I | A
T | P

NAFTA and AGRICULTURE:

The Fruits of Structural Adjustment and “Free Trade”

By Steve Suppan **1997**

“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 PL480, the “food aid” programs[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 the soldiers do “social service” work. They began to offer bags of food and signature loans. And since the people have so much need because huger is such a bitch, some accepted.”

-An indigenous leader in Chiapas, March 1995

The striking fact about NAFTA’s first two years is that while some agricultural sectors are benefitting and others are suffering, overall food security has been severely compromised. All three countries have abandoned long-standing commitments to prevent dependency on other countries for food by producing as much of their key staples as possible internally. Instead, they embraced the neoliberal policy of comparative advantage with devastating consequences, especially for Mexico.

NAFTA’s impacts on food security are as different in Mexico, Canada and the U.S. as those countries are different from each other. Yet the losses to date in each place have been devastating in their own ways and stand to continue as long as free trade, not food security, is the top priority in trade and agriculture policy.

In Mexico, at the time NAFTA was negotiated, U.S. grain was cheap and plentiful. Two years later, it is less plentiful and more expensive. Tragically, because of NAFTA and shifts in Mexican agriculture policy, Mexico has actually created disincentives for its corn and basic grain producers, and domestic production has fallen off at the very time when supplies from outside Mexico’s borders are most expensive.

In Canada, the system of supply management which has served as a model for countries throughout the world attempting to structure agriculture programs to provide living wages for farmers while guaranteeing a stable, high quality food supply, is being dismantled.

In the U.S., NAFTA and the WTO negotiations have created the political opportunities to eliminate much of the agriculture policy infrastructure that fostered secured food security and has created unstable supplies at unstable prices for some crucial agricultural commodities.

Preparing Mexican Agriculture for "Free" Trade

NAFTA is but the latest chapter in the implementation of a series of neoliberal policies that have devastated Mexican food security. Victor Quintana, a member of the Mexican House of Representatives, lamented that since 1985 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.[2]

As a result, the 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 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".[3]

NAFTA: Less Security for Mexican Farmers and Consumers

Far from reversing the negative trends brought about by structural adjustment, NAFTA has intensified them. While NAFTA proponents take great pains to distinguish NAFTA from peso devaluation, this is not really possible because the delay of the devaluation was politically necessary, despite its tragic economic consequences. A.M. Rosenthal has already demonstrated how by February 1994 (if not during the NAFTA Congressional debate itself in the summer and fall of 1993) the Clinton Administration and the International Monetary Fund (IMF) knew of the macro-economic crisis leading to the devaluation.[4] U.S. "free" traders needed the Mexican peso to look strong as much as Mexican policy makers did during the fight for NAFTA and the Mexican presidential election. They did nothing to encourage Mexico to devalue the peso gradually because they didn't want it to appear that Mexico's cheaper currency would give Mexico advantages in trading relations with the rest of North America.

The costs of producing corn and other crops rose 40% after the peso devaluation, and prices fell, eliminating any significant impacts of the tariffs that had taken two years of negotiations to determine. Agricultural loans, which prior to the peso crash had been available for 30% interest, soared to 120% interest.[5] Overdue ag debt increased 35% during the first quarter of 1995 for farmers who had relied on the NAFTA proponents' rosy predictions of increased production and profits. El Barzon (Spanish for "the yoke"), a national debtors' union, proposed a moratorium on paying interest on debt owed to foreign banks, but it was rejected by the Mexican government.[6] El Barzon's demonstrations have resulted in the temporary closings of hundreds of banks. The banks have responded with debt-collecting lawyers accompanied by armed guards.[7]

The disruption of the agricultural system had a huge impact on national production. The Mexican Department of Agriculture reported a 41% decrease in fall 1994/winter 95 season production for 10 basic grains, with an anticipated harvest of 6.6 million metric tons, compared to 11.23 million metric tons in the 1993/1994 growing season. Four million farmers may leave about 25 million acres unplanted as a result of the devaluation and drought in northern Mexico. Twelve thousand farmers in Chihuahua have abandoned the fields and have headed to the U.S. in search of work.[8]

The crisis in the countryside promoted the government to announce in March 1995, that prices of basic grains, <u>except corn</u>, would rise by 42-50% to meet part of the increase in costs of production resulting from the devaluation.[9] This was not enough. Mexican farmers responded to the crisis by proposing policies to revive Mexican agriculture. In May 1995, 300 agriculture leaders representing 120 organizations in 20 states signed a manifesto demanding that the government increase prices received for basic grains, decrease agricultural credit rates and extend emergency financing for the planting season. The manifesto stated the "the Mexican countryside is collapsing, the peasants are in despair, and the federal government is preoccupied only with problems of debt interest and speculative capital, both national and international."[10] In response to the manifesto and the nationwide demonstrations that accompanied its presentation, President Zedillo stated that post-devaluation policies needed more time to work and that unlike the United States and the European Union, Mexico could not afford to subsidize agriculture.

