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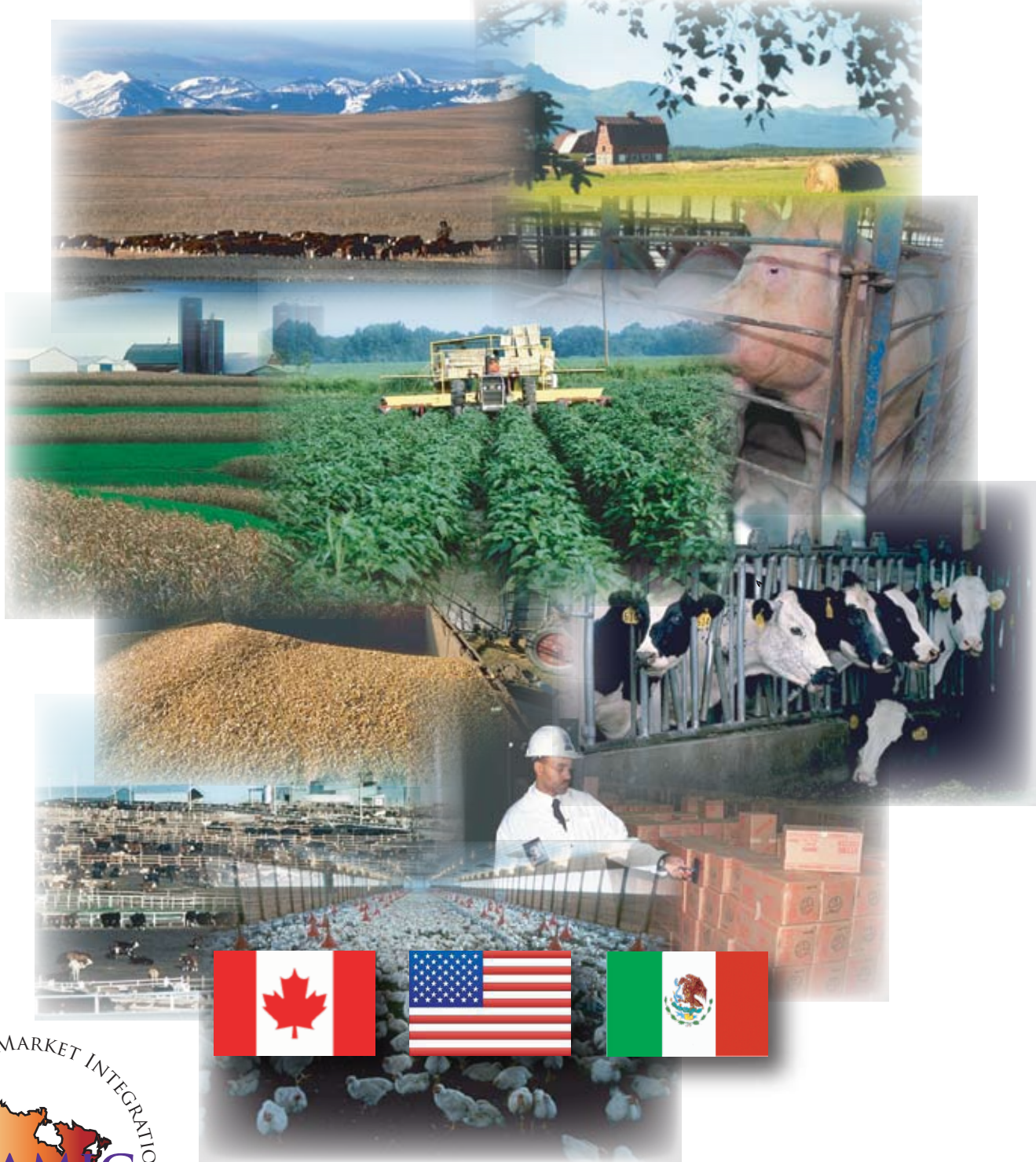
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Third Annual North American Agrifood Market Integration Workshop

Achieving NAFTA Plus - Executive Summary



Farm Foundation

NORTH AMERICAN AGRIFOOD MARKET INTEGRATION CONSORTIUM

Third Annual North American Agrifood Market Integration Workshop

Achieving NAFTA Plus - Executive Summary

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Karen Huff – University of Guelph

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The third 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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Farm Foundation
1211 West 22nd Street, Suite 216, Oak Brook, IL 60523-2197
Telephone (630) 571-9393 FAX (630) 571-9580
Internet <http://www.farmfoundation.org>
E-mail walt@farmfoundation.org

