

NAFTA, GATT and Free Trade

Address by Karen Lehman

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I would like to thank Dan Hughes and the Nebraska Wheat Growers for giving me the opportunity to speak to you today about NAFTA, GATT and the ways these international trade agreements will affect wheat producers. NAFTA has captured the public attention in a way that GATT never has, despite the fact that NAFTA is like a drop in the pail compared to GATT's impact.

I can say from the outset that NAFTA, at least with respect to Canada and Mexico, will have no beneficial impact on U.S. wheat growers, and that its larger implications will be negative. The NAFTA agreement as it concerns agriculture is really three agreements. The Canada-U.S. agreement remains more or less in force. You are only too aware of the impact this had on the influx of Canadian durum wheat into the U.S., and NAFTA may allow additional transportation subsidies. Canadian supply management is respected, the negotiators having concluded that it will be done away with through the GATT negotiations. There is a new agreement between Canada and Mexico, which I will not go into here, as well as a new agreement between the U.S. and Mexico. In our agreement with Mexico we have negotiated away Section 22 protection and have effectively gutted the U.S. sugar program along with programs which support cotton dairy and peanut farmers. In each case, losses could result in more acres going into wheat, especially in high production regions like the Red River Valley in North Dakota and Minnesota. We may have set the stage for the significant movement of beef processing and therefore cattle feeding south of the border.

As wheat producers, your concerns with NAFTA are whether or not it will result in increased wheat sales to Mexico. These will not be significant for a number of reasons. First, Mexico has already dropped its tariffs on wheat significantly, and many wheat producers in Mexico have already shifted to corn which, with edible beans, are the only commodities in Mexico that still have supported prices and import controls. Therefore, the reduction in domestic production has already by and large taken place.

Second, even within North America, it is unlikely that the U.S. will beat Canada and other suppliers to that market. Formerly, we supplied 70% of Mexico's imported wheat. Now we're down to 30%. The Canadian wheat board and grain commissions have consistently undersold us. In a 265,000 metric ton sale last February, for example, they came in with a price \$10 less per ton, giving them 90% of that sale and the U.S. 10%. This is true, not only of Mexico, but of all of Latin America where our market share of exports has been cut in half since 1980 by other suppliers.

Third, it is highly unlikely that the Mexican public will raise its income through NAFTA, and thus increase its capacity to purchase wheat containing products and wheat-fed beef. Currently, meat and wheat products, both bread and other processed foods, are consumed almost exclusively by the middle and upper classes. Bread is subsidized by the government for urban consumers. But corn is the staple in Mexico, and will remain so, although wheat is used in tortillas in the northern part of the country. The only thing that

will boost meat and wheat consumption in Mexico is an increase in the size of the middle class, and this will not be a consequence of NAFTA, largely because NAFTA is primarily a tool to promote investment and exploit cheap labor and not a blueprint for economic development.

Mexico needs a million new jobs every year just to handle its increased population. There are only 500,000 jobs, total, in the maquila zone along the border. The maquiladora are factories owned by companies headquartered outside Mexico that have preferential treatment to operate inside Mexico. They are allowed to import parts duty free and assemble them in Mexico with cheap labor, and then re-export them back into the U.S. The maximum wage in this zone is \$8 per day, and many of the workers who find their way there stay for a few months and then jump across the border into the U.S. where they can hope to earn \$5 per hour. This kind of industry works against the development of domestic industry in Mexico, because there is no spin-off effect from money spent on supplies. In addition, the influx of capital in U.S. corporate expansion will result in the folding of thousands of Mexican small businesses, thus increasing unemployment.

The displacement of Mexican farmers will also retard Mexican development. Thirty percent of Mexico's population is directly involved in agriculture, similar to the U.S. population in the 1930's. The undersecretary of agriculture estimated that Mexico would lose half of its rural population over the next decade. This means that as many as 10 million Mexican farmers and their families could be forced off their land by low prices and changes to the Mexican constitution that will allow literally half of Mexico's land to come onto the land market in one fell swoop. Many of these displaced farmers will come to the U.S., but many of them will pour into already crowded Mexican cities to compete for jobs there. The argument that Mexico will be able to make up in vegetable production what it loses in grains doesn't apply to employment. One study conducted by Dave Runsten at the University of California Davis estimated that in the best case, only 67,000 new jobs would be created for farmworkers as a result of increased vegetable exports.

Given the combination of all of these factors, it is safe to assume that there will be no major increase in wheat purchases in the short term. And the long term impact of NAFTA is likely to be negative. Not because of what will happen in Canada and Mexico, but because of six lines in the Agreement called the Accession Clause.

The Accession Clause states that any country or group of countries may accede to NAFTA as long as they undergo the correct procedures and are not rejected by the original parties. Chile has already expressed interest in joining. But some other, unexpected countries are also lining up. New Zealand. Australia. And countries like Brazil and Argentina, which are the hemisphere's lowest cost producers of oils seeds, beef and wheat, could have a significant impact on U.S. exports once all trade barriers are dropped. In the absence of a GATT agreement, this expanded NAFTA could accomplish some of the same things that appear in the Dunkel text including decoupling and harmonization of food safety standards which would allow the use of international food safety standards lower than those in the U.S. to be the norm.