Meanwhile, consumers were feeling the squeeze. In late December 1995, the Mexican Department of Agriculture announced that it was discussing how to phase out the subsidy for corn tortillas, the flatbread that is the staff of life for most Mexicans.[11] Since January 1995 the cost of tortillas has risen 47%.[12] To pay back interest on the Clinton Administration peso support loan package, the Mexican government is willing to risk 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. In the context of such poverty, eighty 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. [13]

By adopting "free" trade agricultural policies, Mexico undermined its capacity to provide food security for its citizens. Thus deprived, under current policies, Mexico now has no choice under NAFTA except to import what it cannot afford. Having severely reduced its domestic production, Mexico has no choice but to turn to increased imports, and much of the increased corn imports are coming from the United States. Corn prices are the highest they have been in years. In September, 1995 the Mexican government proposed to accelerate the tariff phase-out for corn. According to Victor Suarez, 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. [14] If the Mexican government accelerates the tariff phase-out for corn, U.S. corn imports could flood the country and drive yet more unsubsidized Mexican producers off the land. An accelerated phase-out would increase the already large jump in U.S. corn exports to Mexico forecast by the USDA's Foreign Agricultural Service, which estimates that 179 million bushels of corn will be exported in 2000, compared to 118 bushels in Fiscal Year 1994/95. [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 free tons agreed to in NAFTA. [17] The Confederation Nacional de Propietarios Rurales estimates that grain imports will reach 17 million tons. [18]

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

"The good news is, NAFTA is working. The purpose of NAFTA was to lower duties, and they are being lowered."

-Marvin Lehrer, director of the USDA's trade office. [19]

For Lehrer, these lowered duties, combined with projected population increases and the weakened state of Mexican agriculture point to great future opportunities for U.S. exporters who can absorb present NAFTA-induced losses. Many U.S. producers, however, have less financial capacity to withstand the consequences of a dramatic fall in exports to Mexico. The peso devaluation made U.S. exports too expensive for most Mexicans and the tourist trade and Mexico's disappearing middle class are not likely to form a strong and consistent market for U.S. products any time soon.

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 fruits and nuts down by 43%; cotton exports, including fabric, down by 27%; and processed tea, coffee and sauces were down by 43%. In aggregate, U.S. agricultural exports to Mexico fell 44% during the first ten months of 1995. [20] U.S. food exports to Mexico dropped an estimated 28% in 1995 compared to 1994's exports, according to the United States Department of Agriculture (USAD). [21]

Florida's share of the U.S. winter tomato market had dropped from 70% in 1993 to 36% in January 1995, due to cheaper Mexican imports. After devaluation, the price for a 2lb. box of Mexican tomatoes dropped from $14 to $2.50, rising later to the $6-$7 a box range. [22] Florida's growers' petition for protection from Mexican imports was denied by the U.S. International Trade Commission. [23]

USTR Ambassador Mickey Kantor had 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 came under attack by representatives from other commodity groups who believe they will benefit from NAFTA in the long run. For example, the National Cattlemen's Association, the National Corn Growers Association, 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] The National Cattlemen's Association is helping to replenish the Mexican herds in exchange for Mexico's having agreed to drop a charge that the U.S. was exporting beef to Mexico at below the cost of production. [30]

We can readily understand why the National Corn Growers' Association would attack protectionist measures for Florida growers – corn exports to Mexico have jumped under NAFTA and grain traders do not want Mexico to retaliate against them because of U.S. protection for Florida tomatoes. The reactions of other groups are linked to concentration in agribusiness and the role large multinationals play in agricultural commodity group politics.

After the peso devaluation, 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%. [31] Beef, pork, egg, and poultry producers predicted that 1995 sales to Mexico would fall back to at least 1993 levels. [32] Yet these groups opposed Florida's pursuit of import protection.

Dominant players in the industry groups, such as Cargill and ConAgra, benefit so much by their grain sales to Mexico that they can well afford to lose meat, poultry and egg sales for a few years to Mexico. They resist inviting cross retaliation from Mexico by opposing Florida growers' pleas for import protection. Another reason for opposing Florida growers' is that these agribusiness and their industry groups have their eyes set on bigger game than Mexico. Open appeals for import protections for small meat, egg and poultry producers could well conflict with industry goals. Mexico could support U.S.-based appeals to the World Trade Organization to overcome the European Union's ban against hormone-treated beef, a market the industry estimates at $100 million a year. [33]

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. 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 WTO against the U.S. legislation. [34]

Transnational Agribusiness' 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 on U.S. multinational grain companies to look after our interests."

