Mexican Farmers Against U.S. Imports: An Update

Magdolna Kornis[1]
mkornis@usitc.gov
202-205-3261

A December 2003 World Bank report[2] *concluded that the North American Free Trade Agreement (NAFTA) had a positive impact on Mexican agriculture–a conclusion reached by some other analysts, including Mexican ones. Yet, the Mexican Government continues to erect barriers against agricultural imports to appease farmers, who blame NAFTA for widespread rural poverty.*

For quite some time, issues of agricultural trade have dominated U.S.-Mexican trade relations.[3] During the first decade of the North American Free Trade Agreement (NAFTA), tariffs in mutual trade have been gradually reduced for agricultural products, as they have for products of other sectors. All tariffs, including those on most agricultural products, were eliminated on January 1, 2003.[4] Angered by the disappearance of tariff protection, and by the U.S. farm bill[5] signed into law in May 2002, which granted new subsidies to U.S. farmers, Mexican growers and ranchers have been pressuring their government to renegotiate the agricultural portion of NAFTA. Mexico also emerged as a major actor in the worldwide debate about the agricultural exports of rich countries and their adverse impact on the exports of poorer countries.

Although Mexican farmers benefit from government subsidies, they argue that they have been devastated by competition from imports from the United States because they consider U.S. farmers to enjoy greater subsidies than they do. The Mexican farmers' perception of NAFTA's negative effect on Mexican agriculture has been quickly adopted by other anti-NAFTA groups, causing an estimated 32 percent of the Mexican public to share this anti-NAFTA belief.[6]

Several analysts however, some in Mexico, disagree with this view. These detractors argue that NAFTA is not to blame for the country's widespread rural poverty, which has other deep-seated historical causes–most significantly small farm size, and a tenuous land ownership system (both known generally as characteristics of Mexico's *ejido* system).[7] These analysts further cite statistics, which show that Mexican agricultural production and trade has actually benefitted from NAFTA, as has agricultural production and trade of the other partners–the United States and Canada.[8] Notably, the World Bank's December 2003 report says:

"Our main conclusion is that liberalization of agricultural trade under NAFTA has already been substantial. However, this liberalization has not had the devastating effects on Mexican agriculture as a whole and has not had the negative effects on poor subsistence farmers in particular."[9]

[1] The author is an international economist in the Country and Regional Analysis Division of the U.S. International Trade Commission, Office of Economics. The views expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission (USITC) as a whole or of any individual Commissioner.

[2] Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin American and Caribbean (LAC) Countries: A Summary of Research Findings*, Office of the Chief Economist for Latin America and Caribbean, the World Bank, December 2003, advance edition, found at Internet address *http://lnweb18.worldbank.org/LAC/LAC.nsf/*, retrieved Dec. 17, 2003.

[3] See also Magdolna Kornis, "Mexican Farmers Demand Protection Against Imports of U.S. Agricultural Products," U.S. International Trade Commission, *International Economic Review*, May/June 2003.

[4] The few remaining tariffs are scheduled to be phased out by Jan. 1, 2008.

[5] The Farm Security and Rural Investment Act, Pub. L. 107-171.

[6] Results of a public opinion poll published in *Reforma*, Feb. 1, 2003.

[7] Kornis, *op. cit.*

[8] Abel Perez Zamorano, *Reforma*, Dec. 30, 2002, and Sergio Sarmiento, "Mexico Alert," Center for Strategic and International Studies, *Hemispheric Focus*, Mar. 4, 2003, and testimony of Sergio Sarmiento before the U.S. Senate, Committee on Finance on Sept. 23, 2003.

[9] Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin American and Caribbean (LAC) Countries: A Summary of Research Findings*, Office of the Chief Economist for Latin America and Caribbean, the World Bank, December 2003, advance edition, found at Internet address *http://lnweb18.worldbank.org/LAC/LAC.nsf/*, retrieved Dec. 17, 2003, p. 95.

