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LADB Staff

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Mexico May Join Canada, in WTO Complaint Against U.S. Corn Subsidies

by LADB Staff

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Mexico is considering joining Canada and several other countries in filing a complaint against the US for providing unfair subsidies to corn producers. The complaint, to be lodged with the World Trade Organization (WTO), could be accompanied by a similar complaint regarding US rice subsidies. The WTO complaints would come as the US Congress is about to begin debate on the farm bill, which sets US agricultural policies for the next five years.

Mexico's proposed actions would also come just before a clause in the North American Free Trade Agreement (NAFTA) goes into effect, fully opening the Mexican market to imports of US corn, beans, powdered milk, and sugar. Canada has taken the lead in drafting the possible WTO complaint against US corn subsidies, but a half dozen other countries including Mexico have pledged to participate in the action. "If a panel is convened, Mexico will join as an interested third party," Economy Secretary Eduardo Sojo told reporters.

The WTO complaint is partly intended to send a signal to the US Congress as it debates the farm bill, which will cover US agriculture policy through 2012. In its last farm-bill debate in 2002, the US Congress approved close to US\$200 billion in subsidies for US agricultural producers, drawing complaints from the European Union (EU), Mexico, and other countries (see SourceMex, 2002-05-22).

The concerns about US subsidies to corn producers have taken on greater urgency as soaring global corn prices caused the price of tortillas in Mexico to escalate at the beginning of this year (see SourceMex, 2007-01-10, 2007-01-31, and 2007-02-07). The Mexican Congress applauded President Felipe Calderon's administration for its proposal to join the Canadian complaint, but legislators want to make sure that the administration follows through with that plan. In early March, the eight political parties represented in the Chamber of Deputies asked the administration to prepare a written report spelling out its position regarding the matter.

"[President Calderon] must employ a dignified, firm, and efficient defense of Mexico's agriculture sector," said Deputy Enrique Serrano, a member of the opposition Partido Revolucionario Institucional (PRI).

US to help ease impact of NAFTA opening

President George W. Bush touched on the issue of agriculture during a meeting with Calderon in Merida on March 13. The visit to the Mexican City was the last leg of Bush's five-country tour of Latin America (see NotiCen, 2007-03-15).

Discussions between Bush and Calderon centered on drug trafficking and immigration, but Bush pledged to help Mexico reduce the negative impact of the opening of its corn, bean, sugar,

and powdered-milk markets to US and Canadian products next year. Under terms of the North American Free Trade Agreement (NAFTA),

Mexico is required to eliminate tariffs on those products effective Jan. 1, 2008. Mexico eliminated tariffs on other agricultural products in 2003 (see SourceMex, 2002-09-04 and 2002-12-04).

A handful of legislators, primarily from the opposition PRI and the Partido de la Revolucion Democratica (PRD), have been pushing for the Calderon administration to renegotiate NAFTA to extend or even eliminate this deadline. Similar proposals surfaced ahead of the first deadline for eliminating agriculture tariffs in 2003 (see SourceMex, 2002-12-18). As was the case the first time, Mexican agriculture officials believe that any renegotiation of NAFTA provisions is unlikely, particularly because the Calderon government strongly supports the trilateral agreement (see SourceMex, 2006-09-06).

Some legal experts say the Calderon administration can still protect Mexican agriculture without having to change NAFTA. A report published by the Instituto de Investigaciones Juridicas (IIJ), affiliated with the Universidad Nacional Autonoma de Mexico (UNAM), said the Mexican government has the right to request consultations either through NAFTA or the WTO if it deems that its agriculture sector is endangered by eliminating tariffs on corn and beans. "Mexico has always had the right to request these consultations under NAFTA," said IIJ researcher Jorge Witaker. "A number of administrations have failed to exercise this right."

The document said agriculture producers also have the right to resort to the Acuerdo Nacional para el Campo, an agreement that former President Vicente Fox made with several farm groups (see SourceMex, 2003-04-23). The agreement was published in the federal register (Diario Oficial) and therefore has the force of Mexican law. This gives farm organizations the right to demand that the Secretaria de Economia (SE) and the Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion (SAGARPA) comply with a provision that tariffs on corn and bean imports not be eliminated, said the IIJ document.

US promises subsidies will be lower in 2007 farm bill

While Bush and Calderon barely touched on their differences regarding agriculture, US and Mexican officials addressed the matter more extensively during US Agriculture Secretary Mike Johanns' trip to Mexico City in early March.

