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Mexican agricultural organizations are very concerned about the next tariff-elimination deadline under the North American Free Trade Agreement (NAFTA), which will allow most US and Canadian agriculture and livestock products to enter the country duty-free as of Jan. 1, 2003. Twenty-six new US and Canadian products will be able to enter the country duty-free as of that date. The list includes wheat, rice, barley, potatoes, dairy products, sugar cane, poultry, pork, and beef, among others. Only three products corn, beans, and powdered milk will retain tariffs through 2008.

The concern among most agricultural producers is that the elimination of tariffs will allow imports of these products to come into Mexico at a much cheaper price, which would worsen the huge problems already facing the undercapitalized agriculture sector. The increased imports could create two major problems for Mexican producers: a decline in prices because of a larger supply and a loss of domestic market share to cheaper subsidized US imports.

For example, producers in the Altiplano region comprising Puebla, Tlaxcala, Hidalgo, and Mexico states are worried that cheaper US imports will displace them as the major barley supplier to the Mexican beer industry.

In an interview with the Mexico City daily newspaper La Jornada, a spokesperson for a regional organization of barley producers warned that a surge of imports could create a crisis in the Altiplano region. "Some 300,000 persons depend on barley production in our region," the spokesperson said.

Some problems for livestock producers are already apparent even before the elimination of the tariffs, with low-priced and sometimes low-quality meat imports from the US flooding the Mexican market. The Consejo Mexicano de Porcicultura (CMP), for example, claims that indiscriminate imports of pork products from the US since NAFTA was implemented have caused hog producers to lose 40% of their market share in Mexico, resulting in economic losses of US$190 million annually.

Similarly, cattle and beef producers claim that imports of boneless beef have increased by 600% because of NAFTA, displacing Mexican producers. "We are alarmed that meat imports, protected by NAFTA, are suffocating the development of our meat industry," said Sergio Alvarado Garcia, director of the Asociacion de Engordadores de Ganado Bovino del Noreste.

Similar uncertainties are present among Mexican poultry and egg producers (see other article in this issue of SourceMex). US subsidies create further complications The Congreso Agrario Permanente (CAP), the Confederacion Nacional Campesina (CNC), and other agriculture organizations, say the situation is exacerbated by the recent decision by the US Congress to increase government subsidies

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to crop and dairy producers for 10 years. The increase in subsidies was contained in the six-year farm bill approved in May of this year (see SourceMex, 2002-05-22).

"The US farm bill creates a risk for producers in our country because it worsens the already unfair trade practices employed by the US in the agriculture sector," said CAP director Juan Leyva Mendivil.

The US-farm bill provided Mexican agriculture organizations with still another reason to call on President Vicente Fox's administration and the Mexican Congress to renegotiate or suspend the agriculture sections in NAFTA. Leyva, who is also a PRI legislator in the federal Chamber of Deputies, said the section dealing with tariff elimination should be suspended for at least six years, which coincides with the period in which the subsidy increase will be in effect. US agriculture subsidies are the most immediate danger for Mexico because of the upcoming NAFTA deadline and because of the huge trade volume between the two countries.

But Mexico has recently moved to boost trade with the European Union (EU) and is working on a bilateral accord with Japan. Both the EU and Japan heavily subsidize agriculture producers. "We need to adopt a firm posture as a country against subsidies or we will lose our food-production sovereignty," said Leyva.

Special assistance for Mexican farmers

The Fox administration has responded to the concerns from the agriculture sector by developing a program to provide an "armor" for the agriculture industry. The vague plan, announced in early August, offers a combination of legal mechanisms for Mexican agriculture producers and a government offer to finance short- and long-term development.

Agriculture Secretary Javier Usabiaga and Economy Secretary Luis Ernesto Derbez promised that the Fox administration would use "all the force of the state" to continue fighting US subsidies via the World Trade Organization (WTO) and to employ other legal mechanisms to give Mexican producers legal recourse against foreign competition.

Derbez pledged that Mexico would be "the leader" in fighting to eliminate subsidies at the WTO. The two officials said the administration's new program would also contain some public and private financing to promote agricultural development. "We will have to conduct studies to determine the needs of each agriculture sector," said Usabiaga, who promised to release specific details by the end of October.

Some organizations like the Consejo Nacional Agropecuario (CNA) are weighing in with their own proposals. The CNA is pushing for the administration to develop a comprehensive plan that includes funding for training and technology, but also contains measures that are truly punitive against US trade violations. "This agricultural armor proposed by the Fox administration will have to train producers how to deal with dumping practices," CNA economist Marco Antonio Galindo told the official news agency Notimex.

LADB Article Id: 52981
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Galindo said the administration will also have to implement policies to combat smuggling agricultural products into Mexico and also force the US to meet the same quality norms for its agricultural exports as it has for its imports. Usabiaga pledged that Fox would offer a budget with sufficient funds to cover the cost of the program.