<http://naamic.tamu.edu>
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Third Annual North American Agrifood Market Integration Workshop

Achieving NAFTA Plus - Executive Summary

*Ronald D. Knutson,
Rene F. Ochoa,
Karl D. Meilke,
& David P. Ernstes¹*

Full implementation of the agrifood provisions of the North American Free Trade Agreement (NAFTA) will be completed in 2008. Past NAAMIC workshops have documented the gains from NAFTA in terms of increased agrifood trade, greater specialization by countries in those economic activities where they have the strongest comparative advantage, and heightened market integration. Much more can be accomplished within the current NAFTA framework, such as striving for further coordination of sanitary and phytosanitary regulations. However, it is important to look to the future if the positive momentum from NAFTA is to be

¹The content of this Executive Summary was abstracted by the authors from the proceedings of a Market Integration under NAFTA Workshop held in Calgary, Alberta, Canada, on May 31 - June 2, 2006. The seven 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.

continued. With this forward-looking approach, the 2006 NAAMIC workshop analyzed the following topics:

- the global competitive environment in which the NAFTA countries must operate, with emphasis on Brazil and China as new market opportunities and increasingly proficient agrifood exporters;
- alternative strategies for sustaining the momentum generated by NAFTA and maximizing the opportunities for future economic gains from market integration; and
- the most realistic courses of action for building upon NAFTA.

Competitive Challenges and Opportunities: The Cases of Brazil and China

The NAFTA countries must consider their evolving comparative advantages and economic opportunities when crafting future policies. Since the initial implementation of the Canada-US Free Trade Agreement (CUSTA) in 1989 and NAFTA in 1994, major changes have occurred in the world's agrifood economy, including the creation of the World Trade Organization (WTO) and the rising economic importance of developing countries. Of particular significance to the NAFTA countries is the emergence of Brazil and China as major players in global agrifood markets.

Brazil: Valdes, Contini, Wedekin, and Chibbaro

Brazil is now the world's largest exporter of beef, poultry meat, soybeans, sugar, ethanol, coffee, orange juice, and tobacco. Growth of Brazilian agricultural exports is attributable in part to economy-wide trade and regulatory reforms that have encouraged investment in Brazilian agriculture and to domestic policies—in particular, regional credit and tax-exemption programs—that have provided incentives for the expansion of agricultural production and large-scale food processing operations. Continuing trade growth and diversification of export markets and products remain at the core of Brazil's economic interests. In addition, some of Brazil's state governments have provided benefits to producers who expand the country's agricultural frontier to crop production in the center-west region of Cerrado. The existing scope for additional agricultural expansion in Brazil is estimated at 170 million hectares (420 million acres) (FAS/USDA).

Not only has Brazil become a more prominent actor in international agrifood markets; it also has become a significant force influencing agricultural policies at the national, regional, and multilateral levels. Brazil successfully challenged the US cotton program at the WTO, and efforts to comply with the WTO's ruling will likely have a lasting impact

Brazil is now the world’s largest exporter of beef, poultry meat, soybeans, sugar, ethanol, coffee, orange juice, and tobacco and must be considered in policy decisions.

Table 1: Brazil’s Growing Dominance in World Agriculture - 2005 Rankings.

	World rank production	World rank exports	Global exports market share %
Sugar	1	1	42
Ethanol	1	1	51
Coffee	1	1	26
FCOJ (orange juice)	1	1	80
Soybeans	2	1	35
Beef	2	1	24
Poultry	3	1	35
Pork	4	4	13
Soybean meal	2	2	25
Corn	3	4	35

Source: FAS/USDA and GTIS data.

on multiple aspects of US farm policy. Brazil also is a founding member of the Southern Common Market (MERCOSUR) and an active participant in the WTO agricultural negotiations, where Brazil has pressed for reductions in farm subsidies as part of the influential G6 and the G20 group of developing countries.

Brazil envisions that the successful completion of the Free Trade Agreement of the Americas (FTAA) would generate substantial multilateral economic benefits via heightened market integration at the hemispheric level. An FTAA would develop access for markets that do not currently exist, attract foreign investment, and allow for the development of a hemispheric energy policy that would harness agriculture’s potential as an energy supplier. Brazil’s support for FTAA, however, is sub-

ject to the stipulation that the US substantially reduce its farm supports. From a US negotiating standpoint, an FTAA would require the elimination of tariffs and quotas throughout the bloc, hemisphere-wide agreement on intellectual property rights and the property rights of foreign investors, and rules for government procurement and services.

