embargoed until March 26, 1996

NAFTA's First Two Years

— The Myths and the Realities —

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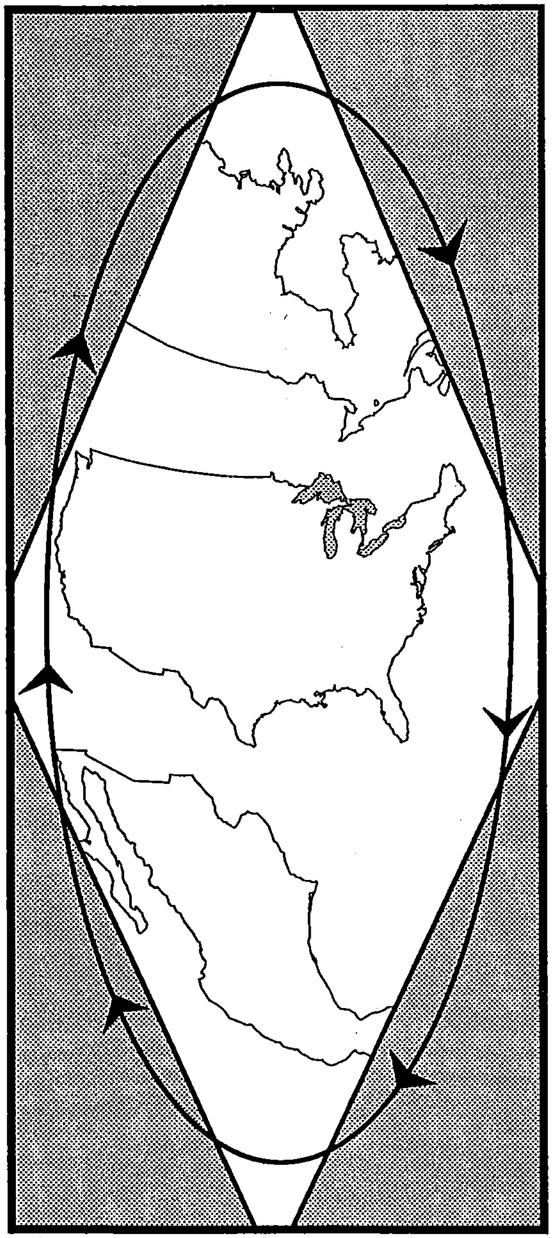

With contributions and assistance from:

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While this report highlights the NAFTA record primarily in the United States, it represents a collaborative effort by a wide range of institutions and researchers from the United States, Canada, and Mexico who are working for econonomic, environmental, and social justice throughout North America. Parallel reports are being released this month by citizen networks in Canada and Mexico (see introduction for ordering information).

Myth # 7: NAFTA Will Improve Food Security by Enabling Countries to Import Food Cheaply on the World Market

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Far from increasing food security, NAFTA has contributed to an increasing likelihood of hunger in Mexico and disruption of U.S. and Canadian agricultural production. With its purported value as a tariff instrument eliminated by the Mexican peso devaluation, NAFTA's lasting impacts on food systems in North America lie in the changes to domestic policy the United States, Canada, and Mexico have made to conform to free trade ideology.

In Mexico, NAFTA locks in 12 previous years of austerity policy in agriculture which has resulted most recently in a 41% decrease in the fall 1994/winter 1995 production of 10 basic grains. Some 1.8 million family farmers have been forced to migrate since the implementation of NAFTA.

In the United States, total food exports fell 28% in 1995, compared to 1994. The necessity to recoup political losses with former NAFTA supporters who suffered heavy losses this winter in the wake of the peso devaluation have led the Administration to attempt to change the implementation of NAFTA provisions.

In Canada, new threats to supply management of dairy, eggs, and poultry arose when the U.S. Trade Representative filed a complaint that Canadian use of tariff rate quotas negotiated through the GATT are in violation of NAFTA, and that NAFTA should take precedence over GATT. Food dependency in North America will be increased unless changes are made in multilateral trade policy to allow nations to promote domestic food security.

