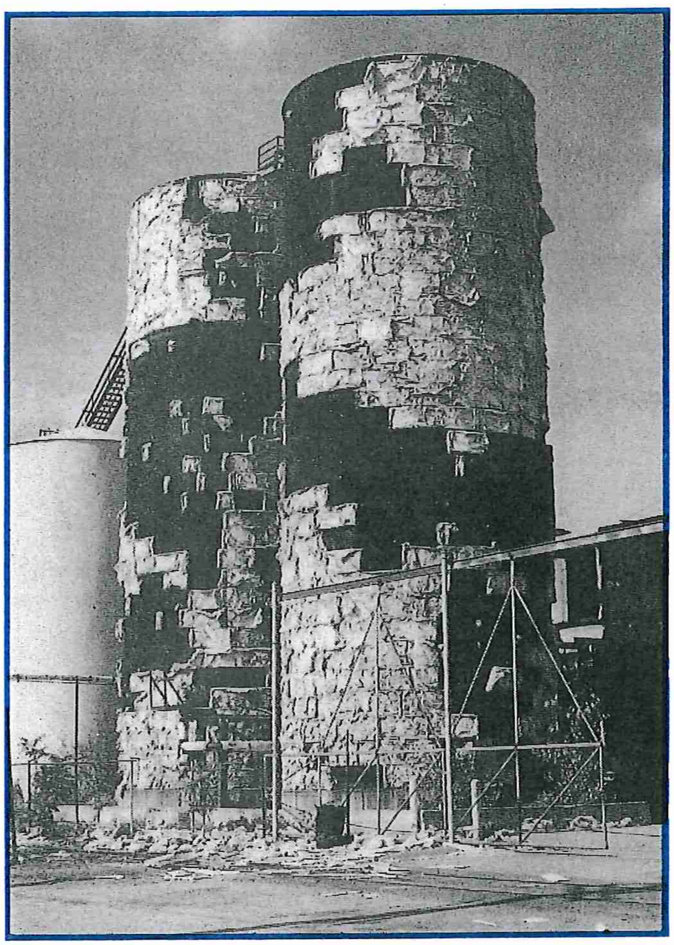
NAFTA and the Great Lakes

A Preliminary Survey of Environmental Implications



a discussion paper prepared by

Great Lakes United

and the

Canadian Environmental Law Association

in association with the

Institute for Agriculture and Trade Policy

November 1993

6 CASE STUDY 2: NAFTA'S IMPACT ON AGRICULTURE IN THE GREAT LAKES BASIN

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6.1 Background

Few aspects of the North American Free Trade Agreement (NAFTA) have generated as much controversy as the agricultural provisions. Thousands of pages of description and analysis have been written, often with directly contradictory views and conclusions. Part of the explanation for the wide differences of opinions and views is the complexity of factors that must be taken into consideration.

6.1.1 Three Sets of Bi-National Rules

Unlike other areas of trade, which would be covered by simply one set of trading rules for all of North America, the current NAFTA proposes that the rules of agricultural trade between and among our three countries be covered partially by three sets of bi-national rules and partially by tri-national rules.

The final NAFTA draft contains two separate agricultural agreements, one covering trade between the United States and Mexico and one between Canada and Mexico. In addition to these two sets of rules, farm trade between the United States and Canada would continue to be covered by the previously negotiated U.S.-Canada Free Trade Agreement (FTA). Since each of these three separate agreements contain important provisions that are either unique or substantially different from the others, any analysis of the potential impacts on the Great Lakes region must look at each of these three agreements separately.

6.1.2 Tri-National Rules

There are three specific rules in the NAFTA that would apply to farm trade in all three countries. The first is the section of the NAFTA covering rules for sanitary and phytosanitary systems (food safety and animal health). The second discusses special regulations to restrict domestic agricultural programs. The third includes rules which cover farm export subsidies.

6.1.3 Additional NAFTA Provisions Affecting Agriculture

In addition to the specific agricultural rules, there are literally hundreds of non-agricultural rules and regulations throughout the nearly 1000 pages of NAFTA text that would greatly impact Great Lakes farmers and rural communities, such as the provisions on automotive goods, energy, government procurement, technical standards, trucking, telecommunications, banking, patents, and taxation.

