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Renegotiation of NAFTA Agriculture Sections Seen Unlikely

by Carlos Navarro
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Austin, Texas—The pending elimination of import tariffs for corn, beans, powdered milk, and sugar under the North American Trade Agreement (NAFTA) has raised some red flags in Mexico, but agriculture officials from Chihuahua and Baja California see no chance that the accord will be renegotiated. Under the NAFTA timetable, the tariffs will no longer be in place as of Jan. 1, 2008. In the first phase of the opening of the agriculture market, the three NAFTA partners eliminated tariffs on most agricultural products, effective Jan. 1, 2003 (see SourceMex, 2002-09-04).

"Practically all trade in agriculture is already free under NAFTA," Baja California agriculture secretary Juan Pablo Hernandez Diaz said in an interview with the Latin America Data Base (LADB) at the 24th annual Border Governors Conference in Austin Aug. 24-25.

The subject of renegotiating the agriculture sections of NAFTA was not on the agenda of the conference, with an agriculture working group looking mostly at issues related to health inspection, transportation, logistics, and customs.

All six Mexican governors attending the conference are members of the Confederacion Nacional de Gobernadores (CONAGO), which endorsed renegotiating the NAFTA agriculture sections at a meeting in Morelia, Michoacan state, in 2003. One of those governors, Eduardo Bours Castelo of Sonora, participated in the negotiations of the agriculture sections of NAFTA in the late 1990s.

As in the years leading to the opening of the agriculture sector in 2003, key agriculture organizations like the Confederacion Nacional Campesina (CNC) are pushing the Mexican government to negotiate a postponement or even a full exemption to the opening of the agriculture market. The Mexican Senate proposed a resolution in 2003 to enact a one-year moratorium on market-opening measures but abandoned that plan just weeks before the initial round of agriculture market-opening measures was to go into effect (see SourceMex, (see SourceMex, 2002-12-18).

Corn, beans no longer subject to tariffs in 2008

A strong symbolic difference exists between the market-opening measures that went into effect in 2003 and the ones scheduled for 2008. "We are talking about beans and corn, two commodities that are very sensitive for our country," said Hernandez Diaz. The Coordinadora Nacional de Fundaciones Produce (COFUPRO) notes that tariffs have been eliminated for 27 products thus far, affecting only 25% of Mexican producers.

In contrast, the scheduled opening of the corn, bean, sugar, and powdered milk markets in 2008 will affect 75% of Mexican producers. "We are facing a very complicated situation," COFUPRO director Raul Romo told the Mexico City daily newspaper Excelsior in June, noting that Mexico is obliged to comply with the terms of NAFTA and yet is not prepared for the opening of the market.

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In 2003, President Vicente Fox?s administration agreed to consider seeking an exemption for corn and beans under NAFTA (see SourceMex, 2003-04-23), but it never followed up on that proposal. Hernandez Diaz said there was little chance that the NAFTA agriculture sector would be renegotiated. Instead, he noted, a trilateral commission comprising state and federal agriculture officials from the three NAFTA countries has met several times in recent years to consider measures to reduce the impact of eliminating tariffs on corn, beans, and powdered milk on the Mexican agriculture sector.

"We cannot reopen the agriculture sections of the accord because this would imply a full renegotiation of NAFTA," said Hernandez Diaz. "But we need to review the possible steps that can be implemented so that opening the agriculture sector does not have such a negative effect on Mexico."

The Baja California agriculture secretary said NAFTA has been beneficial for Mexico because it has promoted development and created jobs, but the benefits have been confined to larger metropolitan communities or the US-Mexico border. "The economic numbers from NAFTA look good for Mexico," said Hernandez. "But of the foreign capital that has been invested in Mexico via NAFTA, only 1% is reaching rural areas."

Hernandez's comments echo a report produced two years ago by the Consejo Nacional Agropecuario (CNA), which noted that Mexico attracted US$97.6 billion in foreign investment in the first eight years of NAFTA, but only US$265 million was channeled into agriculture (see SourceMex, 2004-04-14). Hernandez Diaz said investments from the US and Canada via NAFTA could help modernize the Mexican agriculture sector, but not all investment in rural communities implies capital flows into the farming and ranching sectors. "What is happening is that there is no economic development of any kind in rural communities, and residents are relocating to the large cities in Mexico or to the US," he said.

The Baja California official said this lack of attention to rural communities is at the root of the immigration conflicts between the US and Mexico. "Tensions regarding immigration are going to continue unless we make it a priority to channel investments to rural communities to create alternative forms of economic development," said Hernandez Diaz.

US farm subsidies a major concern

State agriculture officials say one controversial issue that emerged during some discussions of the trilateral agriculture commission was the unfair advantage that the US has over trading partners because of its subsidies. "There is no equity among Canada, Mexico, and the US, especially regarding the US," said Carlos Ochoa Ortega, director of rural planning for the Chihuahua state government. The commission is taking a close look at how the 2002 US Farm Bill is affecting the trading relationship between the US and its two NAFTA partners, he said. The 2002 Farm Bill contained close to US$200 billion in government subsidies for crop and dairy producers for 10 years (see SourceMex, 2002-05-02).

The Chihuahua agriculture official said the commission does not have any power to create policy but instead has come up with some viable recommendations to present to the federal governments

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of the three countries. "We feel that they should be taken into account when they are reviewing our commercial relations through NAFTA," said Ochoa. "After all, it is the three federal governments that are best equipped to promote the most equitable changes." Still, the issue of US subsidies remains a contentious issue in Mexico, prompting groups like the CNC to demand a renegotiation of the NAFTA agricultural chapters.

