AGRICULTURE AND TRADE IN NORTH AMERICA[1]

by

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Introduction

The North American experience with agricultural trade under the Canada-US Free Trade Agreement (CUSTA) and the North American Free Trade Agreement (NAFTA) is unique in many respects. Reducing agricultural trade barriers is a formidable undertaking whether on a multilateral, plurilateral, or bilateral basis. Little progress was made in liberalizing agricultural trade through several GATT rounds of multilateral negotiations over a 40-year period prior to the Uruguay Round. In many countries, agriculture has long been treated differently than other sectors in terms of protection from imports and economic support provided by consumer and taxpayers. The disparate treatment of agriculture is driven in part by food security concerns, rural income goals, and perceptions about the role of agricultural producers in society. This reality has made it difficult to advance trade liberalization in agriculture.

The Uruguay Round Agreement on Agriculture was a major achievement compared with all previous multilateral negotiations in agriculture. The Doha Development Round negotiations are aimed at further liberalizing of agricultural trade. The Cancun WTO Ministerial concluded without an agreement on a framework for negotiating agricultural 'modalities.' There are substantial differences among WTO members regarding the extent to which there should be reductions in agricultural tariffs, trade distorting domestic support, and export subsidies. Many developing countries expect special and differential treatment that excepts them from commitments while, in many respects, their export potential is greatest in the developing world. Developed countries are seen as unfair players in the international trade arena given their ability to subsidize, particularly in products of interest to them e.g., cotton, sugar and rice.

Post Cancun and looking forward, many members are reflecting on how they want to see the WTO agricultural negotiations move forward. At the same time many members are focusing on regional or bilateral 'free trade agreements' that include agriculture, as an apparent alternative. The political sensitivity and complications of agriculture and the extent and complexity of government intervention in agriculture raises a number of issues to keep in mind as we examine agriculture and trade in North America:

1. Can agricultural trade barriers be eliminated in free trade agreements, and if so, under what conditions?
2. Should agriculture be excluded from regional trade agreements and addressed in the WTO?
3. Do regional free trade agreements diminish the significance and likelihood of multilateral agreements under the WTO?
4. Do different rules and disciplines under regional trade agreements conflict with those of the WTO?

[1] Data sources and references include the US Department of Agriculture, Agriculture and Agri-Food Canada, the Organization for Economic Cooperation and Development, and the World Bank.

5. Can regional free trade agreements in agriculture be sustained as trade barriers are being eliminated? Is the NAFTA threatened by the continued dispute between Mexico and the US over sugar?
6. Should NAFTA dispute settlement rules be strengthened?
7. Will the Uruguay Round Agreement on Agriculture be the last multilateral agricultural trade agreement for the foreseeable future?
8. If NAFTA and CUSTA have been a success, why do the three countries have different positions in agriculture in the Doha Round?

Agriculture and Trade in North America

Trade in food and agricultural products between the US, Canada, and Mexico (intra-NAFTA exports) has grown by more than 80 percent over the past decade to about $33 billion (US $). Agricultural trade is about 5 percent of total NAFTA merchandise trade. Most of the trade in agricultural products in North America is between the US and its neighbors and trade between Canada and Mexico has also increased significantly. Over the past decade US agricultural exports to its North American neighbors increased by nearly two-thirds to $15.7 billion and its imports more than doubled to $15.5 billion. The US and Canada are each other's most important agricultural trading partner. Mexico is the third largest export market for the US and the second largest exporter to the US, which is its largest market. Not only has trade increased, but also foreign direct investment within North America has enhanced increased integration of agricultural food and fiber markets. Expansion of foreign direct investment has been particularly rapid in the food processing industry.

Agricultural trade has expanded in North America for a number of reasons—geographical proximity, income and demand growth, and the elimination of trade barriers under the CUSTA and NAFTA. Growth in incomes is reflected in the expansion of trade in consumer oriented foods, e.g., meats, fresh vegetables, snack foods, breakfast cereals, etc., which accounted for nearly two thirds of the growth in agricultural trade over the past decade between the US and its North American neighbors.

NAFTA and CUSTA have had a positive effect on North American agricultural trade by improving the trading environment and eliminating trade barriers, although generally speaking, import protection on many agricultural products was relatively low before these agreements were implemented.

- All agricultural trade between the US and Mexico will be duty free by 2008. Most tariffs and tariff rate quotas have already been eliminated. Those products subject to the longest phase out for the US include orange juice, sugar, peanuts, certain fresh vegetables and melons and for Mexico corn, sugar, dry beans, and non-fat dry milk.
- Most US-Canadian agricultural tariffs/tariff rate quotas were eliminated under the CUSTA, except for those the US applies to dairy products, peanuts, peanut butter, sugar, sugar containing products and cotton and for Canadian dairy products, poultry, and eggs.
- Trade barriers between Mexico and Canada have been eliminated except for dry beans and corn, which will be duty free in 2008. Poultry, eggs, dairy, and sugar were exempted from this agreement.

As trade has grown, the North American agricultural sectors have become more integrated even though they are very different. The annual value of US agricultural production is about $200 billion compared to $33 billion for Mexico and $20 billion for Canada. Production agriculture in the US and Canada is highly capitalized and productive having been transformed by technology, economy wide growth that absorbed excess farm labor, and public policy, e.g. farm programs, research, infrastructure investment, etc. In contrast the agriculture sector in Mexico is at an earlier stage in this inevitable transformation process. Agriculture in the US and Canada account for about 2 percent of total economic output compared to 5.5 percent in Mexico (the relative economic importance of agriculture has declined in all three countries).

Although agriculture in Mexico accounts for a relatively small share of economic output, it employs about 20 percent of the labor force compared to about 3 percent in the US and Canada.

