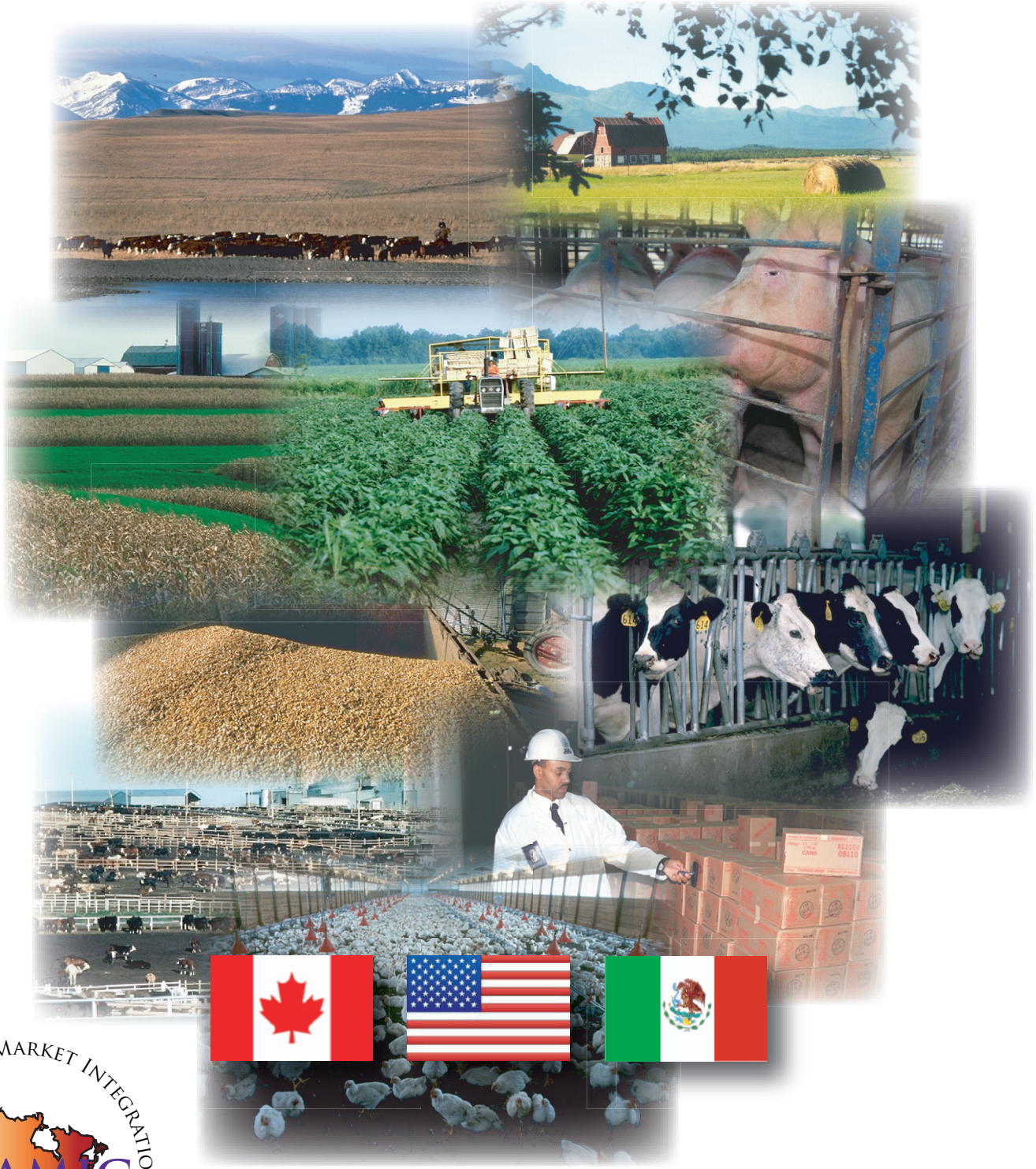
Second Annual North American Agrifood Market Integration Workshop

Agrifood Regulatory and Policy Integration Under Stress - Executive Summary



NORTH AMERICAN AGRIFOOD MARKET INTEGRATION CONSORTIUM

NAAMIC

Farm Foundation

North American Agrifood Market Integration Consortium

Second Annual North American Agrifood Market Integration Workshop
Agrifood Market and Regulatory Integration Under Stress - Executive Summary
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The second in a series of workshops organized by the North American Agrifood Market Integration Consortium designed to foster dialog among policy makers, agrifood industry leaders, and academics on agriculture and food-related market integration issues among NAFTA countries.

