Convergence, Harmonization, and Compatibility under NAFTA: A 2003 Status Report

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In the 2001 Workshop the authors developed and applied a taxonomy and framework for assessing the status of agricultural and food policies in each of the NAFTA countries (Knutson, Loyns and Ochoa, 2002). It divided the policies into the following areas:

- Facilitate growth and progress.
- Regulation.
- Market intervention.

For each area the paper identified the major points of conflict that existed in 2001 at the time the paper was written and the requirements for harmonization. The major areas of conflict included:

- Facilitate growth and progress: particularly grades and standards in grains (US-CA) and beef (US-CA); trade policy in dairy (US-CA), sugar (US-MX), poultry (US-MX), and wheat (US-CA); infrastructure policies (border conflicts US-MX).

- Regulation: particularly plant and animal protection (US-MX), food safety (US-MX), pesticides (US-CA-MX).

- Market intervention: particularly disaster assistance (US-CA-MX), price supports and safety nets (US-CA-MX), and supply management and state trading.

The purpose of this paper is to update that paper and to draw conclusions as to whether progress has been made since 2001 has been positive, negative, or neutral in each of these areas of conflict for policy/program convergence, harmonization, and compatibility. The 2001 policies, therefore, can be looked upon as a policy baseline point of reference for comparison in 2003. Many of the policy changes were embodied in and precipitated by the US 2002 farm bill. However, care was taken to review each of the policy/program areas covered in the 2001 taxonomy to identify changes in the level of conflict.

Definitions

The title of the 1996 Workshop included the terms harmonization, convergence, and compatibility. Tim Josling defined each of the terms as follows:

- Harmonization: The process of implementing uniform or essentially similar programs and/or regulations in each of the three NAFTA countries.

- Convergence: The process of harmonizing programs/regulations over time. The issue in convergence involves whether the countries are moving in direction of and harmonized policy, even though they have not gotten there.
- Compatibility: The development of policies, programs, regulations, and instruments that are designed to be consistent with other countries or to bring about consistency. Even though the policies, programs, regulations, or instruments may not be the same has the potential for conflict been reduced?

These definitions are important to evaluating the extent to which the objectives of free trade agreements (FTA) have been achieved. A review of the previous eight workshop proceedings and related discussions indicates that different versions of these terms have been used with the potential for miscommunication and misunderstanding. Indeed, it is the conclusion of this paper only two of these three terms—compatibility and convergence—are crucial to determining extent to which the objectives of free trade agreements (FTA) have been achieved.

Josling's definition of convergence--the issue of whether countries policies, rules and regulations are coming together over time--is acceptable from the perspective of this paper.

However, Josling's definition that harmonization means developing uniform and essentially similar programs and/or regulations places too strict a requirements on and FTA. While the requirement for uniformity has been expressed many times in workshops (see for example --sources--) and can be heard in almost any discussion of NAFTA, pro or con, this requirement may be unachievable. It raises contentious and counterproductive questions of whose programs and regulations? It implies that Mexico and Canada would have to adopt, for example, the U.S. model for their agriculture and food industries. That outcome is highly unlikely. Likewise, it is unlikely that United States would adopt the Mexican or Canadian models. There are many resource, economic, political and cultural reasons why agricultural policy has evolved as it has in the three countries. If free trade depends on evolution (convergence) to uniform and essentially similar programs and regulations, the required end result is a common agricultural and food program in the image of the European Union.

The proposition of this paper is that harmonization, as defined by Josling, is neither necessary for achieving the objective of free trade nor a requirement for evaluating the success of an FTA. What is required is that programs, rules and regulations and business practices are compatible; if they are, free trade can occur and one can conclude that a workably harmonized trading environment has been achieved. Steve Meyer provided a wonderful metaphor to make this case at our fourth workshop. He said in effect "in our quartet it is my role to sing base; it is somebody else's role to sing tenor. If we do it right there is fine harmony". For harmonized trading relations, laws, rules, regulations and trading/business conventions must be compatible. It is this definition of harmonization that we use in this paper. And as we have pointed out many times, a very important antithesis of harmonized markets is trade disputes--the rationale for these workshops.

What does this mean for harmonization/compatibility of policy?

Policy is a guiding principle leading to a course of action or specific program that is pursued by the government. Programs implement policy. Policy influences or determines the actions and decisions of government regarding programs. The pursuit of free trade in international markets is a policy. An administration that embraces a free-trade policy…actively pursues international actions that will reduce barriers to trade through its own programs and by negotiations with other countries….Agriculture and food policies embody the principles that guide government programs that influence: production; the resources utilized in production; domestic and international markets for commodities and food products; food consumption; and the conditions under which people live in rural America (Knutson, Penn, and Flinchbaugh).

Using this definition, policy is more likely to meet Joslings test for uniformity than the programs, rules and regulations that implement policy. For example, one of the basic objectives of agricultural policy pursed by many countries is the maintenance of a safety net for farmers. There are many different programs that can be specified as being consistent with this objective. The only requirement imposed by this paper is that these programs be compatible and converging so that the holes in the safety net are approximately the same size.