In late August, more than 5,000 delegates to the organization's national convention approved a resolution urging the federal government to push for postponing or eliminating the NAFTA provisions to remove restrictions on corn and bean imports. "A trade agreement that promotes unequal conditions because of the subsidies of the US and Canada is unfair to our producers, who are at an economic disadvantage," said CNC secretary general Cruz Lopez Aguilar, a former federal deputy who once chaired the agriculture and livestock committee (Comision de Agricultura y Ganaderia) in the lower house.

The CNC and its sister organization the Central Independiente de Obreros Agricolas y Campesinos (CIOAC) have also raised concerns that NAFTA eliminated self-sufficiency in food for Mexico, with imports of food products totaling almost US$60 billion during the nearly six years of President Vicente Fox's administration.

The US and Canada are not major producers of beans, so at first glance the problem might not be as significant as it is for corn. However, officials for the three countries are going to have to find a way to prevent triangulation, where beans from third countries are shipped into Mexico via the US, thereby avoiding tariffs. This problem is already occurring even without the full opening of the market (see SourceMex, 2004-03-24).

Lopez Aguilar, a member of the Partido Revolucionario Institucional (PRI), said Mexico has to insist that the US and Canada renegotiate the agriculture sections of NAFTA or face some retaliation. "In the case of a negative reply, then we have to ask our Senate to assume its duties and make the appropriate modifications to trade legislation."

For any renegotiation of NAFTA to take place, the US and Canada would have to be in full agreement. Earlier this year, US President George W. Bush's administration made it clear that this was not an option. "The agreement is already in its final phases [of implementation]," agriculture undersecretary J.B. Penn told reporters during a visit to Mexico City in June. The US official acknowledged, however, that some corn and bean producers in Mexico would be hurt by the elimination of tariffs. Therefore, he said, the US would enter into technological cooperation and productive agreements with Mexico to help create a "softer" transition to free trade.

Farm group continues to push for renegotiation

The CNC is convinced that NAFTA can be reopened and is planning to push the next president and the new Congress to renegotiate the agreement. The one candidate who fully embraced the CNC's position was Andres Manuel Lopez Obrador of the Coalicion por el Bien de Todos, who vowed in the closing speech of his campaign to prevent the market-opening measures from going into effect in 2008. "We are going to protect our farmers," said Lopez Obrador. Lopez Obrador lost

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an extremely tight presidential race to Felipe Calderon of the conservative Partido Accion Nacional (PAN) on July 2.

Calderon has expressed sympathy for the plight of farmers but has ruled out any renegotiation of NAFTA. The closest Calderon has come to the CNC position was a mention of postponing the market-opening measure, but only to give the government time to create a transition program for affected farmers.

NAFTA supporters say the agreement has helped some agriculture sectors in Mexico, including producers of avocados in Michoacan and fruits and vegetables in Sonora and Sinaloa who have been able to boost their exports to the US market significantly since the agreement went into effect (see SourceMex, 2004-04-14).

Calderon raised concerns that those gains might be reversed with a renegotiation of NAFTA. "We don't want the opposite situation, where we lose the gains we have attained," he told reporters in May. Calderon, while promising not to abandon Mexican producers, is pushing for a transformation of the farming and rural areas. "We cannot keep hanging on to programs that depend on subsidies and more subsidies," said Ernesto Cordero, Calderon's economic advisor during the presidential campaign. "Why not test other crops and, at the same time, build up infrastructure in agriculture areas so that producers can transport their products more easily?"

The president-elect's position on NAFTA mirrors the stance of the Fox administration. "If we were to enter into any renegotiation, the US would call into question the gains that Mexico has attained, creating pressure in that country's Congress to eliminate those benefits," said Kenneth Smith Ramos, head of the international negotiations division at the Secretaria de Economia (SE).

Corn imports benefit some sectors but weaken domestic prices

Supporters of the status quo argue that eliminating tariffs on corn will not be as harmful to Mexican farmers because the varieties of yellow corn imported from the US are not readily available in Mexico. "The majority of the imported corn involves the yellow varieties that are used by the livestock and soft-drink industries, not the white varieties that we consume most in Mexico," said Jose Manuel Suarez Mier, a columnist for the Mexico City daily business newspaper El Economista. The Camara Nacional del Maiz Industrializado (CANAMI) agrees with this argument, noting that the 2005 quota established by the Mexican government for duty-free imports of yellow corn was only 3.4 million metric tons in 2005, which was insufficient to meet domestic demand of 4 million MT.

While eliminating duties on corn will help the livestock, poultry, and processed-food industries, there is concern that the increased supply in the Mexican market will drive prices down for all varieties of corn. By some estimates, US corn is exported at prices 15% to 20% below the cost of production, in large measure because of subsidies. The lower export costs, in turn, tend to undermine prices in the importing country. In a recent report, the Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion (SAGARPA) acknowledged that opening the market could easily affect 60% of Mexican corn producers, who will not be able to obtain a good price for their product.

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Hernandez Diaz said eliminating tariffs would affect other Mexican government agriculture programs. Under the current system of quotas, the government is able to require food companies to buy other Mexican agricultural products like wheat to gain access to the imported corn. "Once the corn market is fully free, the government will no longer have the leverage to require the purchase of other products," said Hernandez, whose state of Baja California is one of the major wheat producers in Mexico. "It is in the interest of Mexico that the government start to set up programs to encourage the purchase of commodities from Mexican producers." (The following sources were also used to prepare this report: Reuters, 05/17/06; Spanish news service EFE, 06/09/06; El Economista, 06/06/06; Excelsior, 06/08/06, 06/13/06, 07/17/06; The San Francisco Chronicle, 07/31/06; The Charlotte Observer, 08/06/06; The Christian Science Monitor, 08/10/06; Reforma, 03/15/03, 06/14/06, 07/05/06, 08/28/06; El Universal, 08/31/06; La Jornada, 08/07/06, 09/04/06)

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