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Farm Foundation

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Agrifood Regulatory and Policy Integration Under Stress - Executive Summary

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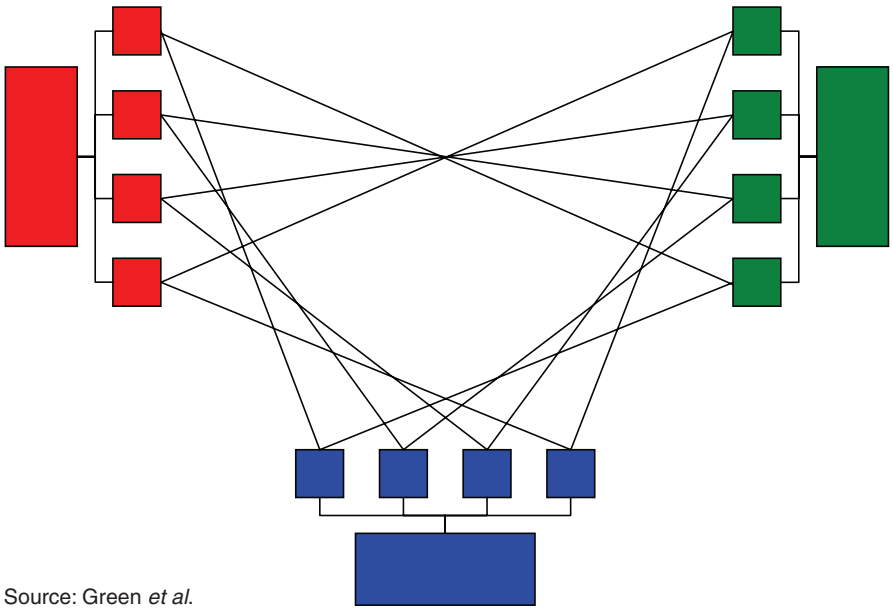
Achieving more complete market integration among NAFTA members depends on the harmonization of policies, programs, and regulations, but some problems have proven to be considerably harder to deal with than others. A key is to create greater stakeholder understanding of the issues, options and their consequences, and to develop contingency strategies for promptly and consistently dealing with issues as they arise.

Until 2003, the beef and pork industries were among the best examples of North American market integration. They are no longer, and repairing the damage that has been done has taken longer than would have been anticipated. The actions required to avoid future regulatory disasters of this type were studied within the NAAMIC framework by legislators, government officials, producers, and academics representing the North American countries and are summarized in this publication. The issue of coordinating farm policies is more complex but equally important. By addressing these and other issues in the harmonization spectrum, implications and recommendations are presented to more effectively foster policy integration under NAFTA.

REGULATORY COORDINATION

NAFTA's architects were well aware that some form of regulatory coordination among the member countries would be necessary to facilitate market integration. To this end, the agreement specified an extensive set of trilateral committees and working groups (hereinafter committees) to directly address aspects of regulatory coordination in the agricultural and food sectors as illustrated in Figure 1. Some of these committees have played an active and successful role in regulatory coordination, while others have remained largely dormant. At the same time, the North American partners pursued regulatory coordination in other venues, sometimes as a substitute for committee activities. The formal NAFTA committees have two basic structural commonalities:

Figure 1: NAFTA envisioned that regulatory coordination would take place through NAFTA committees and working groups.



Source: Green *et al.*

[1] The content of this Executive Summary was abstracted by the authors from the proceedings of a Market Integration under NAFTA Workshop held in San Antonio, Texas, on May 4-6, 2005. The nine base articles commissioned for the Workshop are identified at the end of the Executive Summary and are referenced within it. These base articles are published on the website of the North American Agrifood Market Integration Consortium (NAAMIC) at http://naamic.tamu.edu and subsequently will appear in print by Agriculture and Agri-Food Canada. From time to time, key statements by conference participants are also referenced.

NAFTA is at a critical point in its history. It is being challenged by security concerns, new barriers to trade, and dangers of a new wave of protectionism.

- Each member country designates a national chair to the committee.
- Committee meetings primarily serve as occasions when a mutual workplan is developed and progress is reported and reviewed (Green *et al.*).

Resolving the Potato Wart Issue

On October 24, 2000, the Canadian Food Inspection Agency (CFIA) confirmed the presence of potato wart disease in the province of Prince Edward Island (P.E.I.). Although not a threat to human health, potato wart is a quarantine pest that renders potatoes unmarketable and reduces yield. At the time of the outbreak, it was generally acknowledged that there was a surplus of potatoes in North America. This surplus created an atmosphere in which certain sectors of the industry could benefit from an interruption in the trade of P.E.I. potatoes, with lobbying groups actively looking to protect their economic interests on both sides of the border. At the same time, the perishable nature of the product demanded a quick resolution to the dispute.

After protracted negotiations, officials were able to resolve the issue by agreeing on a systems approach to mitigate risk and re-open the border to P.E.I. potatoes. The key to the eventual removal of restrictions was the development of a three-year monitoring work plan by CFIA and APHIS which provided sufficient scientific basis to allow all parties to be satisfied with the control measures that were in place to adequately mitigate risk.

