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# INTERNATIONAL TRADE DEVELOPMENTS

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## Mexican Farmers Demand Protection Against Imports of U.S. Agricultural Products

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*In response to impassioned demonstrations by Mexican farmers, who deplore the elimination of the agricultural tariffs and quotas that took place on January 1, 2003 under the North American Free Trade Agreement, the Government of Mexico has applied new, protective measures against agricultural imports from its NAFTA partners. The government has also granted more financial support on behalf of Mexican farmers.*

### Background

Although agriculture represents only 4 to 5 percent of Mexico's gross domestic product,<sup>2</sup> it supports about a quarter of the country's population.<sup>3</sup> Most Mexican agricultural workers are subsistence farmers who plant grains and oilseeds in small plots (five or fewer hectares), which have supported them for generations. These small farmers, as well as some mid-sized farmers of certain products including beef, pork, and poultry, claim that they have been devastated by U.S. competition in the Mexican market resulting from the North American Free Trade Agreement (NAFTA).

The status of Mexican agriculture and the Mexican rural poor has been a major political, social, and economic concern for quite some time. In Mexican farming circles this concern had sharpened as January

1 of 2003 approached, the date designated by NAFTA for the elimination of tariffs and tariff rate quotas (TRQs) on farm products (except for corn, sugar, dry edible beans, and powdered milk).<sup>4</sup> In the second half of 2002, and continuing into 2003, hundreds of thousands of Mexican farmers and their supporters were staging protests, blocking highways and border crossings. Angry farmers crashed through the windows of the nation's Capitol in Mexico City, thundering through the halls of Congress on horseback, waving Mexican flags.

The farmers claimed that cheaper U.S. farm products were flooding the Mexican market, that they were unable to compete against imports from the United States, where easy credit, better transportation, better technology, and major subsidies give U.S. farmers an unfair advantage. The U.S. farm bill of 2002 in particular, which includes provisions of new support for U.S. farmers, triggered the revival of the Mexican farmers' long smoldering dissatisfaction, and prompted them to demand remedial action from their government.

Last December, the National Association of Commercial Farm Producers (ANEC), along with

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<sup>2</sup> United States Department of State (USDOS) telegram, "Northern Mexico's Views on NAFTA Provisions," prepared by the American Embassy, Mexico City, message reference No. 1355, Dec. 26, 2002.

<sup>3</sup> Sergio Sarmiento, "NAFTA and Mexico's Agriculture," *Hemispheric Focus*, Center for Strategic and International Studies, Mar. 4, 2003.

<sup>4</sup> United States Department of Agriculture (USDA), Foreign Agricultural Service (FAS), "Mexico's NAFTA Tariff Schedule for 2003," *Gain Report #MX3011*, Jan. 23, 2003.

several other farmers' associations in Mexico, presented a proposal to limit purchases of food products from the United States and Canada.<sup>5</sup> Farmers have grown increasingly vocal in calling for the renegotiation of NAFTA, insofar as the accord involves agriculture.<sup>6</sup> A position paper authored by Mexican Congressman Ramon Leon Morales was presented on January 9, 2003 before the Mexican Congress, arguing in favor of renegotiating NAFTA's agricultural chapter.<sup>7</sup>

From the beginning of the farmers' recent crusade, Mexican President Vicente Fox has repeatedly rejected the idea to renegotiate NAFTA,<sup>8</sup> proposing instead alternative approaches that would not involve a return to discredited Mexican policies of protection and economic isolation.

### *The "Armor" Package*

On November 18, 2002, the Fox Administration officially published its "agricultural armor" package.<sup>9</sup> The principal stated goal of the program was "... to ensure the feasibility and competitiveness of the Mexican Agricultural Sector in an open economy context."<sup>10</sup> The package contained several proposed bills, regulations, and standards, including new sanitary and phytosanitary measures; new provisions for food safety; and new standards for food quality. Notably, it called for a revision of Mexico's Foreign Trade Law to include provisions allowing domestic producers faster recourse to protection in cases of foreign commercial practices they perceived as unfair. An expanded support scheme for agriculture proposed target prices and direct payments to farmers.