The report states that, overall, NAFTA had a positive impact on Mexican agriculture for three principal reasons: (1) growth of demand allowed Mexican agricultural production and imports to rise simultaneously during the NAFTA years of the 1990s; (2) land-productivity of Mexican farm lands increased in some segments of farming, and (3) the effectiveness of Mexican agricultural subsidies and income supports also increased in some segments of farming, due to the reforms implemented during the NAFTA years.[10]

Some other analysts contend that subsistence farmers dedicated to traditional crops–including corn, barley, and beans–did experience disruptions during the NAFTA period, but these resulted largely from the failure of Mexican institutions and individuals to make the necessary adjustments over the transition period provided by NAFTA.[11]

Yet, the strong and sometimes violent protests of Mexican farmers and their allies attacking NAFTA, and the persistent widespread poverty of rural communities in the country forced the Government of Mexico to respond positively to the farmers' demands. Although rejecting the call for renegotiating NAFTA, the Mexican Government accelerated instituting an array of measures designed to protect domestic agriculture, including a sometimes questionable use of antidumping measures, sometimes inconsistent enforcement of sanitary and phytosanitary standards, and irregular compliance with customs procedures. During 2003, significant quantities of imports from the United States had been rejected by the Mexican Secretariat of Agriculture at the border.[12]

Early in 2003, the government amended Mexico's foreign trade law, which now contains modifications of the country's antidumping and countervailing duty laws.[13] Still other measures that have the effect of restricting agricultural imports are under consideration. In addition to stepped-up trade protection, the government provided new subsidies to Mexican farmers and rural communities.[14]

[10] Ibid., pp. XIV and XV.

[11] Abel Perez Zamorano, *Reforma*, Dec. 30, 2002, and Sergio Sarmiento, "Mexico Alert," Center for Strategic and International Studies, *Hemispheric Focus*, Mar. 4, 2003, and testimony of Sergio Sarmiento before the U.S. Senate, Committee on Finance on Sept. 23, 2003. See also Kornis, *op. cit.*

[12] USTR, "Input for 2004 National Trade Estimate: Mexico," Dec. 3, 2003.

[13] Ibid.

[14] Ibid.

Mexico's "National Agreement on Agriculture"

On April 28, 2003, Mexican President Vicente Fox signed a "National Agreement on Agriculture (NAA)."[15] This accord was a follow-up to the "Agricultural Armor Package" announced in November 2002. NAA was the first framework accord between the government and farmers in the NAFTA era that contained various programs in support of farmers and rural communities. In the area of international trade, major provisions of the NAA included the following:

- The Government of Mexico (GOM) and agricultural producer groups will conduct a joint evaluation of the NAFTA agricultural chapter and its effect on Mexico's rural sector.
- The GOM and agricultural producer groups will conduct a joint study of the U.S. farm bill.
- The GOM will address the continued use of agricultural subsidies by the United States and Canada since the implementation of the NAFTA; the GOM will consider applying all available defense mechanisms as provided for in the NAFTA. In addition, the GOM will seek consultations with the United States and Canada to consider the addition of new articles and annexes to NAFTA to address existing agricultural asymmetries.
- The GOM will create an office of trade investigations that will work with producer groups to monitor imports for unfair trade practices.
- The GOM will put Mexico forward as a developing country under the provisions of the World Trade Organization (WTO) and propose the immediate elimination of export and internal subsidies that distort international trade. In addition, the GOM will reserve the right to reintroduce tariffs and quantitative restrictions for reasons of national sovereignty and security.[16]

[15] *Acuerdo Nacional Para El Campo (ANC)*, Apr. 28, 2003.

[16] U.S. Department of Agriculture, Foreign Agricultural Service, "Government of Mexico Signs National Agreement on Agriculture," Global Agriculture Information Network (GAIN) Report, GAIN Report no. MX3067, May 9, 2003, found at Internet address, *http://www.fas.usda.gov/gainfiles/200305/145885555.pdf*, retrieved Nov. 29, 2003.