Source: Green *et al.*

Developing an integrated North American market that continues to compete on an international scale will depend on the proactive construction and implementation of harmonized, science-based regulatory systems so that established protocols can be more easily applied in times of crises. By employing a systems approach to management and certification, a number of independent activities can be taken to minimize the risk that agricultural commodities pose to importing countries while meeting import standards. This approach assures the application of a measured and appropriate response, so that when issues emerge, the importing country can be confident that the issue will be dealt with in a manner that minimizes risk (Green *et al.*).

Properly composed committees have a comparative advantage in dealing with sanitary and phytosanitary (SPS) issues where science is a key to the resumption of trade. However, it often takes time to reach definitive science-based conclusions, thus creating a need for strategic contingency planning as a means for minimizing the adverse trade impacts. In some cases, there has been the tendency to address SPS issues outside of the trilateral committee structure on a bilateral basis. In the meantime, policymakers need to exercise restraint, allowing the committees to do their work, thus minimizing the potential for a trade dispute that is settled only after protracted negotiations at the highest levels of government. At times, there is the perception that regulatory issues are politically linked to one another; and that progress in one area will be rewarded with progress in other areas. If science-based risk assessments are to be the foundation of the regulatory approach, such quid pro quo linkages would be of less importance, unless there is a scientific reason for why one regulatory issue is related to another (Green *et al.*).

Given the importance of proactive cooperation and strategic trilateralism to regulatory coordination, the following best practices could also be useful for committee work:

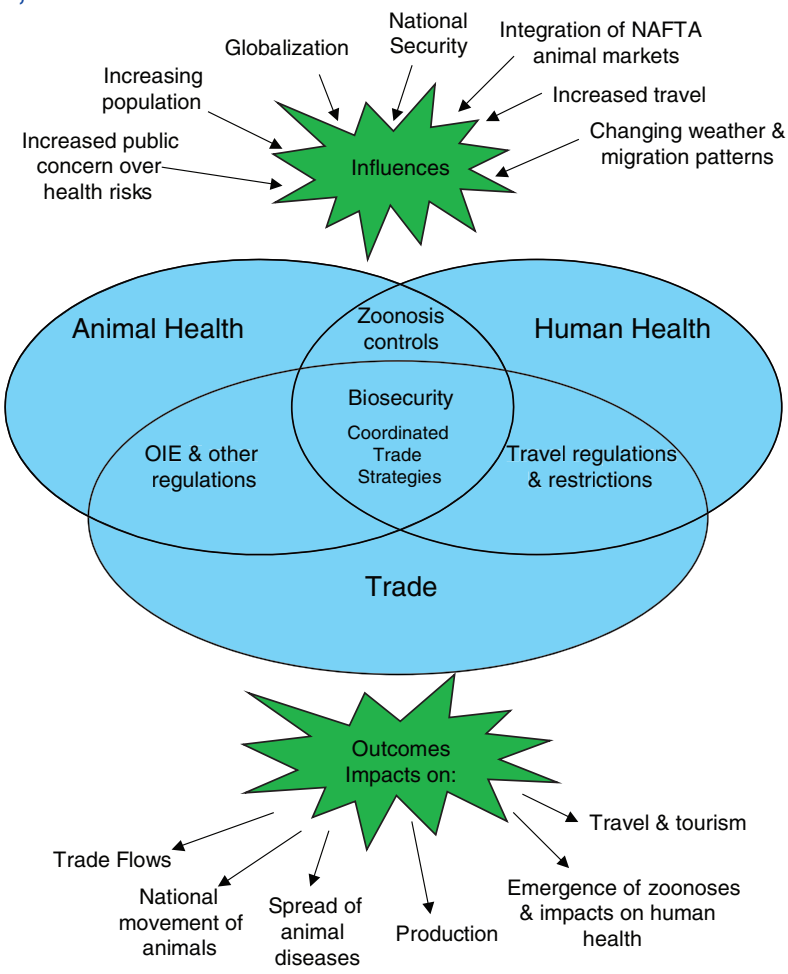
- Clearly define the committee or working group assignment.
- Allocate the resources necessary to carry out that assignment.
- Involve stakeholders from government and the private sector.
- Maximize transparency by publicizing committee activities and output.

Regulatory Shortfalls

Animal health management is no longer only a matter of disease prevention, diagnosis, and treatment. In today's era of market integration, each disease has both economic and health implications. Designing a sanitary management system requires consideration of the influence and broad impacts of the disease on producers, agribusiness, and consumers

Integration of agricultural and food markets under NAFTA has moved forward, but regulatory integration has not kept pace.

Figure 2: Relationship among animal health, human health, and trade.



Source: Caswell and Sparling.

from economic, health, and food security perspectives. Figure 2 illustrates the complexity of interactions among production, animal health, human health, and trade. The greatest management challenges lie at the animal health and human health intersection shown in the center. The World Organization for Animal Health (known by its original acronym, OIE, Office International des Epizooties) oversees the global interface between animal health and trade. OIE currently includes 167 member countries in its World Animal Health Information System. The system lists over 125 diseases that are transmissible, have an impact on international trade in animals and animal products, and must be notified to the OIE when they occur within a country. A NAFTA approach to animal health would need to coordinate the management of the subset of these diseases that occur in or could be introduced to North America. Some animal diseases (zoonoses) are also human health risks because they can be transmitted to people by animals (Sparling and Caswell).