During meetings with Mexico's Agriculture Secretary Alberto Cardenas and Economy Secretary Sojo, Johanns promised that the Bush administration would push for lower agriculture subsidies. He also made the same pledge as Bush, that the US would help Mexico achieve a "soft landing," when NAFTA agriculture tariffs are phased out next year.

Johanns said the US Agriculture Department (USDA) would continue to carry out programs to help Mexican farmers improve productivity, quality, and logistics. "Our goal on this trip is to reinforce our commitment to the free-trade provisions exemplified by the North American Free Trade Agreement," the USDA official told reporters.

Johanns, Cardenas, and Sojo also signed a Memorandum of Understanding, underscoring the commitment of the two countries to resolve ongoing agricultural-trade problems as efficiently as possible. "Sometimes I know we become frustrated with some of the issues that arise, but billions of dollars are traded between our countries on an annual basis and millions on a daily basis," the Johanns said. "We have a very mature trading relationship, and there are going to be issues from time to time." Johanns said Bush had proposed reducing agricultural subsidies in his farm-legislation proposal that was sent to Congress at the end of January. "

On Jan. 31, President Bush sent a proposal to Congress in which he announced a farm bill that will reduce trade distortions," Johanns told reporters in Mexico City. "Under any circumstances, I can guarantee that we will pay less money in corn subsidies than what has been paid historically." The US agriculture secretary's comments came in response to concerns raised by Cardenas about the US subsidies. "The subsidies and [other types of unfair] aid given out in the United States have hurt us," Cardenas said. "We're still not on a level playing field."

Some critics in Mexico remain skeptical that the US will make significant reductions in farm subsidies. The Confederacion Nacional Campesina (CNC) said the lack of new developments in the global effort to reduce agricultural subsidies through the WTO gave the US an opening to increase supports for its own producers. "The US already has its agricultural policies ready for 2007-2012, which will maintain the current supports for producers," said PRI Sen. Heladio Ramirez Lopez, who is also director of the CNC.

Mexican rice producers also want WTO complaint

Mexican agriculture producers are also concerned about what they consider illegal US subsidies to rice growers. In early March, the Federacion Nacional de Productores de Arroz (FENAPARROZ) initiated a campaign to convince the Mexican Senate, SAGARPA, and the SE to launch a complaint to the WTO about the US subsidies.

FENAPARROZ hired the international legal firm Gabbert & Associates, which specializes in international trade, to help develop a strategy, said the Mexico City daily business newspaper *El Financiero*. As part of the strategy, rice producers have asked Mexico to take the lead in bringing together a coalition of countries to file the complaint about the subsidies at the WTO. At least 29 other nations in Latin America, Asia, and Europe could join in the WTO complaint, said Ramirez Lopez.

Mexico has wrestled with subsidized US rice imports for many years. In 2002, the Mexican government imposed countervailing duties on US rice, but a WTO panel later ruled that those duties were illegal (see SourceMex, 2005-06-01). FENAPARROZ president Pedro Alejandro Diaz Hartz said unfair US trade practices have contributed to a sharp decline in Mexican rice production during a 20-year period. He said Mexico's rice output declined from 850,000 metric tons in 1985 to 270,000 MT in 2005. "We have come to depend on rice imports, which amount to US\$150 million annually and which supply about 75% of the domestic consumption," said Diaz Hart.

The sharp drop in domestic production has resulted in a steep decline in the number of rice producers in Mexico. FENAPARROZ says there are now only about 5,000 rice producers in Mexico,

compared with 25,000 in 1994, when NAFTA went into effect. "Rice producers are facing a deep crisis," said Sen. Ramirez. "They [rice producers] are experiencing an unprofitable market, a lack of support from the government and private banks, and unfair competition that has resulted from market-opening policies and NAFTA," said a CNC communique. (Sources: Associated Press, 03/05/07; Reuters, 03/06/07; Reforma, 03/01/07, 03/02/07, 03/07/07, 03/07/08; Notimex, 03/05/07, 03/07/07; The Herald-Mexico City, 03/07/07; El Financiero, 03/01/07, 03/08/07; Milenio Diario, 03/12/07; La Cronica de Hoy, 03/05/07, 03/14/07; La Jornada, 03/07/07, 03/12/07, 03/14/07)

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