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**FARM POLICY DEVELOPMENTS AND POLICY TENSIONS UNDER NAFTA**

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**The National Agricultural Council Overview**

The National Agricultural Council is the largest private organization of producers of agricultural products, livestock, food and feed processed products and suppliers of services and inputs related to these activities. Our main activity is lobbying with the Government and Congress in matters related to agricultural policies

I would like to appoint that the National Agricultural Council has a high representativeness in the agricultural productivity activities and in Mexico external agricultural trade, both as exporters and importers. Its members generate at least more than two thirds of the Gross Domestic Agricultural, Livestock and Food and Feed Product, as well of the exports for these products.

**NAFTA Evaluation**

At ten years of the beginning of the North America Free Trade Agreement (NAFTA) in Mexico has arisen many questions regarding the implications that has had the signature of this agreement.

Our Council has recognized the benefits that the NAFTA has brought for the Mexican economy; however, we also have said that the agricultural sector has been the great loser, even though some of the activities of this sector are better off today.

It is for that reason that the agricultural producers, mainly those of basic grains, are the ones that are demanding the Mexican government to take actions to modify the terms of the Agreement in its agricultural chapter.

In the year 2003 there are several factors that have increased the pressure to the government to assist, not only the topic of NAFTA, but the redefinition of the agricultural policies, as a whole, and the role that this sector should play in the national economy.

On one hand, an important factor is that this year almost all agricultural imports within NAFTA are duty free remaining imports tariffs just for corn, dry beans and powder milk.

On the other hand, the Farm Security and Rural Investment Act 2002 of the United States (Farm Bill 2002) includes additional budget, which for us is a signal that the American government will offer bigger supports to their producers, representing a virtual negative to the possibility of accepting higher reductions of subsidies under the World Trade Organization (WTO).

The continuation of high supports in the USA incorporates other products like dry beans, small chickpeas and lentils of which chickpeas represent a particular concern to us.

We produce around 150 to 200 thousand metric tons in the northwest part of the country such as Sinaloa state and around 80% of this production is exported to Spain. The Mexican export are of high size chickpeas grains and these sales account annually for around 100 million dollars.

The main competitor for Mexico in the external markets is Turkey, but our country offers better quality. An important advantage of this crop is that it requires less amount of water than other grains; so, it has been an alternative crop in the northwest region, where there are problems with harvest surplus of other grains, that demands more water.

Back again to our general point of view the events of the 10 year phase within NAFTA and the new Farm Bill in the USA took place near by an electoral year in Mexico and these big concerns of Mexican producers were taken as an advantage by politicians and social organization leaders with the objective of winning votes in the renovation of the Chamber of Deputies by the middle of this year.

Beyond the Sectorial Program of Agriculture, Livestock, Rural Development, Fishery and Food 2001-2006 derived of the National Plan for Development 2001-2006 and of the "Agricultural Armor" announced in November 2002 to try to release some of producers concerns, the strong pressure of the social organizations forced the government to begin a wide public consultation to define a state policy for the agricultural sector.

It is so that, after four months of discussion and negotiations, probably next Monday April 28<sup>th</sup> it will be signed in Mexico City the "National Agreement for the Countryside and the Development of the Rural Society" between the government and some of the organizations.

And I said some, because the private agricultural sector probably it is not going to sign this agreement; at least not the National Agricultural Council. There are two main reasons for this:

First, we do not agree in signing an agreement that offers the hope of changing the conditions established within NAFTA, since it would be a modification of this agreement, no matter how we want to look at this action.

We are worried about this because on the analysis that we have made of the effects of NAFTA we have concluded that this agreement has been positive for the Mexican economy as a whole, as the macroeconomic indicators show, as well for some agricultural activities such as fruits and vegetables, even though this sector in general has been affected by this trade liberalization.

Second, on the final draft of this National Agreement, or at least the one we had reviewed this week there are some proposals that could lead to modifications of the legal frame for the rural property rights and therefore it could imply risks to the private property.