NAFTA and Food Security in North America

NAFTA's stated goal is to abandon subsidies and import restrictions that promote domestic production in favor of enhancing opportunities to purchase food on the world market. This results in the loss of national programs to ensure food security. Food dependence rises in all three countries as a primary outcome of the ideology that drove the creation of NAFTA. U.S. political objectives during NAFTA negotiations can be summarized as follows:

- Mexico should stop producing its subsidized basic grains and import cheaper grain from the United States, and the U.S. should in turn import more fruits and vegetables from Mexico.

- Canada should cease to manage its domestic supply of dairy, eggs, and poultry and instead buy these products more cheaply on the world market.

All three countries have changed major agricultural policies: as part of a long term structural adjustment package in the case of Mexico, and to bring agricultural policy in line with free trade ideology in the U.S. and Canada after NAFTA and GATT were negotiated. These policy changes and the Mexican peso devaluation have had tremendous impacts on agricultural trade and volumes of domestic production, and have increased the likelihood of widespread hunger in Mexico.

NAFTA in Mexico: Locking in Free Trade

During the NAFTA negotiations, Mexican farmers lamented that their government was acting as if NAFTA had already passed. For Mexico, in fact, NAFTA is really the lock on a long series of structural adjustment programs that the World Bank and IMF had begun to impose on Mexico following the 1982 peso devaluation. NAFTA's impacts cannot be separated from the previous 12 years of austerity measures which paved the way for free trade.

During the 1980 Presidential campaign, candidate Ronald Reagan proposed a "North American Accord," between the United States, Canada and Mexico.[3] While the Reagan administration initiated secret talks towards such an accord with Canada, in Mexico the structural adjustment programs of the World Bank and IMF were preparing Mexico for regional integration into a NAFTA-like accord.

Even before NAFTA was negotiated, price guarantees for all commodities except corn and beans, the main staples of the Mexican diet, were eliminated. Credit availability was restructured to benefit export agribusiness at the expense of family farmers. Public investment in all forms of technical assistance to family farmers, including veterinary service, extension services and public health service for rural communities was sharply reduced. The Mexican Constitution was changed to allow privatization of common lands (*ejidos*) in which half of Mexico's land area is held and on which some 2 million farm families live. Finally, subsidies to family farmers were removed through Mexico's entry into GATT (1986) and NAFTA.[4]

As a result, millions of small farmers in Mexico have been devastated and Mexico's food security has been seriously undermined. From 1988 to 1993, the volume of production of 10 basic grains increased a mere 1.7% while the value of that production fell 24% from 1988 to 1993. Due to falling profits, the number of agricultural loans in default grew 12-fold from 1988 to 1994. Agro-industrial exports increased 3% annually from 1988 to 1993, while imports, largely from the U.S., increased 22% annually, making Mexico a large net importer of food. In a country where 25 million people, about a third of the population, make a living from agriculture, agricultural employment fell 4.5% annually from 1988 to 1993 while 19% of the rural population received no cash income and 61% received less than the minimum wage of $65 a month. As some of Mexico's leading policy analysts asserted, "Mexico's countryside has undergone a process of 'demodernization'".[5]

This is the context in which NAFTA was negotiated. It has only worsened conditions created by the past 12 years of economic austerity. Today, there is a serious threat of hunger developing in Mexico.

Food is Power

I have heard here this morning that people may become dependent on us for food. I know that was not supposed to be good news, because before people will do anything, they have got to eat. And if you are really looking for a way to get people to lean on you and to be dependent on you, in terms of their cooperation with you, it seems to me that food dependence would be terrific.

— *Senator Hubert Humphrey during the 1957 review of PL 480, the "food aid" program*[1]

"[The Army] came destroying houses, seeds, and animals, the sustenance of the indigenous communities, our daily bread. After the soldiers came through, the government began to start up 'Solidarity' programs and had soldiers do "social service" work. They began to offer bags of food and signature loans. And since the people have so much need because hunger is such a bitch, some accepted."