Antidumping Probes, Orders, and Related Taxes

Still-unresolved agricultural issues that began as notable antidumping cases include high fructose corn syrup (HFCS), a U.S. sweetener on which antidumping duties were first imposed by Mexico in 1998. These duties were ruled illegal by both the WTO and NAFTA.[17] Although the Mexican Government ultimately removed the duties, as directed, it levied a 20-percent consumer tax on soft drinks sweetened with HFCS (commonly known as the "soda tax") in December 2001, thereby effectively banning imports of soft drinks from the United States.[18] The Fox Administration proposed the elimination of this tax in its economic package submitted to Mexico's Congress on November 6, 2003. However, at the time of this writing, the tax is still in effect.

Other antidumping orders that affect or threaten to affect U.S. agricultural exports to Mexico involve pork, certain beef, long grain white rice, and apples. Mexico initiated an antidumping investigation on U.S. pork on January 7, 2003–an action that, according to some U.S. leaders, is in violation of WTO rules.[19] In the words of Mexican economist Sergio Sarmiento: "My impression is that Mexico does not stand on solid grounds in this legal action, but the government seems to be buying time for Mexican pork producers."[20]

In April 2002, the Mexican Government imposed definitive duties on U.S. beef and, in June 2002, on U.S. long grain white rice.[21] In June 2003, the United States requested joint WTO consultations with respect to the antidumping duties on beef and rice.[22] Because these consultations which were held in July and August 2003 failed, the United States requested the formation of a WTO dispute settlement panel on rice in September.[23] In November 2003, the World Trade Organization established a dispute settlement panel to review the U.S. challenge to Mexico's antidumping order on rice.[24] A U.S. request of a WTO dispute panel may follow on beef too.[25] Mexico's antidumping duties on beef had been challenged by several U.S. beef exporters under NAFTA as well.[26] A safeguard action was reportedly also under consideration by the GOM against beef imports from the United States at the request of the Mexican beef industry.

During 2002, Mexico's Secretary of the Economy reactivated a 1997 preliminary antidumping order on imports of golden delicious and red delicious apples from the United States.[27] By ordering antidumping duties once again, the Mexican Government revoked a suspension agreement that was in effect,[28] reinstating actions based on investigations that may not have been carried out in accordance with WTO rules.[29] The U.S. industry has been engaged since 2002 with negotiating a new suspension agreement.

Protective Action on Other Sensitive Products

Imports of corn and beans, both staples in the country's diet and the principal products of subsistence farmers, have been especially responsible for the Mexican public's anti-NAFTA sentiment. Yet, according to the World Bank, even poor subsistence farmers have not suffered from NAFTA. The World Bank's previously cited report bases this conclusion on comparing Mexico's production and imports of traditional crops (including corn and beans) before and during the NAFTA years. Their data show that

---

17 See USITC, *The Year in Trade, 2000: OTAP,* Publication 3428, June 2001, pp. 4-17 to 4-18; USITC, *The Year in Trade, 2001: OTAP,* Publication 3510, May 2002, pp. 5-16 to 5-17; USITC, *The Year in Trade, 2002: OTAP,* Publication 3630, August 2003, pp. 5-15 to 5-17.

18 USITC, *The Year in Trade, 2002: OTAP,* Publication 3630, August 2003, pp. 5-15 to 5-17.

19 Testimony of Amb. Allen Johnson, Chief Agricultural Negotiator of the U.S. Trade Representative, before the U.S. Senate, Committee on Finance on Sept. 23, 2003. Conversely, on May 23, 2003, Mexico eliminated compensatory duties on the imports of live hogs for slaughter from the United States. *Diario Oficial*, May 23, 2003.

20 Testimony of Sergio Sarmiento before the U.S. Senate, Committee on Finance on Sept. 23, 2003.

21 *Diario Oficial*, June 5, 2002.