In the direct center of Figure 2 is the intersection of animal health, human health, and trade. This intersection represents a significant biosecurity risk and the actions needed to enhance biosecurity include coordinated animal health management and trade strategies. The term biosecurity has been evolving as it is applied to a broader range of risk sources. In the animal health field, biosecurity refers to the exclusion, eradication, or effective management of risks posed by animal diseases. More recently, the term is being used to refer to preventing the intentional introduction of disease or contaminants into agricultural and food systems. The term biosecurity in this document encompasses the management of animal diseases regardless of the source of introduction but with an emphasis on potential transmission through normal commercial and consumer activities. A defining element of biosecurity risk is the evaluation of whether it is significant enough in animal health, human health, and/or trade to merit active management (Sparling and Caswell).

It is no longer adequate to develop purely national strategies for animal health management when both the risks and potential impacts are international -- a trilateral approach is essential.

BSE in North America -- Timetable

December 8, 1993

BSE was reported in a purebred beef cow that was imported from the United Kingdom in 1987. While cattle imports to Canada from the United Kingdom had been banned since 1990, the Canadian government implemented more stringent disease detection and control measures on farms and at slaughter plants. Then in 1997, in response to the high profile BSE crisis in the United Kingdom, the Canadian and US governments introduced ruminant-to-ruminant feeding bans with little or no further crisis planning between 1993 and 2003.

May 20, 2003

BSE was confirmed in a beef cow born, fed and raised in Alberta. Governments of 34 countries, including the United States and Mexico, banned imports of ruminant and ruminant products originating from Canada. US boxed beef exports from cattle less than 30 months opened in September 2003.

December 25, 2003

BSE was found in a dairy cow in Washington State. Within hours, more than 50 nations, including Canada, Mexico, Japan, and South Korea, banned beef imports from the United States.

December 29, 2004

USDA announced that it would re-open its borders to Canadian live cattle under 30 months of age, as of March 7, 2005.

January 2, 2005

BSE was confirmed in a dairy cow in Alberta.

January 11, 2005

The fifth case of BSE in North America was confirmed in a beef cow in Alberta.

March 2, 2005

A US federal judge in Montana granted an immediate preliminary injunction against USDA regulations that would allow imports of Canadian slaughter and feeder cattle less than 30 months of age. While an appeal of the judge's decision is to be heard in the 9th Circuit Court of Appeals in San Francisco in June, a hearing on a permanent injunction is scheduled for July 27 in Montana.

Source: Leroy *et al.*

A NAFTA approach to animal health and biosecurity would be developed within an already existing, multi-layered trade and regulatory environment. The North American countries have bilateral arrangements on these issues with each other and with other trading partners and have developed some trilateral arrangements. They interact through OIE, and also are members of the multilateral World Trade Organization (WTO) and its Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). Individual states and provinces often have animal health regulatory bodies that are coordinated to varying degrees with federal efforts.

Integration of agricultural and food markets under NAFTA has moved forward on several fronts since the agreement went into effect in 1994, but regulatory integration has not kept pace. As a result, market integration has become vulnerable to disintegration when disease outbreaks or even individual cases occur, such as the BSE cases confirmed in 2003 and 2005 (Sparling and Caswell).

BSE Impacts

Before May 20, 2003, the cattle sector was an example of integration under NAFTA. It is now an example of disharmony, market segregation, and confusion. The basic impact was market disruption, which resulted in sharp Canadian price declines due to the absence of market outlets. After the border closure, Canadian prices dropped US$20/cwt and more relative to US levels (Gervais and Schroeder). The greatest impacts were in Canada because the Canadian industry is more dependent on export markets and does

Developing an integrated North American market that competes on an international scale requires proactive construction and implementation of harmonized, science-based regulatory systems and protocols that can be applied on a trilateral basis in times of crises.

not have the capacity to slaughter all of its live animals. The reopening of the border for boxed beef muscle cuts and veal from Canada in September 2003 served as a release valve for increased Canadian slaughter of cattle under 30 months old.

The value of Canadian cattle that would have been slaughtered by US packing plants and the resulting beef sales has been estimated at $1 billion, resulting in a loss of income to the US economy of $282 million and 5,000 jobs (Gervais and Schroeder). This loss is concentrated in a few packing plants located in the Northwest United States (primarily Washington) and Utah that depend heavily on imports for slaughter. The longer the prohibition of imports continues, the more likely it is that some of these plants will not survive. Even while US beef imports have increased, sustained consumer demand for beef and tight domestic supplies have US and Mexican cattle producers enjoying some of the highest prices in recent history (Leroy *et al.*). Yet Mexico has prohibited the imports of quality breeding stock, on which it depends to improve genetics.