In the discussion, Outlaw (US) and Hardin (US) acknowledged Brazil’s strong comparative advantage in soybeans, sugar, ethanol, and meat but drew attention to the role of government in Brazilian agriculture. While Brazil expresses opposition to the farm subsidies of the developed countries, it, too, offers subsidies to its farmers, particularly in the form of input subsidies and loan guarantees. Outlaw and Hardin also pointed out that Brazil’s self-designation as a develop-

ing country is an issue when it comes to agriculture. Greater demonstration of Brazil’s potential as an export market for the NAFTA countries would help to reenergize the FTAA negotiations. Palau (MX) pointed out that strategic competitiveness is not granted forever and that the NAFTA countries must take steps to maintain their competitive edge. This involves building entrepreneurial capacity and the continuous advancement of technological innovations. Workshop participants generally agreed that cooperation between Brazil and the NAFTA countries on bio-fuel issues could be central to future hemispheric efforts toward market integration.

China: Rozelle, Sumner, Paggi, and Huang

With a population of 1.3 billion (compared with 298 million in the US, 107 million in Mexico, and 33 million in Canada), China is a huge potential market for NAFTA farm products and will probably become a much stronger competitor in international markets for labor-intensive commodities such as fruit, vegetables, and nuts. Rural-to-urban migration and the “Westernization” of diets are likely to have a large impact on the composition of Chinese food consumption and agrifood imports.

Until the 1990s, China’s government maintained a command

Continuing trade expansion and diversification in terms of markets and products remain at the core of Brazil's trade interest.

and control system that emphasized self-sufficiency in grain production. Since then, market liberalization has occurred steadily and affected all areas of food markets. Liberalization is creating a private and quasi-private trading class that makes independent sourcing decisions and buys and trades based on market prices. As a result of this transformation, trade distortions throughout agriculture have declined. Much of the reduced protection in agriculture has come from changes in the exchange rate, decentralization of the authority to engage in international trade, and relaxation of import licensing procedures for some commodities (e.g., moving oil and oilseed imports away from state trading enterprises). Despite these reforms, the government maintains control over commodities that are deemed to be of national strategic importance, such as rice, wheat, and maize. While China's accession to the WTO in 2001 was a major event, it was really part of an ongoing movement toward economic liberalization. Hence, the agricultural commitments embodied in China's WTO accession agreement—increased market access, less distorting domestic support, and reduced export subsidies—were consistent with what China was already implementing.

In response to this new policy environment and rising consumer demand, many Chinese farm-

ers have shifted their attention away from grain production and toward the production of labor-intensive horticultural crops—a more profitable activity in which China has a comparative advantage. The vegetable sector illustrates more than anything the extent of this change. Between 1990 and 2000, the area planted with vegetables more than doubled, increasing by over 8 million hectares (20 million acres). To put this change into perspective, the area devoted by China to vegetable production increased by the equivalent of California's area planted with vegetables (about 700,000 hectares or 1.7 million acres) roughly every two years. In the fruit sector, farmers upgraded their

orchards through improved agronomic practices. Almost every major fruit and vegetable has experienced a marked increase in production. Small-scale operations have been important participants in these developments. For instance, farmers in very poor villages in the Greater Beijing area have increased their share of fruit, vegetable, and nut production since 2000. Rough calculations suggest that more than 40 million Chinese households are engaged in the commercial production of these commodities.

For the moment, China's fruit, vegetable, and nut exports are not large, and this trade is primarily destined for nearby



With 1.3 billion people, China is a huge attractive market for NAFTA agrifood exports and a potential competitor in international markets for labor-intensive crops.



countries. Hindering export development are inferior (but improving) transportation and communication systems, limited extension support, and a relatively small number of cooperatives; so efforts to serve markets that demand high quality food from remote production areas are suffering. Water scarcity and the small size of the typical Chinese farm are additional limitations. Nevertheless, Chinese exporters are gaining experience in serving more sophisticated markets. If China can overcome these constraints, the NAFTA countries should expect much stiffer competition from China in lucrative third-country markets for fruit, vegetables, and nuts.

Workshop discussion by Gilmour (CA) and Grunenfelder (US) confirmed the market opportunities and competitive challenges associated with China. The market opportunity lies in the realization that China will not be able to produce all the food needed to feed 1.3 billion people. They are beginning to demonstrate their comparative advantage in vegetables. Since SPS issues are of broad public concern, cooperation between China and the NAFTA countries is warranted.