> -"National Farmers Union Memorandum to the Canada-United States Joint Commission on Grains", January 31, 1995

The Canada-U.S. Trade Agreement was negotiated during the administration of Prime Minister Brian Mulrooney, now a board member of the agribusiness giant, Archer Daniels Midland, presently under investigation by the U.S. Department of Justice for price fixing and possibly for other crimes. Canadian farmers have good reason to assume competing world views are at work.

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

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 the customary U.S. threats of unilateral determination of “unfair” trade practices and subsequent retaliation.

Not surprisingly, agribusiness denounces supply management as an outmoded failure: e.g. “The 1930’s idea that a government could control the price by managing the supply of a certain crop, like corn or wheat, has been systematically disproved”. [35] 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 U.S.T.R. trade complaint filed in July against Canadian tariffs on egg, poultry and dairy product imports from the U.S.

In July 1995, the USTR filed a trade complaint with precedent-setting implication. 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, “Its 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.” [36]

The chairman of the Ontario Milk Board Marketing Board testified to the House of Commons that “many countries went back [from the Uruguay Round negotiations] and created expectations among their citizens. I know that happened in the U.S. dairy industry. The U.S. dairy industry thinks their country negotiated open borders with Canada. That is the whole basis of the challenge under the North American Free Trade Agreement. The reality is that they didn’t do that. They negotiated as agreement that created new rules.” [37]

This view is unlikely to mollify U.S. dairy farmers many of whom, as outlined above, are pressured by dairy industry practices and U.S. government policies that pit famers from one region against another. USDA support for dairy programs has fallen from a peak of $2.5 billion in fiscal year 1983 to $158 million in fiscal year 1994. [38] These farmers are looking for export markets to save them from the high-volume, high-cost, low margin environment created by “free” trade agricultural policy. They are likely to support the agribusiness-dominated commodity groups who present NAFTA as an open door for exports and who often find a USTR willing to file a trade dispute complaint on their behalf.

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, which currently runs a small trade deficit. Further complicating the already fractious situation are the ramifications of a possible future succession of Quebec from Canada, despite the narrow win for federalists in the October 30 vote on whether or not to secede. [39]

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 U.S. "free" traders are to expand NAFTA to their satisfaction, one of the most urgent tasks to guarantee U.S. based TNC trade hegemony in the Western Hemisphere will be 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 as a single-desk seller for Canadian wheat and barley. 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 will likely be undercut in world markets by highly secretive transnational corporations. The pricing environment is controlled by such giants to the extent that they provide governments with data on grain stocks that are not independently verified upon which these governments base their agricultural forecasts. 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.

Despite the alleged inefficiencies of supply management, Canadian agriculture may set a record in exports for 1995. Officials at Agriculture and Agri-Food Canada project agricultural exports to reach C$16.5 billion, [40] small when compared to U.S. agricultural exports, but nonetheless vital for Canadian agriculture.

REFERENCES

1 Quoted in Rachael Garst and Thomas Berry, "Feeding the Crisis: U.S. Food Aid and Farm Policy in Central American", Liincoln, NE: University of Nebraska Press, 1990, 7.

2 Victor Quintana, "Who Benefits from Structural Change in the Agricultural Sector in Mexico?", The Other Side of Mexico, September-October 1995. 1-2.

3 Miguel Badillo, "Research Shows Grain Production Lacks Support", El-Financiero International Edition, 12/13-19/93.

4 A.M. Rosenthal, "Cover-Up Chronology", New York Times, April 4, 1995.

5 Leon Lazaroff, "Bright Lights, Small City: Colosio Brings Hope to Childhood Home in Sonora", El-Financiero International Edition, September 6-12, 1993 and Mary Turck, "Mexican Debt Relief Plan", The NAFTA and International Trade Monitor, September 22, 1995.

6 Mark Stevenson, "Debtors of Mexico – Unite! El-Financiero International Edition, July 3-9, 1995.

7 Mary Turck, "Procampo Falters, El Barzon Grows", The NAFTA and International Trade Monitor, August 4, 1995.

8 Matilde Perez, “Podrfan Dejar de Cultivarse Perez, Podrian Dejar de Cultivarse 10 Milliones de Hectareas a Partir de Este Ciclo, Indica Agricultura” La Jornada, April 24, 1995.