But critics say this is an empty promise because the Mexican government lacks the funds to match the huge subsidies offered by the US government to its producers. This concern was raised by the Secretaria de Hacienda y Credito Publico (SHCP), which hinted that SAGARPA might have to take funds from other programs to fund the "agricultural armor" plan. "We do not have a limitless budget," said SHCP spokesperson Raul Martinez Ostos. "This means that each secretariat will have to define its priorities and assign financial resources accordingly."

Economist Marcos Chavez, a member of the faculty of Colegio de Mexico, said the only way for Mexico to counter the increasing subsidies by the US, Canada, and other large agriculture-exporting countries was to reinstate the tariffs that existed before NAFTA went into effect.

Lack of government supports hurt Mexican agriculture

The Mexican government not only cut tariffs as part of NAFTA, but also eliminated subsidies and other direct supports to producers to comply with the trade accord and other international market-opening treaties like the General Agreement on Tariffs and Trade (GATT). The GATT was later replaced by the WTO. Most of these subsidies were cut back during the administration of former President Carlos Salinas de Gortari (see SourceMex, 1993-10-06).

At present, the Mexican government offers the equivalent of only US$2 billion annually in subsides through the Programa de Apoyos Directos al Campo (PROCAMPO) and the Alianza para el Campo, which is a fraction of the amount that US farmers will receive annually under the recently passed farm bill.

A recent report published by Mario Luis Fuentes Alcala, a consultant at the UN's Food and Agriculture Organization (FAO), confirms that a lack of direct supports to agriculture, along with poor access to technology, has set back the Mexican agriculture sector significantly. "This situation will cause Mexico to rely increasingly on imports of agricultural products," said Fuentes Alcala, who previously served as director of Mexico's Sistema Nacional para el Desarrollo Integral de la Familia (DIF).

A similar report commissioned by the Mexican Congress also raised concerns about Mexico's diminishing ability to remain self-sufficient in food production. The report, which supports the position that the government should delay the elimination of agricultural duties, said Mexico's agricultural imports have risen from US$2.9 billion in 1993, before NAFTA was implemented, to US $4.2 billion in 2001. "This is a sign that we are losing our food-producing sovereignty," said Deputy Francisco Chico Goerene of Fox's center-right Partido Accion Nacional (PAN).

The congressional report also warned that the depressed condition of the agriculture and rural sectors will continue to promote emigration of Mexicans to the US. Many undocumented immigrants in the US come from states that have been affected most negatively by the agriculture

LADB Article Id: 52981
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sections of NAFTA, including Guererro, Guanajuato, Oaxaca, Veracruz, Morelos, Puebla, Querataro, and Michocan, the report said.

NAFTA promotes increased imports of processed products

Some Mexican agricultural producers have benefitted from the opening of the US markets, particularly fruit and avocado growers. Avocado exports to the US have risen gradually to total 25,000 metric tons during the exporting season between November 2001 and April 2002. This level of exports was possible after the US agreed to lift restrictions on imports in 1997 and later to expand the number of states allowed to receive the avocados (see SourceMex, 1997-10-21 and 2001-08-29).

Mexican fruit and vegetable exports to the US, primarily from the western states of Sinaloa and Sonora, have also benefitted greatly from NAFTA. A report from the Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion (SAGARPA) and the Secretaria de Economia de Economia (SE) said exports to the US have increased by 76% for fruits and 26% for vegetables since the agreement was implemented in 1994. But even this positive trend is offset by negative news for the Mexican industry.

Another government report says that a large share of those fruits and vegetables may be returning in processed form to Mexico. The report, produced by the SE and the Banco de Mexico (central bank), indicated that Mexico's imports of canned and processed vegetables from the US have risen by 77% between 1994 and 2002. More dramatically, imports of dried fruit and conserves increased by 300% during the same period. "Even though Mexico has increased exports of fresh fruits and vegetables to the US, the agricultural balance of trade indicates that the US returns those fruits and vegetables in the form of conserves and processed products," the report said. (Sources: Business Mexico, 08/02; Unomasuno, 07/24/02, 08/01/02; El Universal, 08/09/02; Notimex, 08/07/02, 08/08/02, 08/21/02; Milenio Diario, 07/11/02, 07/17/02, 07/25/02, 08/08/02, 08/09/02, 08/23/02, 08/26/02; Agence France-Presse, 08/26/02; La Jornada, 07/09/02, 07/10/02, 07/18/02, 07/25/02, 08/09/02, 08/27/02; La Cronica de Hoy, 07/11/02, 08/09/02, 08/26/02, 08/27/02; The News, Reforma, 08/09/02, 08/27/02; Novedades, 08/27/02; Reforma, 08/09/02, 08/27/02, 08/28/02; Unosmasuno, 08/28/02)

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