTA issues and be a clearing-house for research and information related to NAFTA operation.
2. Dispute settlement: PLC would be the first referral for dispute settlement instead of the appeal process from TRL decisions as now exists. The powers would include analysis, negotiation, mediation, and dispute settlement recommendations, all under carefully prepared guidelines that are designed to promote objectives of NAFTA that reflect reasonable business and economic protocols, and that reduce of the current state of trade dispute idiocy. Consideration should be given to prohibiting TRL actions within NAFTA. If this is unacceptable, reflecting sovereignty considerations, there should be safeguards and penalties to protect against groundless interest group actions.
3. Planning and evaluation: PLC would conduct policy/program assessments and performance analyses related to NAFTA operation, its successes, and its limitations. It would have policy planning capabilities and the authority to pursue needed initiatives within NAFTA and by the member countries to achieve harmonization. It would provide proposals for the next steps in NAFTA development as well as for expansion

considerations such as FTAA.

4. Competition policy: PLC would include a competition unit to assemble and distribute structure/conduct data and information. This unit would serve as a coordinator of country-competition/antitrust activities in matters related to NAFTA competition issues and would advise on policy development on competition issues.

In general, PLC would be the catalyst for change within NAFTA and by its member countries to achieve freer trade. It would be an active contributor to the process of dispute settlement. It would be an open source of information on NAFTA and its progress. In this way, it would contribute to the overall improvement of public understanding of the role and contribution of NAFTA in a North American context.

## REFERENCES

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