— *indigenous leader in Chiapas, March 1995*[2]

In the months after the Mexican peso was devalued in December 1994, the costs of producing corn and other crops rose 40%. Agricultural loans, which prior to the peso crash had been available for 30% interest, soared to 120% interest.[6] Loans in default increased 35% during the first quarter of 1995 for farmers. El Barzón (Spanish for "the yoke"), a national debtors' union, proposed a moratorium on paying interest on debt owed to foreign banks , a proposal rejected by the Mexican government.[7] El Barzón's demonstrations have resulted in the temporary closings of hundreds of banks. The banks have responded with debt-collecting lawyers accompanied by armed guards.[8]

Theoretically, with Mexico's prices below the world market price because of the peso devaluation, domestic production for domestic markets should have been stimulated. Prices should have been allowed to rise to cover costs, and domestically produced products would still have been cheaper than imported goods. But the opposite happened in Mexico. The Mexican government, still convinced that Mexico should reduce grain production domestically and import supplies from international sources, mandated that the prices received by Mexican producers should remain below world market prices to subsidize urban consumers.

Many farmers, with their costs high and their prices suppressed, stopped producing corn and other basic grains. The Mexican Department of Agriculture reported a 41% decrease in fall 1994/winter 1995 season production for 10 basic grains, with an anticipated harvest of 6.6 million metric tons, compared to 11.2 million metric tons in the 1993/1994 growing season. Some 1.8 million family farmers have been forced to migrate since the implementation of NAFTA.[9]

In 1995, Mexican peasants produced 2.5 million tons less of corn than in 1994, and Mexico imported 2.8 million tons of corn, primarily from the United States, at prices made more expensive by the devaluation and by world grain stocks. This is 2.5 million tons more than Mexico imported in 1993. Mexican demand for imported corn is projected to swell to 4 million tons in 1996, a dubious prospect in a very tight world grain market. At 2.8 million tons, Mexico is importing 30% of its corn supply, and at 4 million tons, this would rise to 40%.[10] The U.S. fulfills commitments to Europe and Japan first, and Mexico is third in line. Therefore, some analysts predict that if harvests in Mexico are not good this year, there is a threat of real hunger, not just scarcity.[11] Already, 80 children under the age of one year die each day of malnutrition in Mexico. According to Mexico's National Nutrition Institute, 16% of Mexican children suffer from malnutrition and 80% of all Chiapans are malnourished.[12]

In late December 1995, the Mexican Department of Agriculture announced that it was discussing how to phase out the subsidy for corn tortillas, the basic food for most Mexicans.[13] Since January 1995 the cost of tortillas has risen 47%,[14] due in part to distortions and corruption in the domestic corn marketing system, and in part to the higher price of imported corn. Higher tortilla prices will further jeopardize food security in a country where the estimated monthly cost of feeding a family of five is US$340, while the legal minimum monthly wage is US$90.

The Mexican government, which touted its efforts during the NAFTA negotiations to protect Mexican corn producers by securing a 15-year transition tariff phase-out period for corn, has decided to dramatically revise NAFTA corn provisions. The decision, applauded and presumably advocated by U.S. agribusiness and the World Bank, will collapse the 15-year phase-out agreed to in NAFTA to a mere three years.[15]

The agribusiness multinational corporations who were predicted to export a record 10 million tons of grain to Mexico in 1995, compared to 5 to 7 million in recent years, will be the main beneficiaries of this export surge.[16] As of October 31, Mexican corn imports were up 71.9% over the same time period in 1994. Mexico increased the tariff-free portion of those imports to 3.3 million tons, 28% more than the 2.5 million tariffs free tons agreed to in NAFTA.[17] The Confederación Nacional de Propietarios Rurales estimated that total grain imports would reach 17 million tons in 1995.[18]

A Bright Future for U.S. Agriculture Under NAFTA?