6.1.4 U.S. and Canadian National Farm Policy

Another element which adds complexity to this analysis is the high degree of government policy involvement in determining the economics of agriculture in both the United States and Canada. While a manufacturer can easily understand the impact of a tariff reduction from 6% to 3% over 5 years, the provisions of the NAFTA for agriculture are much more involved and inter-related with a whole range of other government policies. Since United States and Canada are very different, any analysis of the potential impact of the NAFTA on Great Lakes agriculture must also differentiate between the impacts in both countries.

6.1.5 Local, State, and Provincial Farm Policy

In addition to the many important differences in policies between the United States and Canada at the federal level, there are also important local, state and provincial policies that influence family farm and rural community economic vitality which, of course, vary tremendously between all of the states and provinces that border the Great Lakes. A very significant number of these will also be affected by the proposed NAFTA.

6.1.6 Interaction with GATT

Another element of complexity is the interaction of the NAFTA and the FTA with the existing rules of global trade under the General Agreement on Tariffs and Trade (GATT) and the ways that this might change or be affected by the proposed changes to the GATT that may result from the Uruguay Round of renegotiations. There are many places in the current NAFTA text where the GATT agreement is the basis of a rule. But with the current GATT talks in serious danger of total failure, any analysis of the potential impact of these specific GATT-related provisions is highly speculative.

6.1.7 Supplemental Negotiations

On top of all of the above-mentioned contingencies and complexities, there is the likelihood that the three governments will agree to change the NAFTA through supplemental agreements in the areas of labour standards, environmental protection, and protection against disruptive import "surges". These supplemental deals, especially the ones for the environmental and import surges deals could have a tremendous impact if they were ever to become enforceable. Unfortunately, we cannot yet predict the outcome of the current negotiations taking place on these supplemental agreements.

6.2 Key Provisions in Each of the Three Agreements

Although there is still much that is unknown about the final shape and content of the NAFTA, we do have the final proposed document and the text of the previously ratified United States-Canada Free Trade Agreement. Following are a few of the specific provisions within each of the agreements affecting agriculture. This is not meant to be a complete listing, but only a general overview of some of the provisions that most affect Great Lakes producers on both sides of the border.

6.2.1 U.S.-Canada Free Trade Agreement (FTA)

The major agricultural provisions of the original FTA include:

1) Waiver of U.S. import controls on a wide range of crops and livestock products coming in from Canada, including beef, pork, and grains, and the creation of major loopholes allowing significant increases in shipments of sugar, peanuts, and milk into the U.S. in the form of processed foods.

2) Replacement of Canadian pesticide standards, which required proof of safety, with U.S.-type "risk/benefit" analysis.

3) Reduction in border inspections of meat and other food products.

4) Waiver to allow continuous use by Canada of the "crow's nest" rail subsidy for grain travelling to ports in the East.

5) Weakening of Canadian import controls on wines, fruits and vegetables, processed foods, and other specific crops and livestock products.

6.2.2 Canada-Mexico Provisions in the NAFTA

1) Canada and Mexico will eliminate all tariff and non-tariff barriers to trade except for those in dairy, poultry, egg, and sugar sectors.

2) Canadian tariffs on most fruit and vegetable sectors will be eliminated in five years, with the rest over 10 years.

3) Mexico will replace requirements of import licenses with either tariffs or tariff rate quotas which will be phased out over the next 10 years.

4) The creation of supply management agencies and programs in any other crop or livestock sectors is prohibited.

6.2.3 U.S.-Mexico Provisions in the NAFTA

1) All import controls between both countries will be immediately eliminated, such as the U.S. import control laws included in Section 22 of the current farm bill and the Meat Import Act and the Mexican restrictions on corn imports. Many of these will be replaced by tariffs (a procedure called tariffication)which will then be phased out over 5 to 15 years.

2) Existing tariffs on a broad range of products will be immediately eliminated and all others phased out over 5-10 years.

3) Exporters in both countries have the right to ship any or all of the domestic production of almost all crop or livestock products across the border. This domestic production can then be replaced by imports from other countries, a process called substitution.

6.2.4 Tri-National Provisions in the NAFTA

1) Provisions are made for special safeguard procedures for some products covered under the bilateral agreements. This allows the re-application of a tariff if imports reach a specific target level.