Mexican officials had emphasized that the objective of the package was not to restrict trade, but to make Mexican agriculture more competitive.<sup>11</sup> The Government of Mexico planned to rely heavily on NAFTA safeguards, and viewed the program consistent with Mexico's obligations under international trade agreements.<sup>12</sup>

<sup>5</sup> USDA, FAS, "Agricultural Situation, Weekly Highlights and Hot Bites," *Gain Report* #MX2172, Dec. 17, 2002, and *El Financiero*, Dec. 10, 2002, p. 6.

<sup>6</sup> USDA, FAS, "Agricultural Situation, Weekly Highlights and Hot Bites," *Gain Report* #MX2172, Dec. 17, 2002, and *El Financiero*, *El Universal*, both of Dec. 10, 2002, p. 3.

<sup>7</sup> USDA, FAS, "Mexico: Weekly Highlights and Hot Bites," *Gain Report* #MX3008, Jan. 15, 2003, p. 3, and *Gaceta Parlamentaria*, Jan. 8, 2003.

<sup>8</sup> *El Financiero*, *La Jornada*, both of Dec. 10, 2002.

<sup>9</sup> USDA, FAS, "Mexico's Agricultural Armor Package 2002," *Gain Report* #MX2173, Dec. 19, 2002.

<sup>10</sup> *Ibid.*, p. 4.

<sup>11</sup> USDOS telegram, "More Details on AG Armor Proposal," prepared by the American Embassy, Mexico City, message reference No. 10268, Dec. 10, 2002.

<sup>12</sup> USDA, FAS, "Mexico's Agricultural Armor Package," *Gain Report* #MX2173, Dec. 19, 2002.

### *National Agreement on Agriculture and Rural Development*

The farmers' continued dissatisfaction prompted the Fox Administration to conclude an agreement with farming interests on rural development on April 28, 2003. This accord calls for \$267 million newly budgeted funds to pay for a variety of programs, including farm credits, rural roads and housing, subsidized electricity, and educational and health services for the farmers. However, the new accord did not include a request to renegotiate NAFTA as the farmers demanded. Some farming groups remained dissatisfied for this reason, and also because they believed that more generous financial support was needed for Mexican farming than the accord provided.

### *Accelerated Procedures for Unfair Trade Cases*

Instead, the Government of Mexico chose to protect domestic agriculture against imports from its NAFTA partners—a practice it had been engaged in already for some time. Instituting antidumping action on questionable grounds has been a form of trade protection used by the Mexican government, which now designs accelerated procedures for such cases.<sup>13</sup> Early June 2003, Mexico imposed antidumping duties on white, long-grain rice from the United States. This latest antidumping case instituted against a U.S. product followed earlier ones involving beef, high-fructose corn syrup, and swine. The United States had challenged these actions under NAFTA, or World Trade Organization (WTO) rules, or both.<sup>14</sup> The latest U.S. complaint, which the United States filed with the WTO on June 16, 2003, involves Mexico's antidumping orders on beef and the most recent one on white, long-grain rice.<sup>15</sup>

### *Challenges of the Mexican Farmers' Distorted Perception*

Mexico is the third largest market for U.S. agricultural exports, hence that country's agricultural policy is of major importance for the United States. Some analysts and officials in both the United States and Mexico have strongly disputed the perception of Mexican farmers that NAFTA is a major source of

<sup>13</sup> USDA, FAS, "Mexico's Agricultural Armor Package," *Gain Report* #MX 2103, Dec. 19, 2002.

<sup>14</sup> For example, see Magdolna Kornis, "Mexican Sugar and U.S. Sweeteners," in the USITC, *International Economic Review*, March/April 2001.

<sup>15</sup> USTR, "U.S. Files WTO Case Against Mexico's Antidumping Restrictions on Beef and Rice Exports," press release 2003-38, June 16, 2003.

their problems. Still others, while not disputing that NAFTA may have caused problems for farmers of certain products, emphasized the net benefits of NAFTA for the Mexican economy as a whole, demanding a balanced view in considering the trade interests of all partners. Some of these arguments are summarized below:

1. *Only a few Mexican farm commodities have been adversely affected by NAFTA.* Sergio Sarmiento points out that only 38 percent of Mexico's agricultural imports—including wheat, rice, grapes, and pears—became free of duty because of NAFTA. A larger share (43 percent), which includes sorghum, soy, peanuts, corn seeds, became duty-free as a result of trade negotiations under the World Trade Organization.<sup>16</sup> Also a study released in July 2002 by the United States Department of Agriculture (USDA) claimed that only a small portion of the increase of overall U.S. agricultural trade with NAFTA partners can be attributed to NAFTA itself. The few U.S. products whose exports have surged because of NAFTA were the same whose imports had been most severely restricted in Mexico prior to NAFTA's implementation. Rice was such a product. The reduction of Mexican tariffs on U.S. rice has played a key role in doubling U.S. exports to Mexico since NAFTA's implementation.<sup>17</sup>