Policy Options and Strategies for Building upon NAFTA

Four base papers presented a broad range of policy options

and strategies for building upon NAFTA and reducing the resistance to market integration.

NAFTA Plus: Meilke, Rude, and Zahniser

NAFTA created a set of mechanisms and organizational structures that generally preserved the national sovereignty of its member countries. With nearly full implementation of the agreement, the easy gains from NAFTA have been achieved and there is a clear sense that market integration is outpacing the policy process. Economic and political conditions have changed in major ways, including elevated national security concerns, higher energy prices, and enhanced competition and market opportunities. In addition, domestic farm policy differences create periodic charges of dumping, and serious regulatory conflicts have required the active participation of high-level officials and the creation of new administrative structures, such as the bilateral consultative committees on agriculture, to direct and manage policy initiatives. While it is easy to be pessimistic, agrifood interests have much to gain by playing a proactive role in the further integration of the North American market.

The alternatives for the next phase of NAFTA include:

- **Doing nothing** is an unappealing option because a trinational approach to security and trade is needed and because the rising

China's domestic and trade policies have encouraged its farmers to move toward labor-intensive activities in which they have a comparative advantage.

number of bilateral and regional trading arrangements with countries outside NAFTA reduces the tariff preferences enjoyed by the NAFTA countries.

- **Formation of a NAFTA customs union** would require the member countries to forge a common external trade policy, presumably one in which external tariffs would be reduced to the lowest level currently applied by the three members. A customs union would generate efficiency gains by eliminating the need for costly rules of origin, but it would also require the NAFTA countries to address some difficult trade issues. Examples include trade policy toward Cuba, the harmonization of existing preferential tariff regimes between the NAFTA countries and specific developing economies, and the creation of supranational institutions to administer trade remedies and collect customs duties.
- **Strategic trilateralism** would enhance economic integration without undermining political autonomy. Perhaps the most difficult problem that a trilateral strategy would need to attack is the elimination of wide differences in the type, level, and distribution of domestic farm supports. The tinder for many trade tensions as well as the justification for countervailing duties would be sharply reduced by making domestic farm policies more uniform. With regard to antidumping and counter-

vailing duties, there needs to be much broader recognition that agriculture is a cyclical industry and that “dumping” prevails at the bottom of nearly every production cycle when the standard of comparison is market prices versus the full cost of production. These cycles are common to all three NAFTA members, and the likelihood of predatory pricing in primary agricultural products is small. In addition, the member countries could benefit from the establishment of a single dispute settlement process under NAFTA, comparable to what exists in the WTO, and a NAFTA economic analysis division that would filter out questionable allegations of dumping. While the NAFTA governments have

achieved much regulatory coordination and are striving to provide an even stronger framework for policy coordination through the Security and Prosperity Partnership for North America, they have expressed little interest in creating a supranational regulatory body within NAFTA. Finally, cooperation is needed to facilitate the freer movement of primary agricultural production and processing firm labor among the NAFTA members and to reduce illegal immigration.

In the discussion, Whitney (US) profiled the Fruit and Vegetable Dispute Resolution Corporation, a privately run entity that provides members with a common set of business rules and a binding



There is a clear sense that economic integration under NAFTA is outpacing the policy process.

dispute settlement system. This strategy has the potential to be expanded to other trade sectors. Salinas (MX) expressed the need for a supranational authority under NAFTA to cover antidumping and regulatory issues and a willingness to consider the possibility of a customs union. In contrast, Heinen (US) emphasized that it would be extremely unlikely for the US to support a customs union. Hardin (US) stressed that farm policy is more about electoral politics than anything else. Farm policy changes will be difficult, but an orderly transition is important to the future of agriculture, and harmonizing support levels would help to reduce trade tensions. Hardin (US) also noted that the US antidumping and countervail-

ing duty system does not benefit the US economy. Isman (CA) indicated that regulatory coordination is extremely important and that reopening NAFTA would be a big mistake.

Transitional Policies to Facilitate Trade and Policy Adjustments

Strengthening NAFTA and achieving freer trade requires substantially reducing or eliminating domestic farm subsidies. New Zealand eliminated its farm subsidies as part of an emergency economic program; the development of similar conditions in the NAFTA countries seems unlikely. However, New Zealand's experience reveals that there are sub-

stantial long-run benefits to the elimination of domestic farm subsidies. Discussion of the New Zealand paper was followed by papers that examined ideas for compensating farmers for the loss of farm subsidies and helping farmers to make economic adjustments in the face of import competition. The final paper analyzed possible transition policies for Canada's supply management programs.