2) On domestic farm programs, the NAFTA requires that all three countries move toward domestic farm programs that are "not trade distorting," which is interpreted by many analysis to mean direct government payments on the de-coupled model.

3) Any change in domestic farm policy by any government is strictly limited to only those in compliance with applicable GATT obligations.

4) The granting of export subsidies by governments to grain marketing corporations is explicitly approved.

5) A trilateral committee on agricultural trade is proposed to monitor the implementation of these rules.

6) The rights of local, state/provincial, and federal governments to enact food safety standards are limited. For example, these rules can only be enacted if they are based on so-called "risk assessment," which is much weaker than current Canadian rules. Concerns such as consumer preferences and animal welfare cannot be considered.

7) The NAFTA sections on Intellectual Property Rights permits private companies to patent existing and future life INDICATORS

6.3 Implications for the Great Lakes Basin

There are literally hundreds of specific agricultural impacts of NAFTA already identified, and the list continues to grow each day. Narrowing this long list of potential impacts to a few key indicators is critical to developing a coherent analysis, given the level of overall complexity and uncertainty. For the purposes of this paper, we have chosen to focus on the four issues having the greatest impact on the Great Lakes region:

1) Impact on prices for the major crops and livestock produced in the Great Lakes regions, and the resulting impacts on farm family economic viability;

2) Impact on wages, work availability, and labour pool of farm workers in the Great Lakes regions;

3) Impact on food safety and environmental protection regulations, especially those affecting the major crops and livestock and food processing operations in the Great Lakes regions; and,

4) Impact on off-farm employment opportunities and off-farm wages in the Great Lakes region.

Impact on prices for major crops and livestock and on farm family income

Reduction in tariffs and dismantled import controls will result in significantly lower farm prices for a number of key Great Lakes basin crops and livestock products, including, but not limited to:

Fruits and Vegetables; Beef; Milk and other Dairy Products; Feed-grains; Sugar; Flowers and Plants; Edible beans; and Soybeans.

Although Canadian dairy, egg and poultry farmers were somewhat protected in NAFTA, the impacts on Canadian family farmers in other crop and livestock areas will tend to be even greater than the impacts on U.S. farmers given the generally more favourable climatic conditions in the U.S.

Lower farm prices do not necessarily have to result in lower farm family income. Some level of government can choose to replace all or part of any loss of income due to lower prices with direct payments. For example, the state of Vermont has supplemented milk prices in the past and the U.S. federal government makes some direct payments to some farmers in the form of deficiency payments. However, given that all three governments are facing severe budget cuts and that the current GATT talks could result in the elimination or restriction of this option, this possibility should not be considered a viable option.

The lower farm prices that will result will mean lower farm family income, with a number of significant environmental and economic impacts. Farmers often move to more chemical-intensive methods of production when prices fall, in hopes of boosting yields enough to compensate for the lower prices. Lower income often means that there is less flexibility in the farm operation for adopting newer, more environmentally friendly methods of production. Families who are attempting to shift to more ecologically sound mixed livestock and cropping operations will find it more difficult to continue these efforts and others will be discouraged from attempting to make this transition.

On the economic front, lower farm family income means a reduction in economic activity in the surrounding communities, and a much wider ripple effect in farming related industries, such as equipment manufacturing, banking, chemicals, and transportation. If the drop in income is as great as anticipated in fruits, vegetables, dairy, sugar and beef, the impact will be the bankruptcy of many family farms, with the resulting problems that will be faced by their lenders and creditors. During the 1980s we had a close look at the overall impacts of this level of economic crisis, including the severe impacts on all aspects of rural and small town life. What must also be considered is the weakened conditioned that many farmers, rural businesses, and other rural institutions (hospitals, schools, churches, etc.) are in due to the difficulties of the last decade. Add to this the bad weather and then the lower prices and we can anticipate a very difficult situation for family farmers and rural communities in all states and provinces in the basin.

One strategy used by some farmers in the 1980s to improve their economic situation was to shift to specialty crops, especially in the fruit and vegetable sector, and to shift to new methods of production, especially organic production, in order to receive a premium price.

Farmers who have shifted to organic production of fruits and vegetables will find a more difficult market situation, as prices on commercially produced competitive crops will fall in the market, creating an even wider spread in the prices between what an organic farmer must charge to survive and commercial prices. On top of this problem, the general lowering of wages that is anticipated in the industrial sectors of the Great Lakes region will dampen consumer demand for these premium items, especially if the "price gap" widens even further.