U.S. producers also suffered harshly from the fall of the peso. Aside from U.S. grain exports which rose, all other U.S. agricultural exports were hurt by the collapsing peso. In comparison to the July-September 1994 reporting period, in July-September 1995, live animal exports were down 79%; meat exports down by 42%; animal feed exports down by 23%; edible fruit and nuts down by 43%; cotton exports, including fabric, down by 27%; and processed tea, coffee and sauces were down by 43%. Turkey exports to Mexico by early January 1995 had fallen by 50%. During the first six weeks after the peso devaluation, U.S. beef and pork exports to Mexico dropped about 80 percent.[19] In aggregate, U.S. agricultural exports to Mexico fell 44% during the first ten months of 1995.[20] U.S. total food exports to Mexico dropped an estimated 28% in 1995 compared to 1994's exports, according to the United States Department of Agriculture (USDA).[21]

Florida's share of the U.S. winter tomato market had dropped from 70% in 1993 to 36% in January 1995, due to Mexican imports rendered cheaper by tariff reductions and devaluation. After the devaluation, the price for a 25 lb. box of Mexican tomatoes dropped from $14 to $2.50, rising later to the $6-7 a box range.[22] A Florida growers' petition for protection from Mexican imports was denied by the U.S. International Trade Commission.[23]

Acknowledging that Florida is an important state in presidential elections, the Clinton administration has taken steps to slow imports of Mexican tomatoes. Tomato and other vegetable producers in Florida threw their support behind NAFTA when President Clinton offered them concessions in the GATT. USTR Ambassador Mickey Kantor proposed to establish weekly quotas for import of Mexican tomatoes despite the U.S. Customs Agency's declaration that such monitoring of imports would be technically impossible.[24] After some hesitation, USDA Secretary Dan Glickman supported Kantor's call for weekly quotas.[25]

Likewise targeted for import protection measures demanded by the American Farm Bureau Federation, a NAFTA supporter, are Mexican exports of squash, cucumbers, peppers, and eggplants.[26] U.S. avocado and grape growers have also demanded protection from free trade with Mexico, and U.S. potato growers have complained about Canadian potato import levels.

Florida's actions have come under attack by representatives from other commodity groups who supported NAFTA for ideological reasons or who think they will benefit in the long run. For example, the National Cattlemen's Association, the National Corn Growers Association and the USA Poultry and Egg Export Council protested to the Clinton Administration that its protectionist measures on behalf of the Florida tomato industry against Mexican imports would set a precedent that could be used against their commodities.[27]

The National Cattlemen's Association reaction was particularly ironic, given that imports of feeder cattle from Mexico from January 1 through November 11, 1995 increased more than 65 percent above the same time in 1994.[28] These imports increased the cattle supply at a time when U.S. prices for cattle have plunged to their lowest level in 25 years.[29]

In the latest chapter of the ongoing battle for protection against imports to the U.S. and free trade for U.S. exports, in February the U.S. of House of Representatives is expected to pass a bill to protect U.S. producers of perishable goods against import surges of Mexican produce. The USTR said that such legislation was allowed under the WTO and NAFTA. Mexico announced that it would file a trade complaint with the WTO against the U.S. legislation.[30]

The Assault on Canadian Supply Management

"Our marketing institutions are under attack. The real issue of dispute is ideological and not one concerning the volume of our exports. . . In our view there would be no possibility of Canadian interests being well served in such a marketing structure in which Canada would become a junior partner relying upon U.S. multinational grain companies to look after our interests."

— *"National Farmers Union Memorandum to the Canada-U.S. Joint Commission on Grains" (January 31, 1995)*

The Canada-U.S. Trade Agreement was negotiated during the administration of Prime Minister Brian Mulroney, now a board member of the agribusiness giant, Archer Daniels Midland. Canadian farmers have good reason to assume that two competing world views are at work.

The ideology in dispute is whether supply management of agricultural production better supports farm incomes and Canadian food security in the long term than free trade policies.