2. *Imports of several farm products from the United States have risen quickly, because Mexico has been lacking self sufficiency in producing them, not because of cheaper competition from the United States.* Such products include corn, sorghum, and wheat. Imports of corn, which is the staple in the Mexican diet, have consistently exceeded NAFTA's import quotas. USDA analysts comment that:

“Even when corn prices were high in 1996, Mexico's imports did not waver. Poultry producers, for example, prefer yellow corn over the domestically produced white corn, and through the access under Mexico's tariff-rate quota (TRQ), the majority of feed corn is imported. Other important end-users of yellow corn and wheat include the swine and wet-milling industries.”<sup>18</sup>

3. *Tariffs in Mexico on most U.S. products had been already low before their dropping to zero in*

<sup>16</sup> Sergio Sarmiento, “NAFTA and Mexico's Agriculture,” *Hemispheric Focus*, Center for Strategic and International Studies, Mar. 4, 2003.

<sup>17</sup> USDA, Economic Research Service, “Effects of the North American Free Trade Agreement on Agriculture and the Rural Economy,” July 2002, p. vi. Found at <http://www.ers.usda.gov/publications>, retrieved on Nov. 11, 2002.

<sup>18</sup> USDA, FAS, “Positive Outlook for U.S. Grain Exports,” *Gain Report* #MX2123, Sept. 4, 2002, p. 1.

*January 2003.* Because of the phase-out of tariffs under NAFTA for years prior to January 1, 2003, Mexican tariffs on some 90 percent of agricultural goods had been down to less than 2 percent during 2002.<sup>19</sup> Consequently, the drop of these already low tariffs to zero in January 2003 could not materially have worsened the competitive conditions in the Mexican market.

Nonetheless, there are exceptions. Some products had enjoyed considerable duty protection in 2002 immediately before these duties were abolished, including chicken parts, and pork meat. Chicken parts had been protected by a 49.2 percent rate of duty when imported in excess of its TRQ. These high over-quota tariffs were eliminated in one stroke on January 1, 2003. The over-quota tariffs of pork meat were 20 percent before their elimination on the same day.

4. *Not only have U.S. agricultural exports to Mexico risen fast during the NAFTA years, but Mexican agricultural exports to the United States have grown rapidly as well.*<sup>20</sup> Commenting in December 2002 on Mexican farmers' complaints against NAFTA, the U.S. Embassy in Mexico City pointed out that NAFTA has benefitted both parties, and that many Mexican products like tomatoes, avocados, fruits and vegetables are now highly competitive on the U.S. market. The United States is the largest market for Mexican agricultural exports, absorbing 78 percent of the total.<sup>21</sup>

5. *Problems of Mexican agriculture may be attributed principally to the sector's persisting structural problems, mismanagement by former Mexican officials, or by the farmers themselves.* “Mexico is not yet to reach the levels of competitiveness required in its agricultural sector” noted renowned Mexican economist Abel Perez Zamorano, last December.<sup>22</sup> He argued, that the implementation of NAFTA had required structural changes in Mexican agriculture that, had they been implemented, would have improved Mexico's preparation for open-market competition with the United States and Canada. Zamorano added that “The NAFTA was the perfect opportunity whereby Mexico could have developed all of its productive

<sup>19</sup> Embassy of the United States in Mexico, “Reply to the Critics against the Agricultural Policies of the United States and NAFTA,” Dec. 5, 2002. Found at <http://www.embassy-mexico.gov>, retrieved on Feb. 4, 2003.

<sup>20</sup> Mexican exports of farm products to the United States rose from \$3.2 billion in 1993 to \$6.2 billion in 2001. Found at Internet address <http://www.sice.oas.org/trade/nafta/naftatce.asp>, retrieved on Feb. 4, 2003.

<sup>21</sup> Embassy of the United States in Mexico, “Reply to the Critics against the Agricultural Policies of the United States and NAFTA,” Dec. 5, 2002. Found at <http://www.embassy-mexico.gov>, retrieved on Feb. 4, 2003.