22 World Trade Organization, "Mexico—Definitive Anti-dumping Measures on Beef and Rice, Request for Consultations by the United States," June 23, 2003 (WT/DS295/1).

23 World Trade Organization, "Mexico – Definitive Anti-dumping Measures on Beef and Rice, Request for the Establishment of a Panel," Sept. 22, 2003 (WT/DS295/2).

24 USTR, "WTO Establishes Dispute Panel in U.S. Challenge to Mexican Antidumping Order on Rice," press release 2003-71, Nov. 7, 2003.

25 Testimony of Amb. Allen Johnson, Chief Agricultural Negotiator of the U.S. Trade Representative, before the U.S. Senate, Committee on Finance on Sept. 23, 2003.

26 Testimony of Amb. Allen Johnson, Chief Agricultural Negotiator of the U.S. Trade Representative, before the U.S. Senate, Committee on Finance on Sept. 23, 2003.

27 U.S. Department of Agriculture, Foreign Agricultural Service, "Mexico Reimposes Antidumping Duty on U.S. Apples," *FAS Online*, Aug. 16, 2002, found at Internet address *http://www.fas.usda.gov/*, retrieved Nov. 14, 2002; "Mexico Sets Antidumping Duties of 46.58 Percent on U.S. Apple Imports," *BNA-International Trade Daily*, Aug. 13, 2002.

28 See USITC, *The Year in Trade, 2002: OTAP,* Publication 3630, August 2003, p. 5-14.

29 See more detail in USITC, *The Year in Trade, 1999: OTAP,* Publication 3336, August 2000, p. 5-14.

Mexican production of these crops has grown during the NAFTA period recorded (1994-2000) and, despite simultaneously rising imports, has reached higher levels than attained before NAFTA. Notably, the World Bank reached this conclusion especially with respect to the production of nonirrigated corn farms, the type which encompasses the poor "*ejidatario*"[30] subsistence farms.[31]

During the NAFTA years of 1994-2002, the Mexican Government applied tariff-rate quotas (TRQs), as authorized under NAFTA, for sensitive products including corn, barley, and dry beans. The use of TRQs meant that Mexico had not levied any tariffs on imports within these quotas, but levied high rates of tariffs on over-quota imports. However, because the amounts of domestic crops had been insufficient in Mexico due to drought and other causes, the GOM responded to unmet demand by gradually enlarging the TRQs.

Yet, the argument of insufficient domestic supply has not reconciled Mexican farmers with rising imports. They continue to object to low-priced imports from the United States and Canada on grounds that such imports drive down prices, sometimes reportedly below their cost, making their farms unprofitable.[32] The farmers' anger was fueled especially following the enactment of the U.S. farm bill in May 2002–the Farm Security and Rural Investment Act. After this date Mexican farmers began to attribute the low prices of U.S. exports primarily to the subsidies enjoyed by U.S. farmers.

This view of Mexican farmers is shared to some extent by notable U.S. economists. For example, Joseph Stiglitz, former chairman of the U.S. President's Council of Economic Advisors as well as one-time chief economist for the World Bank, said: "...poor Mexican farmers face an uphill battle competing with highly subsidized American corn, while relatively better-off Mexican city dwellers benefit from lower corn prices."[33] The Government of Mexico began to respond to the farmers' complaints in 2002, for example, by blocking imports of dry beans through the country's sometimes unpredictable import permit system.[34] In 2003, the NAA promised the suspension of import permits for white corn, except in times of short supply, which was to be defined in consultation with producer groups based on prevailing supply and demand conditions. The NAA further called for consultations by the Government of Mexico with the United States and Canada to establish a permanent import control mechanism for white corn and beans.[35]

Mexican Support Measures

The farmers' objection to U.S. farm subsidies prompted the Mexican Government to provide for new support measures in Mexico as well. On September 15, 2003, the Secretariat of Agriculture (*SAGARPA*) announced specific guidelines establishing mechanisms to provide support for producers of corn, wheat, sorghum, barley, beans, cotton, and some other products.[36] These were based on the general "Operational Regulations" that *SAGARPA* published on June 17, 2003, designed to provide price certainty to farmers. However, since a much larger part of the Mexican population is involved in farming than in the United States, Mexico cannot begin to match the size of U.S. subsidies per farmer.