The long-run implication of the US border closure to Canadian live cattle is that it is fueling structural change that the North American beef industry will live with for years to come, including:

- Closure of the border has created substantial incentives for investments in Canada to expand slaughter and packing facilities. Canadian cattle slaughter increased nearly 1 million head in 2004 relative to 2003 and is expected to increase to 1.5 million head in 2005 with continued additional expansion. If this expansion continues and the border remains closed, Canada will expand its slaughter capacity to fully accommodate its own production.
- In the meantime, generally high US cattle prices are causing expansion in the US and Mexican cattle population. If and when the US border re-opens to Canadian live cattle, excess cattle slaughter capacity will exist in North America and only those ranchers and feedlots well-positioned to compete will survive. Obviously, this will lead to substantial economic costs for both trading partners that will strain relations (Gervais and Schroeder).
- While these conditions play out, US consumers will receive a larger share of their beef from Canada, to the direct detriment of the US and Mexican industries.
- Considering the long-term nature of cattle production and investment in packing plants, it could take years for the industry to readjust. In the process there will be fewer but larger ranches, feedlots, and packers. The Northwest US ranchers, feedlot operators, and dairy farmers (selling cull cows) will be particularly stressed by fewer market outlets.

BSE has resulted in the loss of major export markets by both the United States and Canada. The US share of world exports declined from 20 percent in 2003 to 3 percent in 2004. During this time, Brazil increased its world beef market share from 14 percent in 2002 to an expected 25

When an issue arises, there has been the tendency to elevate it to a political level that does not allow the NAFTA committee system to operate.

percent in 2005. While Canada lost market share in 2003, it has regained some of the lost share representing about 9 percent of world beef exports in 2005 (Gervais and Schroeder).

In summary, US beef producers have lost market share to Canada and other countries producing fed cattle. International markets are proving to be more difficult to recover than domestic markets with serious long-term consequences. Once markets are closed, it is extremely difficult to reopen them because protectionist forces become stronger as the industry adjusts to the increasingly distorted market setting.

Regulatory Failures

Analyzing a problem in retrospect is easy, dealing with it in a crisis environment is much more difficult (Fernandez). Looking back at the handling of the BSE cases and avian influenza outbreaks, it is obvious that the animal health regulatory system was stressed and took longer to react and regain control than it should have. Often overlooked is the fact that the first BSE case was discovered in North America more than a decade ago (1993 not 2003). Specific problems identified and suggested responses include:

- Despite the fact that the first BSE case was discovered in 1993, the lack of a coordinated approach was evident everywhere, between federal and state/provincial agencies managing events and between national governments trying to return to more normal trade patterns.
- Plans for managing the initial outbreaks and trade redemption seemed to be developed on the fly, and in the case of BSE, interest groups were heavily involved in the process. Animal health systems did not appear to be well developed within countries, much less between them. Effective national strategies still remain elusive; the Canadian and US beef industries appear to have made relatively little progress towards reestablishing the pre-2003 situation.
- Ad hoc regulatory coordination followed by crisis responses proved to be much more costly to the industry and to government than comprehensive approaches to managing animal disease and biosecurity issues.
- The lack of regulatory integration among the North American countries increased the risks generated by market integration. This increase in risk was not anticipated by either the industry or the regulators. Serious work needs to be done on acceptable levels of risk, which increase as export dependency increases (Fernandez).
- Track and trace capabilities are essential to support the identification and isolation of potentially infected animals and products. The current track and trace capabilities have been revealed inadequate to meet the needs of an effective animal health management system. Standards should be coordinated across the three countries to allow for seamless tracking through the food chains. All stakeholders stand to gain from traceability and those most directly affected must be involved in standards and systems development (Caswell and Sparling).

Once markets are closed, it is extremely difficult to reopen them because protectionist forces become stronger as the industry adjusts to the increasingly distorted market setting.

What Role Could NAFTA Play?

More than a decade following the first North American BSE case, there is little progress in developing a North American BSE strategy in spite of numerous meetings and attempts to do so. To date, there is little evidence that the net benefits of a trilateral approach to animal health management are perceived to be large enough to give it real momentum. This perception both feeds into and is a result of an apparent lack of political will to pursue stronger regulatory integration within NAFTA. The countries appear to be unwilling to share control on issues that are critical to their sense of biosecurity and their perceived ability to protect the health of their own human or animal populations. The complexity of the management issues involved contributes to the lack of inertia on NAFTA regulatory integration. The challenges of managing national systems with both federal and state/provincial standards and institutions are a significant issue within a national context. The idea of managing the same relationships at the supranational level is daunting (Caswell and Sparling).

Despite the problems involved, it is no longer adequate to develop purely national strategies for animal health management when both the risks and potential impacts are international. Developing international strategies can minimize both the risks and impacts for trading partners. In the case of NAFTA, the coordination of animal health management systems would require coordination between all bodies involved in the three key areas shown in Figure 2 (Caswell and Sparling).