Proponents of supply management argue that Canada needs to control the supply of agricultural imports through tariffs and to market agricultural commodities through government agencies in order to have some chance of competing with the U.S.-based transnationals. However, it would appear that the transnationals may successfully integrate Canadian farmers into their vertically integrated system by weakening or eliminating supply management tools through trade dispute complaints, accompanied by U.S. threats of unilateral determination of "unfair" trade practices and subsequent retaliation.

Two of the main U.S. initiatives to integrate Canadian agriculture into U.S.-based transnational agribusiness have been the attacks on the Canadian Wheat Board and the USTR trade complaint filed in July against Canadian tariffs on egg, poultry and dairy product imports from the United States.

In July 1995, the USTR filed a trade complaint with precedent-setting implications. The USTR complaint contends that NAFTA takes precedence over the agricultural provisions of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), now institutionalized in the World Trade Organization. The U.S. dispute against Canada's tariffs for eggs, poultry and dairy products argues that Canada has no right under NAFTA to protect its domestic producers from U.S. exports through tariff rate quotas on agricultural products. If the U.S. wins this dispute, the precedent would likely be applied not only to other agricultural commodities, but to any area of trade in which NAFTA conflicted with the WTO.

Canadian producer groups have responded by stating that they have upheld their commitments under both GATT and NAFTA. Lloyd Sandercock, head of the Canadian Chicken Marketing Agency complained, "It's typically American. The Americans signed the GATT deal in 1994 and by so doing agreed to our tariffs on chicken and chicken products. Now by launching this trade action they are trying to get by the back door what they couldn't get by the front."[31]

In February, the Canadian government told the dairy industry that its subsidy on industrial milk would be reduced 30% over two years. This reduction, when combined with the loss of tariff protections up to 300% as the result of an adverse NAFTA dispute resolution decision, would endanger the survival of an independent Canadian dairy industry. According to a study by Infometrica, a group of Ottawa economic consultants, 25,000 farm and food processing jobs would be eliminated by 2000 if the U.S. trade complaint manages to reduce tariff rate quotas. Infometrica contends that U.S. dairy and poultry surpluses would be dumped and take over up to 20 percent of the Canadian market.[32]

A decision from the NAFTA dispute resolution panel on the U.S. complaint, originally due in December, is not expected until spring. Panel members are wrangling over vital procedural questions which will determine what evidence about the dispute will be heard, and under what norms the decision will be made. If free trade proponents are to expand NAFTA, one of the most urgent tasks is to ensure that NAFTA prevails over Uruguay Round agricultural provisions, whether in disputes with WTO members or with members of regional trade groups such as MERCOSUR, whose design is based on the Uruguay Round.

This is especially true of U.S. attempts to break the Canadian Wheat Board, a public entity established to sell wheat and barley from a "single desk" rather than on grain exchanges as it is sold in the U.S. As a result of U.S. pressure, greater transparency in the pricing mechanisms of the Canadian Wheat Board has been recommended in a preliminary report of the Joint Commission on Grains. Yet because there is no corresponding transparency in the pricing mechanisms of transnational agribusiness companies, the Canadian Wheat Board would likely be undercut in world markets by highly secretive transnational corporations. The Canadian Wheat Board is the only public grain marketing entity in North America and is extremely vulnerable to challenges on protectionist policies both before GATT and NAFTA dispute panels.

Conclusion

NAFTA and associated agriculture reforms have made it more difficult for millions of North Americans to know whether or not they will eat next month or plant next year. With three to four years of projected high international grain prices and low supplies, the food system will be stressed. Food dependency in North America will increase unless there are changes in agriculture and trade policy that ensure that nations can make policy decisions to protect food security.

NAFTA was negotiated in a particular historical moment, and that moment has passed. In a context in which Mexico has already shortened the transition period for corn, and the United States is working to change the relationship between GATT and NAFTA, the wisdom of using omnibus trade agreements like NAFTA to regulate trade continues to be questionable. Hope lies in the possibility of renegotiating GATT and NAFTA when their negative impacts become obvious even to their most ardent supporters.

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