New Zealand: Lattimore

From 1972 to 1984, New Zealand operated an array of costly farm subsidies, mainly in the form of deficiency payments, and high levels of protection were provided for all economic sectors. The primary impetus for eliminating farm subsidies was a foreign exchange crisis in 1984, while the main catalyst for trade liberalization was the signing of the free trade agreement with Australia in 1983. The Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) covers all agrifood products and created a joint food standards authority to prevent nontariff barriers from arising. ANZCERTA resulted in the tendering of increasing quantities of bilateral import licenses across a broad range of products and the eventual removal of these quotas. The most important lesson from New Zealand's experience with farm subsidies is that market failure is not a sufficient condition for government interven-



While it is very easy to be pessimistic, agrifood interests have much to gain by playing a proactive role in the further integration of the North American market.



tion. It must also be proven that the government can improve the situation.

During the elimination of farm subsidies, minimal and limited compensation was offered to farmers in a timely and credible fashion. To the extent possible, compensation was output-related only in cases where the farm was thought to be viable at world market prices. In those cases where a commercial farmer appeared to have no hope of recovering financial viability, the government provided the farmer with an exit package, which included a grant of the family car and household furniture plus a cash grant that constituted a reasonable deposit on a house in

town. Surprisingly, perhaps, few exit packages were required.

As a result of the removal of subsidies, sheep meat and wool prices fell dramatically, and the real incomes of sheep and beef ranchers fell 60 percent from the previous year. Dairy farmer incomes fell 25 percent, mainly as a result of rising debt servicing costs and the removal of fertilizer subsidies. Farmland prices fell by 50 to 65 percent. During the 1985-89 period, about 5 percent of commercial farmers declared bankruptcy or simply left the sector. Farm families survived the crisis period by cutting costs, increasing revenue through economic diversification (including off-farm employment), and restructuring farm debt using

facilities created by government. Large areas of marginal land were taken out of production, and some land was sold for lifestyle blocks or leased to outside investors for forestry and other enterprises.

In assessing the impacts of New Zealand's agricultural policy changes, it is important to recognize that the country's comparative advantage in agriculture is relatively strong. Key economic outcomes following this reform include the following:

- The number of farms declined from 77,000 before the reforms to 66,000 afterwards. Larger commercial farms, particularly in the expanded dairy sector, are now more common.
- The land devoted to livestock and arable farming declined from 14 million hectares (35 million acres) in 1984 to 12 million hectares (30 million acres) in 2003.
- Land prices and farm incomes more than recovered after a period of 4-8 years following the initiation of the policy changes.
- Agricultural productivity and efficiency increased.
- Two very large dairy cooperatives merged to form Fonterra, which subsequently became the world's 14th largest dairy company and a leading multinational trader in manufactured dairy products.

The winners from the reforms were those farmers (the majority) who withstood the short-term ad-

Market failure is not a sufficient condition for government intervention. It must also be proven that government can improve the situation.



justment costs and stayed in farming long enough for farm incomes and farmland prices to recover. They won in large part because they developed and adopted new technology to boost farm productivity. The losers were those farmers who left or were forced out of the industry while farmland prices remained low. On balance, the dividend from agricultural policy liberalization in New Zealand has been large.

The discussion indicated that a strong business culture and pursuing those economic activities where a comparative advantage exists, rather than subsidies, are essential to making agriculture work. Ledman (US) observed that the US has experienced the same

percentage decline in dairy farm numbers as New Zealand and that Fonterra provides export marketing services to many US dairy operations. She also noted that the continued existence of US dairy subsidies is explained by the political clout of small farms, and that the federal milk marketing order program causes greater structural distortion than the price support program. Stinson (MX) indicated that one reason for the success of New Zealand's policy changes was the presence of strong public and private institutions and a smaller and highly educated population. She emphasized that successful public intervention in agriculture requires timely reforms; limited, timely, and targeted producer support; and industrialization of the

agrifood sector. It also requires support for education, research, and infrastructure development.

Trade Adjustment: Blabey

As New Zealand's experience indicates, many farmers are adversely affected in the short run by a decrease in subsidies. Some can withstand and even capitalize on policy change; some may require assistance to adjust their farm operations to the new competitive environment; and still others are forced to seek opportunities outside agriculture. The US has many institutions that help farmers adjust to change. The most important and long standing of these is the Extension Service, which was established for this very purpose in the 19th century as a cooperative educational program of USDA and state land grant universities. A comparable federal program, however, does not currently exist in Canada or Mexico.