A NAFTA approach to animal health and biosecurity would involve a system of coordinated trade policies that would protect animal and human health while facilitating maintenance, and possible extension, of market integration. This requires strategies for:

- Prevention
- Initial response to outbreaks and cases of animal disease
- Agreed rules for resuming trade following a disruption caused by a disease outbreak

The goal of integration will not succeed unless the animal health programs take into account the unique characteristics of each disease, country, and industry. Programs must be coordinated but flexible and tailored to individual situations. They will need to find a means for dealing with inadequate Mexican infrastructure (Caswell and Sparling).

The recent agreement by the Chief Veterinary Officers for the North American countries on minimum standards for a harmonized approach to managing BSE is a definite step in the right direction. The key will be to push this forward through the respective regulatory processes and minimize the disruption caused by protectionist interest groups. Actually making the plan work will require changes within the industry to improve track and trace capabilities and to ensure the integrity of the feed bans and Specified Risk Materials (SRM) restrictions. It will also require continued investment in research into the disease and into new testing/screening technologies. It will also require agree-

Track and trace standards should be coordinated across North America to allow seamless tracking through the food chain.

ment on the actions to be taken in the event of additional cases of BSE and other diseases.

THE 2007 FARM BILL AND FARM POLICY COORDINATION

The OECD has developed a method for measuring the total level of producer income support known as the Producer Support Estimate (PSE). The PSE measures the level of support and protection as a percentage of the value of gross farm receipts. Table 1 compares the 2003 PSE levels for the major crops produced by the North American countries. While the overall level of support is about 20 percent, there are substantial differences across commodities.

The main impacts of farm subsidies include (Ash):

- Because so much of the support is reflected in higher land values, the result over time is a higher cost structure and reduced farm competitiveness. While there is a wealth gain for farmers who own land at the time such policies are introduced, farmers who rent or subsequently purchase land at these higher prices will face reduced profitability and lower incomes.
- The largest farm operations, which generally are also the most profitable and the wealthiest, receive the largest share of farm program benefits, but moderate size farms are most dependent on these programs for their survival.
- Production linked (coupled) policies provide significant incentives to increase supplies and lower world market prices to the detriment of producers in other countries.
- Market interventions, which dominate current farm policies, typically require protectionist border policies to underpin their use.

Within NAFTA, the level of farmer support became a central issue after the enactment of the US 2002 Farm Bill which, following the lower supports provided for in the US 1996 bill, was a concerning turn of events for its North American partners, as well as for other countries around the world. Table 1 indicates that Canada essentially matched the US level of support on grains, while Mexico more than matched the level of US support. However, the WTO has subsequently concluded in a challenge to US cotton subsidies that a portion to the US subsidies, referred to as countercyclical payments, were not properly reported as being trade distorting. With the changes in domestic support disciplines, currently under discussion in the Doha Development Round, the US could assign its countercyclical payments to the so-called "blue box" and avoid major cuts in its grain programs, unless the agreed reduction in over-all domestic support is very aggressive. However, concern about differences in farm subsidy payments across the NAFTA member countries, especially for grains and oilseed producers, is unlikely to subside as long as large differences in government payments, coupled or decoupled, persist.

Major factors influencing the 2007 Farm Bill debate include (Thompson):

- Every farm bill is influenced disproportionately by current economic conditions in the farm

Farm policy integration is much more difficult than regulatory integration because it is dependent on political will.

sector and commodity markets at the time when the bill is written. The 1996 Farm Bill was written in favorable agricultural economic times, which was reflected in its lower cost provisions. On the other hand, the 2002 Farm Bill was written in more difficult economic times.

- The extent to which agriculture speaks with a single voice in the farm bill debate can be expected to affect the outcome. For 2007, traditional solidarity among commodity groups and farm organizations, in general, is starting to show cracks. Large differences among program crops and regions in payments per farmer are creating "subsidy envy." In some US agricultural circles, there is increasing realization that capitalization of farm program benefits into land values undermines the long-term international competitiveness of US agriculture. At the same time, there is a reluctance to accept that being a large exporting country constrains US farmers' freedom of action in domestic policy making.
- The US federal budget deficit is at record levels, which President Bush has promised to trim. The 2002 Farm Bill was enacted in the absence of these constraints.
- WTO disciplines limit both the level and the nature of trade distorting subsidies. The WTO cotton decision concluded that the countercyclical provisions of the 2002 Farm Bill were trade distorting and this will require an adjustment of commodity program provisions.
- The degree to which it is necessary to become aligned with environmental groups to obtain the votes needed for congressional passage of a new farm bill. Gaining the support of environmental interest groups requires more emphasis on conservation and environmentally green programs.

There are always gainers and losers from policy reform. All three countries are under-investing in adjustment assistance to facilitate structural change. Failure to facilitate adjustment of low-income small farmers brings cries of injustice from activists, who have the political power to stop the reform (e.g. maize growers of Mexico). Unless opposition from politically powerful interest groups (e.g. US sugar, dairy, cotton; rice; Canadian dairy and poultry) is neutralized, any opportunities for policy reform would be hindered (Thompson).