The differences in production agriculture between Mexico and its northern neighbors did not deter Mexico from engaging in free trade agreements. Successive governments made the determination that trade liberalization, including agriculture, was an integral part of their efforts to develop the Mexican economy. Over the past decade Mexican production of crops, meat, poultry, eggs, and milk, have increased substantially. As trade barriers have been phased out, Mexico has faced increasing concerns of Mexican producers about competition from imports, particularly from the US. However, the concerns about import competition have not been limited to producers in Mexico as is discussed later.

All three countries support farm prices and incomes through various public policies. In general support is provided by direct payments and other budgetary expenditures and by domestic or border measures that cause domestic prices to be above world levels. By one measure, the 'producer support estimate' calculated by the OECD, the level of taxpayer and consumer transfers to agriculture is similar in the US, Canada, and Mexico as compared to the value of total agricultural output—around 20 percent. However, each country supports some commodities at high levels, e.g. sugar in the US and Mexico, and milk in all three. Canada imposes quotas on the production of milk, poultry and eggs. Despite trade liberalization in agriculture, certain domestic farm policies in the US, Canada, and Mexico are inconsistent with full integration of agricultural economies.

The expansion of agricultural trade in North America, stimulated by income growth and more open borders, and the closer integration of agricultural economies has benefited consumers and competitive producers. Further integration of the food and fiber sectors will bring additional benefits, particularly as the Mexican economy grows and Mexican consumers have more income to spend to diversify their diets. However, the positive changes to date have not come without trade frictions and neither will those to come.

Trade disputes among trading partners are inevitable, notwithstanding the overall benefits from trade. Governments respond to the concerns of domestic producers that allege they are being 'injured' by unfair trade practices in their domestic or export markets. North American trading partners are no exception as the expansion of agricultural trade has been accompanied by a number of disputes. Disputes have been resolved bilaterally and adjudicated under the dispute settlement procedures of the CUSTA, NAFTA, and the World Trade Organization (WTO).

Disputes have arisen from different interpretations of free trade agreement obligations; application of domestic trade remedy laws, e.g., antidumping, countervailing duty, and safeguards; export practices; the use of border measures to protect human, animal and plant health (sanitary and phytosanitary measures); and other import measures

NAFTA interpretation

- The long-standing dispute over US-Mexico trade in sugar and corn sweeteners has its genesis in differing interpretations of NAFTA. Mexico alleges that the US has not provided access to its sugar market that is required by NAFTA. (Mexico began NAFTA dispute settlement to address its claims but a panel was never formed.) In response in 1997 Mexico imposed antidumping duties on exporters of US corn sweeteners that substitute directly for Mexican sugar used in soft drinks and other food products. The US challenged this action under both WTO and NAFTA rules and won. Mexico removed the antidumping duties and imposed a consumption tax on soft drinks that are not sweetened with cane sugar. This 'corn sweetener tax' effectively stopped corn sweetener imports as well as the production of corn sweeteners in Mexico. The US and Mexico have attempted to negotiate a settlement that would allow access for Mexican sugar and US corn sweeteners. Under NAFTA sugar trade will be duty free in 2008 and duties on corn sweeteners were eliminated on January 1, 2003.

Application of domestic trade laws

- Mexico has initiated antidumping duties on imports of US beef and rice and the US has requested WTO dispute settlement alleging that these actions are inconsistent with WTO rules.
- The US has applied countervailing and antidumping duties on imports of certain types of Canadian wheat. Canada is taking action against these US trade remedy laws under NAFTA.
- All three countries have used the provisions of Chapter 19 of NAFTA which provides for binational reviews to decide whether CVD and AD laws were applied in conformity with the domestic laws of the country concerned

Export practices

- The export practices of the Canadian Wheat Board, a state trading enterprise under WTO rules, have long been a concern of US wheat producers both in terms of imports of Canadian wheat and export competition in third country markets. In addition to the application of domestic trade laws to wheat imports from Canada, the US has challenged the alleged discriminatory pricing practices of the Board in the WTO.

Sanitary and phytosanitary measures

- The US alleges that Mexico's sanitary and phytosanitary measures have created barriers to imports of US agricultural products such as grains, apples, poultry, pork, etc. Although the US and Mexico have worked out a number of procedures regarding SPS inspections, the US claims that Mexico does not always follow such procedures.

Other import measures

- The US is in the process of implementing mandatory 'country of origin' labeling for certain imported products which would be applied to live cattle and beef from Canada which considers mandatory labeling an unnecessary and costly import regulation.

Concluding Remarks

The growth in North American trade in agricultural products reflects a common interest in expanding trade to improve the economic status of agricultural producers and overall economies. The inclusion of agriculture in free trade agreements was facilitated by the close proximity of the countries and by the fact that import barriers on many products were already low and agricultural trade was growing. The reduction and elimination of barriers to trade in agricultural products in North America under the CUSTA and NAFTA reflects a commitment to treat trade in agricultural products the same as non-agricultural trade, i.e. to integrate the agricultural economies the same as other sectors, although at a slower pace. The fact that this process is well underway, despite protectionist interests in all three countries, attests to the economic significance attached to free trade in agricultural products. Integration of the agricultural economies will take time, but it is certain to happen. Along the way, trade disputes will erupt, some based on evidence of injury caused by unfair trade practices, while others will be motivated by a need for governments to 'do something' in response to domestic pressures.

The North American free trade experience clearly demonstrates the economic benefits that can flow from 'trade without borders.' A strong case can be made that the overall success of NAFTA in stimulating trade and economic growth would not have been as significant if agriculture had been excluded. The decision to include agriculture and to manage the potential trade frictions shows that countries with different agricultural sectors can agree to eliminate trade barriers if they have sufficient common interests and can see significant economic benefits.