These are basically our main concerns, besides that: some of our opinions were not taken in account, since we were not invited to join the commission in charge of writing this Agreement. The only organizations for this purpose were from the social sector, and in fact in a greater degree the policies that appear in this agreement are oriented to attend this sector rather than the agricultural commercial producers.

In this forum about the development of the farm policy, tensions and disputes under NAFTA, we considered convenient to mention this that it is happening right now in Mexico because in fact one of the most polemic topic as you can notice and on which it has been very difficult to arrive to a consent has been the one related to external trade and NAFTA.

It has been already mentioned the main statistics on grains in Mexico, so I only want to emphasize that although the apparent national consumption of these crops has been increasing, the production during the last decade has not grown as it is required and the imports occupy a proportion every time bigger into the total consumption (currently in corn is around one quarter and 10% in dry beans), which is alarming since these two grains, besides that they are the base of our feeding, they cover almost 50% of the national harvested surface and they are the core of the small rural economy.

Certainly the new supports for pulses inside the Farm Bill 2002 through the marketing assistance loans and loan deficiency payments don't include dry beans, but this is not only a problem of the different programs of supports and the products included, but also has to do with structural differences among the three countries, like it is the case for dry beans whose yields in Mexico are about a third of those obtained in the United States and Canada.

We can not deny that in a large part of the agricultural products, especially grains, the United States and Canada are more competitive than Mexico because of several factors like the weather, technology, size of the farms, among many others

explained on this event earlier. The competition in an open market is even more difficult for the Mexican producers due to the internal supports and to the subsidies that the producers from developed countries receive to stimulate exports of certain products.

The Mexican government also offers subsidies to its producers; although, as we have less available public economic resources in comparison with developed countries, it is practically impossible to neutralize the effects of the supports that the producers of big economies receive from their governments.

It has been mentioned yesterday that in some specific crops like corn, wheat, sorghum and soybeans, the Mexican producers receive more direct supports for ton than the American or Canadian producer, but there are some factors that need to be pointed out.

- First, these estimations are for certain regions, not for the country as a whole
- Second, these calculations do not take in account indirect subsidies differences as a result of asymmetries in the cost of inputs and services with our NAFTA partners.
- Third, due to the great difference in productivity between Mexico and the USA the subsidy is smaller in Mexico when looking at this by hectare or producer. According to OECD data a Mexican producer receives an average support of less than one thousand dollars per producer annually, while the American producer receives almost 21 thousand dollars. By hectare while in Mexico the average support is of 53 dollars in the USA is of 122 dls.

## **Analysis of the effects of the NAFTA**

As a result of the free trade, both agricultural exports and imports were increased, at average annual rates of growth of 9.5 and 9%, respectively, from 1990 to 2002.

The agricultural balance trade has been characterized by a permanent deficit, with the exception of 1995. This deficit reached a record figure in year 2002 (3,800 millions dollars amount that is equivalent to near 50% of total National Deficit) and according with the reports to February of this year, it appears that Mexico will have a deficit of at least 4,000 millions dollars at the end year 2003.

In the case of the imports coming from the United States, these have been increased particularly for the products with more added value, oriented to the final consumer: the annual average growth rate for this type of goods was of 9.5% from 1992 to the 2002, in comparison with 2.8% for intermediate goods and 6.9% for imports of primary products. This tendency worries us, because it implies the

displacement of the national productive food chains and the employments that those activities generate.

On the other hand, the direct foreign investment to the food and feed processing sector has registered an important growth during 1994-2001, with a share of 9.75% of the total; nevertheless, it has been marginal for the agricultural sector (only 0.25% of the total).

### **Toward free trade and the structural deficiencies**

This deficit on the agricultural trade is not only because of NAFTA; it also reflects of the internal structural lags, the asymmetries in the costs of the inputs and services, as well as of the inequity of the trade, as a result of larger subsidies in the developed countries, in the context of the free trade.