The US government recently instituted a much smaller program that is designed to facilitate economic adjustment in response to import competition. As part of the 2002 Trade Act, the US Congress created the Trade Adjustment Assistance for Farmers (TAA for Farmers) program. TAA for Farmers is designed for producers of raw products who have been adversely affected by import competition. All applicants receive free technical assistance, and those applicants who can demonstrate a

Less than 2 percent of displacement in the US labor force is due to import competition.

decline in their net farm income also receive access to job retraining benefits and cash payments of up to \$10,000 per year. To be eligible, the price of the commodity produced by the farmer must have declined by more than 20 percent relative to the average price of the five previous marketing years. So far, cash payments have generally fallen in the range of \$2,000 to \$4,000 per applicant.

While the potential \$10,000 grant motivates many of the applications, technical assistance that helps farmers with the process of economic adjustment is at the core of TAA for Farmers. This assistance, provided by the Extension Service, includes information for improving the production and marketing of the adversely affected product and for evaluating the feasibility and desirability of producing alternative commodities.

In the discussion, Hueneman (US) indicated that less than 2 percent of displacement of the US labor force is due to import competition. He cautioned not to make too much out of TAA for farmers because its efficacy has not been demonstrated, although it can be argued this is due to the relatively small size of the program. Chacon (MX) stressed that economic competitiveness lies in the ability to attract and maintain investment. Therefore, the key issue is to identify those areas where a comparative advantage exists and to facilitate specialization in those

areas. He noted that the US and Canada have comparative advantages in grains and cattle, while Mexico has comparative advantages in fruit and vegetables.

Buyouts: Orden

A buyout is a one-time or multi-year decoupled payment made to farmers in return for ending specific farm subsidies. Buyouts are designed to terminate specific farm program entitlements, move the commodity in question toward freer trade, take subsidies off the negotiating table at the WTO, reduce long-run government expenditures, eliminate market distortions, and enhance the economic livelihood of

consumers. Buyouts compensate farmers for ending the stream of farm subsidies, reducing asset values, and making adjustments in their farm operations, which may involve exiting from farming or switching to agricultural activities where they have a greater comparative advantage.

One lesson from the recent buyouts in the US peanut and tobacco programs is that narrowly defined benefits, specifically production quotas, may be easier to buy out than broader forms of support such as direct payments. These buyouts were very lucrative to participating producers, especially given the circumstances of declining benefits to quota owners. Similarly, the European Union



Buyouts are an investment in the future—they provide long-term savings to taxpayers, enhance productivity, reduce consumer costs, and provide transitional support for farmers and agribusinesses to pursue open markets.

(EU) has established a buyout for its sugar program covering both production subsidies and processing capacity.

So far, there has not been a convincing buyout proposal for the main farm subsidies in the US or the EU. The fixed payments adopted in the 1996 US Farm Act provided a windfall to farmers in a year of high market prices, but that legislation failed to ensure a buyout in three respects: a budget baseline remained in place for future farm program spending; the permanent farm program legislation from 1949 and related acts was retained; and no steps were taken to bind the actions of future Congresses. When farm commodity prices eventually fell, the next Congress quickly stepped in with additional payments. If the US were to pursue a comprehensive buyout of its main crop programs, several steps can be envisioned that would improve the prospects for adherence to a buyout, including:

- elimination of the permanent legislation and related acts for US farm supports,
- a WTO agricultural agreement that incorporates tighter limits on trade-distorting farm programs, and
- making output and area for which payments are bought out ineligible for any future support legislated by Congress.

Buyouts are a costly investment in the future. The estimated cost of



buying out all direct payment programs under the 2002 US Farm Act (including marketing loans) would be nearly \$175 billion as a lump sum, \$21.5 billion per year if paid out annually over 10 years, and \$8.3 billion if paid out as an infinite annuity. These amounts are high, but not unprecedented, compared with past annual levels of farm supports. The estimated cost of buying out the US sugar program, allowing for free trade, ranges from \$16.8 billion to \$25.2 billion, depending on the expected decline in US sugar prices. Nevertheless, such buyouts would generate long-term savings for taxpayers, enhance the ability of participating farmers to make economic adjustments, and provide a stronger basis on which trade ne-

gotiators could pursue more open global agricultural markets.