9 Perez, “Podrfan Dejar de Cultivarse…”

10 “Manifiesto: Por Una Politica Justa Para Los Productores de Granos Basico”, Movimiento Nacional de Organizaciones EconOmicas Campesinas, May 17, 1995 and “120 Organizaciones de 20 Estados Exigen Considerar al Campo Como Prioridad Nacional”, La Jornada, May 18, 1995.

11 Leslie Crawford, “Mexico Cooks Row by Row by Ending Tortilla Subsidies, Financial Times, December 29, 1995.

12 Weekly News Update on the Americas, October 1, 1995.

13 “NAFTA and Mexico”, Canadian Centre for Policy Alternatives Monitor, November 1995.

14 Victor Suarez Carrera, “Los Limites del Neoliberalismo en la Agricultura de Granos Basicos en Mexico: Ni Ventajas Comparativas Ni Autosuficiencia Alimentaria”, 16. Paper presented at the Latin American Studies Association, September 27, 1995 in Washington, D.C..

15 “U.S. Export Sales”, United States Department of Agriculture, August 24, 1995.

16 Chris Aspin, “Mexico Corn Shortage Forces Farm Policy Shake-Up”, Reuter, October 19, 1995.

17 Chris Aspin, “Mexican Corn Imports Up 71.9 Percent to October 31”, Reuter December 1, 1995

18 Marcelo Morichi and Jan Gilbresath, “Drought Brings Severe Crop Reductions and Cattle Losses in Northern Mexico”, U.S. Mexican Policy Studies Program, July 21, 1995.

19 Bill Mongelluzzo, “US Sees Farm Sales to Mexico Sprouting”, Journal of Commerce, September 14, 1995.

20 “US Exports to Mexico: What’s Up, What’s Down”, Journal of Commerce, January 16, 1996 and Peter M. Tirschwell, “US Farmers Increasingly See NAFTA As a Raw Deal”, Journal of Commerce, January 22, 1996.

21 Bill Mongelluzzo, “US Sees Farm Sales to Mexico Sprouting”, Journal of Commerce, September 14, 1995.

22 Jane Bussey, “Mexican Grower’s Boost Tomato Shipments”, Miami Herald, February 27, 1995.

23 John Maggs, “Panel Rejects Growers’ Plea to Restrict Tomato Imports”, Journal of Commerce, April 19, 1995.

24 John Maggs, “Clinton May Put Squeeze on Mexican Tomato Imports”, Journal of Commerce, October 16, 1995.

25 Larry Waterfield, “Law Would Speed Trade Relief”, The Packer, December 18, 1995.

26 “Stop Flood of Mexican Produce, AFBF Says”, The Delmarva Farmer, December 19, 1995.

27 Paul Blustein, “U.S. Walks Tightrope on NAFTA Delays”, Washington Post, December 26. 1995.

28 Chuck Lambert, “Issues Update”, National Cattlemen’s Association, November/December 1995/27.

29 Brian McGrory, “Cattlemen Fenced in By Low Prices”, AgWeek, January 29, 1965

30 Kevin G. Hall, “US Asks Mexico for Assistance in EU Beef Spat”, Journal of Commerce, January 17, 1995.

31 Janet Day, “Peso Crisis Hits Meat Exporters”, Denver Post, January 31, 1995.

32 “Peso Plunge Hits U.S. Exports”, Meat and Poultry, February 1995.

33 Kevin G. Hall, “US Asks Mexico for Assistance in EU Beef Spat”, Journal of Commerce, January 17, 1995.

34 Mark Stevenson, “U.S. Defends Limits on Mexican Trade”, UPI, January 30, 1995 and Richard Lawrence and John Zaracostas, “Tomato Protection Could Ripen to Cover Other U.S. Exports”, Journal of Commerce, January 30, 1995.

35 Linda Thrane and Rob Johnson, “A Good Compromise that Lets Deficits Shrink and Farmers Grow”, Cargill Bulletin, December, 1995, 8.

36 Ian Elliot, “U.S. Files Ag Trade Action Against Canada Under NAFTA”, Feedstuffs, July 24, 1995.

37 Ian Elliot, “Ontario Producer Challenges U.S. View”, Feedstuffs, October 2, 1995.

38 FUMAC Milk Matters, July 17, 1995.

39 “Trade Issue, Quebec Secession Face Canadian Dairy Industry”, Feedstuffs, October 2, 1995.

40 “Canadian Ag Exports on Record Pace for Year”, Feedstuffs, December 18, 1995.