Policy Coordination Shortfalls

Coordination of policies that support farm prices and income is not explicitly included in NAFTA, although with appropriate resolve it could be addressed within the North American negotiation framework. As an alternative, farm policy disputes among the North American countries have been handled in the World Trade Organization (WTO) multilateral negotiations and in its dispute settlement procedures. However, in contrast with other trading blocs, there is no common North American farm policy position taken in the negotiations, probably due to the contentious nature of the issues with both differences in support methods and levels of support. Interestingly, each NAFTA country is a member of other negotiating groups that do take farm policy positions in the WTO.

Table 1: OECD's 2003 producer support estimates for selected commodities across NAFTA countries.

Commodity	USA	Canada	Mexico
Wheat	25	21	30
Maize	15	15	36
Oilseed	19	9	65
Pork	4	8	7
Beef/veal	3	18	9
Broilers	4	7	19
Milk	45	59	33
Sugar (refined)	61	--	49
Overall	18	21	19

Source: OECD

Much of current food and agricultural policy is not working as intended. Some policy instruments serve primarily to lower market prices and increase output, whereas the apparent objective is something entirely different.

DEVELOPING COUNTRY PERSPECTIVE

One of the important new factors influencing the outcome of policy deliberations is the impact of developed country farm subsidies on developing country farmers. The process of agrifood market integration in North America, and eventually in the whole of the Americas, cannot be understood separately from the multilateral trade negotiations occurring under the auspices of the Doha Development Round. This Round of trade negotiations is known as the "development round" because of its commitment to advancing developing countries' economic interests and concerns. Following the collapse of the September 2003 Ministerial Meeting in Cancun, Mexico, an ambitious Work Program was finally agreed to in July 2004. The WTO member countries agreed to substantial reforms in agricultural trade, including increases in market access, reductions in domestic support and the elimination of export subsidies with a goal of completing the deliberations in 2006.

The Doha Development Round reflects a new dynamics in multilateral trade negotiations where the traditional "Quad" (US, EU, Japan, and Canada) consensus has been replaced by a negotiating format requiring continuous efforts to harmonize the positions of developed and developing countries. Fostered by a new economic geography in the world, a block of 20 developing countries led by Brazil and India (G-20) has emerged with the common goal of fighting against agricultural protectionist policies in developed countries. Unlike traditional coalitions formed by a homogenous group of countries with similar interests, the G-20 is a very heterogeneous, pragmatic, and agile coalition with good technical capacity to support international trade negotiations.

The trouble for the G-20 lies in the group's difficulties in finding common ground to advance strategies beyond agricultural issues and to open its own agricultural markets. Brazil is one of the countries with the most to gain from a broad agricultural liberalization, but it is reluctant to open its markets for industrial goods and services. China tries to block further opening of its agricultural and services sectors, even though it could be the main beneficiary of a global liberalization of industrial tariffs. India resists opening its agricultural and non-agricultural markets, even though it has strong potential to be a world-class exporter of services.

In addition to the G-20, other coalitions have emerged such as the coalition of 32 less developed countries (LDCs), the G-90 and the G-33 (see Table 2). These coalitions now join other established interest groups in the chessboard of multilateral trade negotiations. The main implication to negotiations at the WTO is that the old North-

Unless you neutralize opposition from rich and politically powerful losers, farm policy reform will be hindered.

South paradigm is no longer valid.

But the developing countries are not unified on the critical three pillars of agricultural trade liberalization (market access, domestic subsidies, and export competition) that form the center of discussion in the Doha Development Round (Table 2). For example, the group of 32 LDCs has adopted a "no commitment" policy on market access, signaling their unwillingness to open their borders to agrifood trade because it would expose their farmers to competition from developed countries' subsidies. At the opposite extreme, there is a group of roughly 15 free-trading net exporters of agrifood products that would be the main beneficiaries of more open borders. This group includes Argentina, Brazil, Chile, South Africa, Thailand, and some Central American countries.

Developing countries also have conflicting interests and concerns regarding domestic subsidies to agricultural production. There are at least 56 developing countries that are net food importers who do not oppose domestic subsidies in developed countries, as they tend to depress world food and agricultural commodity prices. On the other hand, the group of free traders is vehemently opposed to the unfair competition from subsidies in the developed countries. Simply put, the Doha Development Round will not achieve its objectives if the United States does not reduce and decouple its subsidies in the next farm bill, which will require comparable concessions by the European Union.

In addition to the Doha Development Round, agrifood trade integration is affected by multilateral negotiations under the Free Trade Area of the Americas (FTAA), which now appear to be struggling. The United States has trade expansion interests in the majority of the negotiating areas, but is defensive with respect to antidumping and agriculture. The US defensive position is related to domestic subsidies and market access for a group of products that benefit from significant protection, including sugar, dairy products, and citrus fruits. Brazil, on the other hand, has adopted an offensive position in agrifood trade issues, but has been overtly sensitive on issues important to US interests, including services, investments, and intellectual property.