In the discussion, Shwedel (MX) indicated that the buyout issue should be viewed in a broader international context. Under NAFTA, Mexico will be looking to export as much as 750,000 metric tons of sugar to the US per year in order to maintain domestic price stability. Such high volumes of trade would necessitate major adjustments to the US sugar program. Producing ethanol from sugar would help to reduce the adjustment problem by raising world prices, so ethanol has an important role to play in the international sugar and sweetener market and the reduction of farm subsidies.

There are strong arguments for making major adjustments to Canada's supply management programs.

Canadian Supply Management Reform: Barichello, Cranfield, and Meilke

Canada's negotiating position at the WTO has to tread the fine line between the 80 percent of Canadian agriculture that is export oriented and the 20 percent that is supply managed. Its supply management programs for dairy products and poultry have three key features in common:

- Prices are determined by a cost-of-production formula that includes imputed costs for the labor supplied by the farmer-operator and a return to equity and management.
- Production is limited to what the domestic market will consume at the cost-determined price.

- Border measures are used to keep out less expensive foreign products.

While the proposed Doha Round reductions in over-quota tariffs would still protect the Canadian industry from low-cost imports under most market conditions, they would also constrain future consumer-financed increases in domestic prices, especially in the dairy sector. Because production is restricted to less than the quantity producers want to supply at the administered price, the "right-to-produce" is economically valuable. The value of these quotas has sharply increased since 1995, perhaps in anticipation of government payments to provide compensation in the case of capital

losses on quota purchases. For example, an Ontario milk producer with sufficient marketing quota to cover 100 cows has \$2.5 million invested in that quota. Therefore, the manner in which payments would be determined with the provision of adjustment assistance is extremely important. Options include:

- **No buyout.** The strongest argument against providing assistance, even in the case of significant permanent cuts to supply management programs, is that producers knew the risk when they purchased the quotas and have enjoyed considerable benefits from owning them. The main risk inherent in purchasing quotas—that the policy regime could change—should be well understood by buyers, and there is evidence that such risk is already built into the quota price.
- **Pay the book value of the quotas.** Book value could be taken as the original value of the purchased production quota. This approach explicitly focuses on losses in capital value, as measured by the original purchase value.
- **Payments based on lost income.** This option, used by Australia, would compensate for some fraction of a producer's income loss when the policy was changed but not for losses in the capital value of quota. This method of compensating producers is extremely flexible, allowing for virtually any level



NAFTA's positive momentum can be further expanded through voluntary actions, strengthening security, information sharing, and proactive cooperation.

of payment. The timing of the payments could be readily chosen and they could be financed through any mix of consumer and government financing.

- **Two quota option.** A new quota would be created in which milk shipped under the new quota would receive a lower price, such as one that approximates a market determined price. Determination of the new quota price could be handled privately under an offer-to-buy mechanism whereby producers would make an offer for the new quota in selling their old quota to the government at some pre-determined price, such as the prevailing market price on already-established quota exchanges. Alternatively, farmers could provide both an offer-to-sell price for their old quota and a bid-to-buy for the new quota. To make this option voluntary and commercially feasible, the government would need to subsidize the arrangement, since the government would be buying old quota at high prices and exchanging it for new quota at lower prices.
- **Full market value.** This option would be politically attractive and easy to administer, but its cost to taxpayers would be extremely large—C\$25 billion using 2004 data.

The discussion suggested that a major contribution of the paper was its idea that the primary beneficiaries of lower prices—

consumers—should pay for some portion of the fiscal costs associated with a buyout via delayed reductions in output prices. Nailor (CA) indicated that while he considers the discussion of buyout options to be premature, the options need to be commodity specific. He also thought that giving farmers choices would be useful. During the open discussion, it was indicated that adjustment assistance should not be fully based on asset values, since the redistribution of wealth associated with the quotas has been quite substantial.

Summary and Implications

With a limited number of exceptions, the workshop participants consider NAFTA to be an overwhelming success, which is supported by data from each member country. The exceptions tend to be country and sector specific—Aguilar (MX), for example, drew attention to the circumstances faced by poor maize farmers in Mexico. Certainly there are a number of areas where more could be accomplished within the existing NAFTA framework. Many of these are being addressed, even though they are politically sensitive.

This workshop looked beyond what has been accomplished to what could be accomplished if the rules of the game were changed in favor of even greater market integration. Currently, all three

NAFTA countries are considering the merits of possible changes to their domestic agricultural policies. Dyer (CA) underscored that policy reform requires laying the groundwork with stakeholders, acting within windows of opportunity, identifying and exploiting areas for comparative advantage, and exercising visionary leadership, by both the agricultural sector and its political representatives.