Another particular problem is the lowering of beef and dairy prices, which will accelerate the displacement of family-farm sized cattle production from the Great Lakes region to the deserts of Mexico and the U.S. southwest. There will be both severe economic impacts and disastrous ecological impacts as well.

Livestock production is a key component of the entire Great Lakes Basin economy. Dairy and beef production is the major market for much of the corn and other feed- grains grown in our region, providing an excellent market and a price boost. The processing o f milk into fluid and other products and the slaughter of beef and hogs provides many jobs in the basin, especially in rural areas. The NAFTA allows U.S. meat and dairy companies to import an essentially unlimited amount of their products from Mexico, driving down prices in the U.S. and significantly reducing the market for U.S. produced meat or dairy products. This in turn reduces U.S. production, which reduces outlets for feed-grains and jobs for meat-packers and cheese-makers.

In addition to these economic impacts, there are significant ecological impacts to price cuts in the dairy and livestock industry. For example, in the Great Lakes basin, much of the land that is used for grazing is hilly and very fragile. If a farmer is forced out of the dairy or livestock business due to these lower prices, the hilly land that formerly was used to graze beef and dairy cattle is converted to corn and soybeans, leading to a major increase in soil erosion from the hillsides and chemical run-off.

The accession clause of NAFTA, which allows other countries in Latin America or other regions of the world to join in the NAFTA, has serious implications for livestock, dairy, sugar, oilseeds, grain, and fruit and vegetable producers in the region. The extremely low costs of production of milk in New Zealand, beef in Australia, sugar in Cuba, soybeans in Brazil, corn in Argentina, and of fruits and vegetables in the Caribbean would mean a serious reduction in prices for all of these crops in the region.

Impact on wages, work availability, and labour pool of farm-workers

The pool of available migrant farm-workers will be expanded. On the one hand, there will be fewer farm-worker jobs available due to the movement of much of the Great Lakes Basin fruit and vegetable production to Mexico. At the same time, one million or more small farm families in Mexico will be displaced as a result of NAFTA, many of whom will come to the United States in search for work as farm-workers or in urban factories.

Impact on food safety and environmental protection regulations

All of the various rules that will apply to farm trade within North America, the FTA, NAFTA, and GATT are based on several basic provisions. They all are attempting to reach some level of standardization among food safety and animal health regulations between the three countries, including bring state/provincial level regulations in line with national laws. This effort, which is sometimes called "harmonization," has been strongly backed by the food processing companies and by the manufacturers and distributors of pesticides.

Although the NAFTA has explicit language stating that states and national governments can maintain higher standards, the conditions under which these rules will be protected from challenge as a trade barrier are quite limited. For example, all food safety rules higher than the lower "harmonized" standard would have to be based on the so-called "risk assessment" procedure, which consumer groups have strongly criticized as a back door method of weakening public health protection. Under the current NAFTA text, foods will be imported into the Great Lakes region that have been grown under different environmental standards and enforcement regimes generally much less strict than those imposed on farmers and food processors in this region. This will both create a difficult competitive situation for both U.S. and Canadian farmers and potentially erode consumer confidence in both countries.

Impact on off-farm employment opportunities and wages

During this time of severe economic crisis for many family farms in the Great Lakes basin, off-farm jobs have been critical to keeping many families on the land. Unfortunately, many small and medium-sized factories in our region will come under enormous pressure as a result of the NAFTA. The will be a number of impacts that are likely to be felt by family farmers and rural community residents.

First, there may be a lowering of wages by factories in the region in hopes of keeping costs competitive with increasing imports. Second, we can expect pressure on local communities and state legislature to weaken environmental regulations in an attempt to compete with products produced in Mexico, where environmental laws and enforcement are much less strict. Third, a number of factories which cannot compete with cheaper imports will be forced to close or move to Mexico, creating a vast pool of new unemployed rural people competing for a shrinking number of jobs. In addition, the farm workers who have lost work in the U.S. fruit and vegetable sector and new immigrants from Mexico who lost their farms due to imports will be competing for the same declining number of jobs. This competition will result in lower wages and higher unemployment for both farmers and small town residents.