Let's step back from the particulars and ask, what is free trade, anyway, but a race to the bottom? Have any of our policies, such as lowering the value of the U.S. dollar, lowering commodity prices, or instituting export enhancement programs really made a difference for U.S. farmers?

All we have to do is look at the performance of the wheat market over the past twelve years to see that something isn't working. The value of the U.S. dollar has fallen fairly consistently since 1985. So has the price of wheat. You got 3.69 for a bushel in 1981 and

3.0 ten years later. Our government's theory that the combination of these factors should increase wheat exports. Yet, in 1981, we exported 1.77 billion bushels, and in 1991, only 1.275. Although it looked like we had some increase in volume of wheat exports in the 80's and 90's, if we exclude sales to the USSR and Peoples' Republic of China, both of which were suffering shortfalls, our wheat export volume has declined steadily since the mid-80's. Value added exports have been similarly in decline. When we lowered the value of our currency, other major exporters did too. The same with the price of wheat.

There are a lot more countries in the world that have become self-sufficient in grain production or have converted to exporters. Countries like India have nearly doubled their wheat production in the last decade. China is increasing its exports now in grains such as corn. And why? Because commodity exports are one of the quickest ways debtor countries can get foreign exchange. And the U.S., through contributions to organizations like the International Monetary Fund and the World Bank, is helping them do it.

What we have is a policy that is structured according to a pre-1973 view of the world market. We act as if we're still the only major grain producing nation in the world. As if, when we held back our soybean exports in that year, Europe, which had gone hungry in two world wars, didn't wake up and start increasing its grain production. As if technology hasn't been transferred rapidly, making increases in production like those in India, possible.

Not long ago, I was here with a group of Mexican farmers, touring Nebraska and talking with farmers, and at the Unity Day Dinner in Holdrege, one of the Mexican farmers got up and said, "I know that when you hear about conditions in Mexico, you think to yourselves, 'Oh, we really hope we don't wind up like those Mexican farmers.' But let me tell you. After talking with corn farmers in Nebraska and hearing about how your system works, we've been thinking to ourselves, 'we certainly hope we don't wind up like those Nebraska farmers.'"

They saw that they were involved in a race for the bottom with free trade. Is that what you want? Do you want to be the world's low cost producer? Even if we could, is it worth it to increase exports by 20% if the price drops 30%? Given that GATT is about ending farm subsidies, what is going to happen to a state like Nebraska in which farmers are dependent on farm programs for up to 60% of their incomes? In these omnibus agreements where everything is thrown under the same agreement, it is not only possible, but common, for one sector to be traded off against another. If we want access to oil, do you think we won't trade off agriculture? If we want concessions on intellectual property from India, do you think we wouldn't trade off agriculture?

The recent decision by two lame duck ag ministers, MacSharry and Madigan, on oil seeds was a bad deal for farmers that obscured what had really taken place: they signed off on the Dunkel draft for the new GATT. This is a blueprint that constructs a new world order from unlimited imports, lower commodity prices, lower food safety standards, and decoupling farm income from production. Deficiency payments will be subject to a 20% reduction.

Today, farmers from all over the world are demonstrating at the European parliament in Strasbourg, supporting the French in their will to protect supply management.

It's high time we look for new solutions, that may not be very different from some good, old ideas. Back in the late 1940's, there was an active debate in the U.S. about how best to conduct world trade. There were those who advocated managed trade through international commodity agreements that would guarantee farmers a fair price, manage supply, and

ensure adequate grain reserves, by allocating shares of the world market. By this time, the farm parity program was in place. There were others who advocated free trade as a means to lower surpluses and facilitate the movement of grain throughout the world. The free traders won with the signing of the General Agreement on Tariffs and Trade in 1947. But the Congress, to placate the advocates of managed trade, put several riders on the GATT which have been very important to farmers in the U.S. and Canada--the Section 22 waiver and Article 11 2C which allows countries with supply management programs to implement import controls. As you know, Section 22 and Article 11 are threatened in the Uruguay Round of the GATT negotiations, along with the U.S. sugar program and the Canadian Wheat Marketing Boards.

In effect, we have managed trade now through the way our government makes decisions about the use of the Export Enhancement Program. But it's based on low prices. When we decide it's important for our allies to have part of the share of the market in some countries, we let them have it and only provide export enhancement assistance for part of the request. Norway, despite its requests, was only given EEP support for certain quantities because Canada wanted part of the action. Finland still hasn't been approved. So here's the question: if we are already, in fact, partially meeting the demand of the world market by divvying up market share, why not get a decent price while we're doing it?

One way Nebraska wheat growers have been meeting this challenge is to raise prices through the production and marketing of superclean wheat. Minnesotans have also participated in the program. These efforts are important and signal the wave of the future where U.S. quality can still outcompete lower cost producers in premium markets.

But we also have to change policy. Trade agreements are the rules governments use to govern the behavior of those who trade, in this day and age, primarily multinational corporations. Our government can shape and change those rules. As the '95 farm bill comes up for discussion, there are many choices to be made. First, will we continue to sponsor the race to the bottom with low loan rates on U.S. commodities. Will we continue, in our trade policy, to attempt to pull the world back to a pre-1973 commodity market, or will we do what we can to develop a rational system by which we share the world market based on reasonable prices for farm products? Clearly this is something that we can't answer here. But one thing is clear. In the race for the bottom, there are no winners.