Table 2: WTO Doha Round Interest Groups.

Group	Countries	Agriculture		Industrial Goods	Services
		Subsidies	Access		
United States					
European Union					
Free traders (Cairns Group)	*Australia, New Zealand, Chile*				
Ag resistant countries	*G-10 (Japan, Korea, Taiwan, Switzerland, Norway, etc.)*				
G-20 main players	*Brazil, Argentina, Thailand*				
	China				
	India				
Developing: SP, preference erosion	*G-90 and G-33*				
Developing: net food importers	LDCs and others				

= Liberalized trade position

= Protectionist trade position

= Less than fully liberalized trade position

Source: Chaddad *et al.*

POTENTIAL FOR REGULATORY AND POLICY COORDINATION

All too often, close coordination has only happened when it was forced by conditions such as biosecurity or by the WTO. Then it has only happened after the fact. Yet the problems of regulatory

Policy harmonization begins with an understanding of the impacts of each country's decisions on the others.

and policy coordination are quite different. In either case, there is no future in saying nothing can be done (Jones). Regulatory coordination should be easier because of its urgency. Policy coordination has the aura of infringing on national sovereignty that has been more effectively addressed in multinational venues such as the WTO.

Current regulatory coordination systems are not working to their full potential because there are structural flaws and insufficient crisis management planning. With a few exceptions (such as pesticides), what planning there is has been bilateral rather than trilateral. When an issue arises, there has been a tendency to elevate it to a political level that does not allow the NAFTA committee system to operate. Each of these issues can be addressed administratively within the NAFTA framework if proper instructions are given and procedures are developed.

Farm policy integration is much more difficult than regulatory integration and is dependent on political will (Keenan). Agriculture seldom leads trade liberalization; help is needed from the business, financial, and service sectors. Within the agricultural, academic, and political communities, there is the need to speak frankly when it comes to protectionist policies and programs (Kerr). It is a myth that the starting point involves getting subsidies on the same terms (Keenan). A more rational starting point involves the development of understanding by producers and legislators on the external consequences of their actions and the development of a common North American position in the WTO.

IMPLICATIONS AND RECOMMENDATIONS

NAFTA is at a critical point in its history. It is being challenged by security concerns, new barriers to trade, and dangers of a new wave of protectionism. Care needs to be taken to assure that the agrifood sector does not fall so far behind in trade liberalization discussions that it threatens the existence and liberalizing influence of the WTO. This does not require reopening the NAFTA agreement; it requires:

- The development of a North American regulatory system to reduce the risk of disease outbreaks and trade interruptions on a trilateral basis. This system needs to plan for outbreaks (which are inevitable), intentionally look for diseases, develop the needed infrastructure, significantly reduce the potential for market interruptions, and have a strategy to get markets open quicker and faster.
- Increased discussion and understanding among stakeholders of the interrelated nature of the North American market and of the consequences of integrating its regulations, programs, and policies in the context of globalization. The following specific agenda items are a starting point for each stakeholder group:

- Producers: creating an understanding of their common interests in NAFTA, their competitive position in world agriculture, and the consequences of alternative common North American strategies.
- Legislators: policy harmonization begins with an understanding of the impacts of each country's decisions on the others.
- Ministries and Agencies: agreeing on the need for a high level NAFTA envoy at the shoulder of each Minister of Agriculture (see 1st NAAMIC Workshop), taking leadership for uniform application of regulations, making coordination and communication a high priority, deferring to trilateral committee actions and recommendations, and paving the way for developing a common North American position in the WTO.
- Academia: Holding producer forums to develop increased understanding of NAFTA and the competitive world in which they operate and developing an applied independent framework for determining the consequences of alternative policies for North America and the individual countries.

Commissioned Base Papers:

- Ash, Ken. *Agricultural Policies in Selected OECD Countries Opportunities for Reform*.
- Chaddad, Fabio R., Patricia Aguilar, and Marcos S. Jank. *Agrifood Market Integration: Perspectives from Developing Countries.*
- Gervais, Jean-Philippe and Ted C. Schroeder. *Structural Implications of Persistent Disharmony in North American Beef and Pork Industries.*
- Green, Tina, Lynne Hanson, Ling Lee, Héctor Fanghanel, and Steven Zahniser. *North American Approaches to Regulatory Coordination*.
- Kerr, William. *NAFTA's Underdeveloped Institutions: Did They Contribute to the BSE Crisis?*
- Knutson, Ronald, D. and Rene F. Ochoa. *Institutional Implications for Policy Coordination.*
- LeRoy, Danny G., Jeevika Weerahewa, and David Anderson. *Disruption in the Supply Chain for Beef and Pork*.
- Sparling David and Julie Caswell. *A NAFTA Approach to Animal Health and Biosecurity: Pipe Dream or Possibility?*
- Thompson, Robert. *The Next U.S. Farm Bill.*

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