Major changes to the NAFTA framework, such as the formation of a customs union or common market, are unlikely to occur in the near future. Even the idea of reopening NAFTA to negotiate minor modifications is strongly resisted due to concerns that positive momentum toward greater market integration would be lost in the process. Heinen (US) stressed that emphasis needs to be placed on competitiveness, fostering voluntary actions, supporting science-based panels to resolve regulatory conflicts, strengthening security in ways that impose minimal restrictions on trade, sharing information before crises arise, and cooperating on a workaday basis. Ruiz (MX) indicated that building a new stage of NAFTA requires greater attention to health and sanitary codes, increased efforts to harmonize tariffs and domestic sugar policy, moderation in farm subsidies, getting the private sector more involved, and increasing direct foreign investment.

Commissioned Base Papers:

- Barichello, Richard, John Cranfield, and Karl Meilke. *Options for Supply Management in Canada Under Trade Liberalization*.
- Blabey, Richard. *Trade Adjustment Assistance for Farmers: Implementation and Lessons Learned*.
- Lattimore, Ralph. *Farm Subsidy Reform Dividends*.
- Meilke, Karl, James Rude, and Steven Zahniser. *The Search for “NAFTA Plus” and a Strategic Bargain in the North American Agrifood Sector*.
- Orden, David. *Feasibility of Farm Program Buyouts: Is it a Possibility for U.S. Sugar?*
- Rozelle, Scott, Daniel Sumner, Michel Paggi, and Jikun Huang. *Rising Demand, Trade Prospects and the Rise of China’s Horticultural Industry*.
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Program Participants:

Gloria Abraham – Instituto Interamericano de Cooperación para la Agricultura – México
Walt Armbruster – Farm Foundation
Rick Barichello – University of British Columbia – Department of Agricultural Economics
Richard Blabey – United States Department of Agriculture – Foreign Agricultural Service
Armando Chacón – Instituto Mexicano para la Competitividad
Arnaldo Chibbaro S. – Instituto Interamericano de Cooperación para la Agricultura – Uruguay
Ken C. Clayton – United States Department of Agriculture – Agricultural Marketing Service
Elisio Contini – Ministério da Agricultura, Pecuária e Abastecimento – Brazil
John A. L. Cranfield – University of Guelph – Department of Agricultural Economics and Business
John Dunmore – United States Department of Agriculture – Economic Research Service
Jan Dyer – Agriculture and Agri-Food Canada
Brad Gilmour – Agriculture and Agri-Food Canada
Brian Grunenfelder – United States Department of Agriculture – Foreign Agricultural Service
John Hardin, Jr. – Hardin Farms
Suzanne Heinen – United States Department of Agriculture – Foreign Agricultural Service
David Hope – Ontario Ministry of Agriculture, Food and Rural Affairs
Jon Huenemann – Miller & Chevalier Chartered
Barb Isman – Canola Council of Canada
Ronald D. Knutson – Texas A&M University – Agricultural and Food Policy Center
Ralph Lattimore – Consulting Economist – New Zealand
Mary Ledman – Keough Ledman Associates, Inc.
Karl Meilke – University of Guelph – Department of Agricultural Economics and Business
Mike Nailor – Chicken Farmers of Ontario
David Orden – International Food and Policy Research Institute
Joe Outlaw – Texas A&M University – Agricultural and Food Policy Center
Eduardo E. Palau B. – Confederación de Asociaciones Agrícolas del Estado de Sinaloa
Mechel Paggi – California State University-Fresno – Center For Agricultural Business
James Rude – University of Manitoba – Department of Ag. Business and Ag. Economics
Antonio Ruiz – Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesa y Alimentación
Eugenio Salinas – XIGNUX Corporativo, S.A. de C.V.
Cameron Short – Agriculture and Agri-Food Canada
Ken Shwedel – Rabobank International – México
Yvonne Stinson – Comercio Global Consultores, S.C.
Constanza Valdes – United States Department of Agriculture – Economic Research Service
Ivan Wedekin – Ministério da Agricultura, Pecuária e Abastecimento – Brazil
Stephen Whitney – Dispute Resolution Corporation
Steven Zahniser – United States Department of Agriculture – Economic Research Service

Farm Foundation

1211 West 22nd Street

Oak Brook, IL 60523-2197