In the particular topic of the asymmetries of the Mexican agricultural sector in comparison with our commercial partners, these were identified since the stage of negotiation of the NAFTA; nevertheless, they have not been assisted with effective policy instruments to allow a competition in equal circumstances.

For instance, the livestock sector in Mexico has to pay an average of 30 to 40 dollars more for ton of coarse grain, than in USA, being one of the most sensitive disadvantages for livestock activities in Mexico.

In the case of the agricultural sector, another negative factor has been a policy guided to increase the production of specific crops, without enough motivation to move toward other activities or products, which is reflected in constant problems of surpluses for grains in regions far away from the consumption points.

We also have to recognize the existence of strong tendencies that prevail in the primary production. In many cases the production isn't focus to the consumer's demands, neither aligned to the markets.

Given this situation, the producers affiliated to the CNA consider necessary to define jointly with the government and the legislators, a direction and vision of the national agricultural sector, designing policies for the short, medium and long term to correct the deficiencies that have impacted negatively.

The jointed efforts should be focused to restructure and to modernize the agricultural sector with an emphasis on productive chains and with a vision of medium and long term.

### **Proposal of NAC as regards to External Trade and NAFTA**

The affiliated private producers to the CNA have pronounced for an option that, in the frame of the NAFTA, generates additional elements for a better commercial

relationship as well as the definition of policies that generate certainty and the necessary support resources to have profitability activities and competitiveness to the different links of the productive chains, resulting in their better integration.

Our proposal looks for to strength the competitive position of the sensitive sectors and, at the same time, to preserve or increase the advantages that some sectors have obtained of the NAFTA.

### **Use of the legal external trade mechanisms**

Without failing to carry out the terms of the NAFTA Agreement, we believe that the Mexican government should use some legal mechanisms of defense that are derived from our legislation, from the NAFTA and the WTO, which we have not taken enough advantage.

### **Deeper integration of the economies for the NAFTA countries**

Finally, the sales of all type of foods from the United States and Canada to Mexico have increased with the signature of the NAFTA in spite of the low purchasing power for a large percentage of our population. The market of foods in Mexico and the imports will keep growing in the way families income increase, reason for what we consider that it could be convenient to the United States and Canada to have a stronger commercial partner.

There is a potential market represented by more that 50 millions of poor people living mainly in rural areas, which gives the occasion to request United States and Canada their cooperation to promote the agricultural development of Mexico, in the benefit of the Mexican rural population and at the same time of their own countries.

To advance in this larger integration, some cooperations aspects like technology, infrastructure, training, etc. should be incorporated among countries oriented to increase productivity and reduce the negative effects of the agricultural trade.

Additionally to the agricultural topic, there are others topics of interest for the countries members of the NAFTA that justify a bigger cooperation between the Parties, such as labor mobility, anti-terrorism security, energy, among others.

### **Final Concerns**

Finally I would like to comment about two specific topics that worries us at this moment.

One has to do with the bioterrorism law and the other is the country of origin labeling legislation within the new USA Farm Bill that will take place soon.

Our organization strongly believes that enhanced security to the U.S. food supply is crucial for the continued safety of U.S. consumers and their confidence in the food imports. We fully support measures to ensure that we can deliver food safe, secure produce to American consumers.

However, we feel that the current prior notice proposal may not be an effective mechanism to accomplish the desired objectives of the Food and Drug Administration (FDA). Furthermore, we believe that this legislation could have negative impacts in trade between NAFTA countries.

Even though the bioterrorism law seems that it could affect in a greater degree fresh fruit and vegetables because of their perishable nature related to delays at the border, it could be even more complicated for food processed products because the different ingredients used to their production and the need to specific in detail all of them.

We just want to mention that this legislation, together with the country of origin labeling could become a non tariff barriers to commerce, and so, used as a protectionism tool.

Our members stands ready to work with the FDA in implementing a system that could fully take advantage of existing resources and sharing our first hand experience of current exporting procedures to help the FDA in developing an efficient system that could enhance security of the U.S. Food supply system without affecting the trade flow effectiveness within NAFTA partners.