<sup>22</sup> USDA, FAS, “Mexico: Weekly Highlights and Hot Bites,” *Gain Report* #MX3005, Jan. 8, 2003, p. 3, and *Reforma*, Dec. 30, 2002.

sectors, specifically in the area of agriculture.” The U.S. Embassy in Mexico City made the same point, saying that during the transition period to free trade in agriculture, beginning in 1994, NAFTA “has offered a reasonable implementation period that has permitted both countries to adjust to the changing conditions of the market.”<sup>23</sup> Rather than the NAFTA, the fragmentation of farm land<sup>24</sup> and the lack of full property rights and the latter’s consequent legal ramifications are seen as the most serious structural problems of Mexican farming.<sup>25</sup>

On January 6, 2003, at the annual meeting of the National Farm Workers’ Council (CNBC), Javier Usabiaga, the Mexican Secretary of Agriculture, made remarks that put some of the blame on the farmers themselves for failing to make Mexican agriculture more competitive (reportedly, the farmers reacted violently to this, pelting the Secretary with tomatoes and onions, and throwing him off the stage).<sup>26</sup>

Senior government officials of the previous Administration, such as Francisco Labastida, the Zedillo Administration’s Secretary of Agriculture, are sometimes also blamed for the country’s agricultural woes. Labastida in turn accuses Carlos Salinas, a still earlier President of Mexico who

negotiated NAFTA in the first place, for having underestimated the potentially adverse impact of the accord upon the country’s agricultural sector.<sup>27</sup>

6. *NAFTA has to be evaluated in its entirety.* NAFTA has been a boon to the Mexican economy as whole, a fact amply documented by a wide range of studies and data.<sup>28</sup> On January 6, 2003, at the annual conference of the National Farm Workers Council (CNC), President Fox noted that NAFTA as a whole is beneficial for Mexico, because it has forged an efficient and modern economy in the country. The task for agriculture is to become more competitive, he warned, also reminding his audience that NAFTA is “law, which is not subject to revision.”<sup>29</sup>

### Concluding Remarks

The eradication of rural poverty in Mexico is a huge, long-term undertaking, and weakening NAFTA to bring back protection against U.S. and Canadian imports is not an option that the Government of Mexico is currently considering. Nevertheless, agriculture will doubtlessly remain the most difficult issue in U.S.-Mexican trade relations in the foreseeable future.<sup>30</sup>

<sup>23</sup> Embassy of the United States in Mexico, “Reply to the Critics against the Agricultural Policies of the United States and NAFTA,” Dec. 5, 2002. Found at <http://www.embassy-mexico.gov>, retrieved on Feb. 4, 2003.

<sup>24</sup> This fragmentation is a legacy of Mexico’s “ejido” system. Ejidos are semi-collective plots of farm land, distributed by the government as part of the agrarian reform of 1917.

<sup>25</sup> Sergio Sarmiento, “NAFTA and Mexico’s Agriculture,” *Hemispheric Focus*, Center for Strategic and International Studies, Mar. 4, 2003.

<sup>26</sup> USDA, FAS, “Mexico: Weekly Highlights and Hot Bites,” *Gain Report* # MX3005, Jan. 8, 2003, p. 5, and *La Jornada*, *Reforma*, and *El Financiero*, all of Jan. 7, 2003.

<sup>27</sup> USDA, FAS, “Agricultural Situation, Weekly Highlights and Hot Bites,” *Gain Report* #MX2172, Dec. 17, 2002, p. 6, and *Reforma*, Dec. 13, 2002.

<sup>28</sup> See for example, Sergio Sarmiento, “NAFTA and Mexico’s Agriculture,” *Hemispheric Focus*, Center for Strategic and International Studies, Mar. 4, 2003.

<sup>29</sup> USDA, FAS, “Mexico: Weekly Highlights and Hot Bites,” *Gain Report* # MX3005, Jan. 8, 2003, p. 5, and *La Jornada*, *Reforma*, *El Universal*, and *El Financiero*, all of Jan. 7, 2003.

<sup>30</sup> John Nagel, “2003 Key Year for NAFTA Implementation: Tensions Rise Over Agriculture,” *BNA-International Trade Daily*, Jan. 22, 2003.