United States Actions

The United States Government has been proactive in trying to dispel the myths on the negative impact on Mexico of NAFTA's agricultural portion and of the 2002 U.S. farm bill. Already during 2002, as tensions began to build in the Mexican farming community before the elimination of most tariffs on January 1, 2003, Robert Zoellick, the United States Trade Representative, and Ann Veneman, Secretary of the U.S. Department of Agriculture, created a Consultative

[30] *Ejidatarios* are farmers on *ejidos*, which are semicollective plots of farm land that were distributed by the Mexican government as part of the agrarian reform of 1917. These farms are very small, and lack full property rights. They are characterized by low-level improvement of land and investment in farm equipment, with resulting low productivity.

[31] Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin American and Caribbean (LAC) Countries: A Summary of Research Findings*, Office of the Chief Economist for Latin America and Caribbean, the World Bank, December 2003, advance edition, found at Internet address *http://lnweb18.worldbank.org/LAC/LAC.nsf/*, retrieved Dec. 17, 2003, pp. 103-104, figure 5.

[32] "Corn Growers Demand Fair Prices," *El Financiero*, Nov. 17, 2003, referred to by U.S. Department of Agriculture, Foreign Agricultural Service, *Gain Report, #MX* 3160, Nov. 25, 2003.

[33] Joseph E. Stiglitz, "The Broken Promise of NAFTA," *The New York Times*, Jan. 6, 2004.

[34] Testimony of Amb. Allen Johnson, Chief Agricultural Negotiator of the U.S. Trade Representative, before the U.S. Senate, Committee on Finance on Sept. 23, 2003.

[35] *Acuerdo Nacional Para El Campo (ANC)*, Apr. 28, 2003.

[36] U.S. Department of Agriculture, Foreign Agricultural Service, "Weekly Highlights & Hot Bites, Issue #46," Global Agriculture Information Network (GAIN) Report no. MX3134, Oct. 9, 2003, found at Internet address *http://www.fas.usda.gov/gainfiles/200310/145986346.pdf*, retrieved Oct. 10, 2003.

Committee with their Mexican counterparts to "resolve trade irritants, especially during Mexico's transition to duty-free trade."[37]

Despite U.S. efforts to help in resolving the problems, and despite some progress made in bilateral consultations, concerns in the U.S. Government about Mexican unilateral trade restrictions have mounted. On September 23, 2003, the U.S. Senate Committee on Finance held a hearing on Mexican barriers imposed on U.S. agricultural exports and the harm they have caused to U.S. interests. On October 6, several members of the committee, led by Chairman Sen. Chuck Grassley, sent a letter to Mexican officials[38] which, in referring to testimony obtained during the hearing, says:

> "While each of these industries is unique, they all share a common complaint–the Government of Mexico appears to be engaging in a systematic practice designed to stop their exports from entering the Mexican market. The persistent pattern not only hurts U.S. agriculture, but also undermines our strong trade relationship, harms Mexican consumers, and could have a chilling effect on investment in Mexico."[39]

[37] Testimony of Amb. Allen Johnson, Chief Agricultural Negotiator of the U.S. Trade Representative, before the U.S. Senate, Committee on Finance on Sept. 23, 2003.

[38] U.S. Senate, Committee on Finance, Sen. Chuck Grassley of Iowa, Chairman, *Press Release*, Oct. 6, 2003. The letter went to Ernesto Derbez, Foreign Minister; Fernando Canales, Secretary of the Economy; and Javier Bernardo Usabiaga Arroyo, Secretary of Agriculture.

[39] Letter of Sen. Chuck Grassley of Iowa, Chairman, U.S. Senate, Committee on Finance, of Oct. 6, 2003.