In the 2002 workshop in the lead paper, Haddow (p. 4) indicated that this concept of harmonization already is applied in NAFTA committees and subcommittees:

The whole point about this is that in a situation, say, between Canada and Mexico, Canada has a certain appropriate level of protection and we regulate in a certain manner with certain measures to achieve that appropriate particular level of protection. Let us also say that Mexico wants to export to Canada, but they do not regulate in exactly the same way that we do. Mexico may claim that it can achieve Canada's appropriate level of protection but in a different way. In this instance, Canada has a obligation to respond. If it can be established that the way Mexico regulates, even though it is different, is able to achieve the appropriate level of protection at the end of the day, then the WTO Agreement encourages Canada to recognize that there is "more than one way to cook a steak" that is, there is more than one way to regulate in a particular area.

Further, in relation to labeling Haddow (p. 10) notes

So the idea would be to set up some kind of common standard, or at least some kind of harmonized approach to that question.

It is clear from these comments that achieving compatibility is the focus with the same the policy objective.

It also is useful to define free trade. While the 2001 paper avoided this question, this one does not. First and foremost, free trade is an economic concept to which Samuelson attached the theory of gains from trade. It is also a concept based on competitive markets, differential resource endowments, and comparative advantage. Free trade in this framework involves open borders, limited or no government intervention that distorts either resource allocation or trade, and individual countries and companies maximizing returns to resources according to their comparative advantage. The pay-off from economic activity and trade organized in this manner, which increasingly countries around the world have embraced, is one of maximizing social welfare provided there are no serious externalities.

There are a number of implications of this is definition of free trade. For example, differential institutional arrangements anywhere in the market place that limit or distort trade are not consistent with free trade such as incompatible labeling requirements, grade or health standards, quantitative restrictions, and exclusive pricing arrangements. Similarly, a difference in programs, rules, or regulations that distorts resource allocation among different groups within that country, and among countries, does not constitute free trade.

An open border appears to be a necessary condition for free trade, but it is not a sufficient condition. Sumner (2002) appears to present a contrary argument by stating that in the world of trade-offs between trade negotiation and trade disputes, gains to exporters can be achieved even if fully coupled subsidies exist for domestic producers. He argues as well that there are real costs to using the WTO to attempt to preclude domestic support to agriculture. On another occasion in discussing these results in an open forum, he indicated that he was not clear on how open borders alone did not constitute free trade (2001). A close cousin of this position is that presented by Tolman (2002) when he argued that the grain subsidies in the United States have little to do with free trade because they are domestic subsidies, not export subsidies. A Canadian version of free trade involves the contention that wheat imports from the United States are commercially open because there are government documents that say that. However, regulations and constraints prevent the free movement of wheat into Canada compared with corn, soybeans and soybean meal. Being freely traded in the sense that some movement occurs is not necessarily free trade.

Jabara and Reeder state (2002) that CUSTA (the 1989 Canada/U.S component of the NAFTA) was never intended to accomplish free trade. Instead, it was more of a customs union to achieve less regulated and less taxed cross-border trade. Significant elements of their former programs, rules, and regulations were left intact by both countries. These conditions were not materially different in the 1995 U.S.-Mexico agreement and the Mexico-Canada agreement as components of NAFTA. Consequently, there were many institutional constraints left in place to prevent a genuine free trade area.

Aggregate Level of Intervention: 1995-2001

Producer subsidy equivalents (PSEs) have their limitations in terms of analytic and descriptive content. However they have a degree of general acceptance for policy analysis purposes and they are centrally calculated according to common procedural guidelines. For our purposes, they provide a starting point for comparing the level and distribution of public intervention and support in the three NAFTA countries. The most significant limitation for this paper is that the available series ends in 2001 and, therefore, does not measure the impacts of the U.S. 2002 Farm Bill and comparable policy/program actions in Canada and Mexico. While the amount of support/intervention is the driving force for changes in PSEs, the significant increase in grain and oilseed prices over part of the 2002-2003 period would, *ceteris paribus* reduce all measured support for those crops. In any event, we present and briefly interpret PSEs in the larger framework of this paper.

Table 1 provides a summary comparison of the aggregate PSEs for the NAFTA countries covering the period 1995-2001. It suggests relatively small PSE differences with the aggregate measures of support/intervention being in the range of 17-22 percent in 2000 and 2001.[1]

Table 1. Canada, U.S. and Mexico PSE, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
Canada	19	16	14	17	18	19	17
Mexico	-5	5	14	14	15	19	19
United States	11	14	14	23	25	22	21

As usual, the devil is in the detail. Except for Canada, Table 2 indicates the evolution of a higher level of support/intervention, particularly in the field crops—a trend that might be anticipated to have continued through the 2003, led by the provisions of the U.S. 2002 Farm Bill. Table 2 indicates generally higher levels of subsidies for major grains in the United States than in Canada since 1998. However, these data indicate Mexico has also increased support for the sector, to an aggregate level not far behind the United States. Support for milk has been comparable across the three NAFTA countries. Overall, Canadian support over this period has tended to be flat proportionate and the lowest of the three countries.

Obviously there are major differences in priorities, policies and programs to produce these differences in commodity PSEs among the three NAFTA countries. If a condition of harmonization is the convergence of the PSEs, at least within sectors between countries, this test is far from being met.

Overview of Policy/Program Changes

For each of the NAFTA countries, the purpose of this section is to provide a summary of major policy developments in agriculture since the 2001 baseline paper was written.

United States

While the 1996 farm bill was heralded as a watershed move toward less US government involvement in agriculture, the 2002 farm bill can be looked upon in varying degrees as a reversion to pre-1996 policies. This happened more as a result of the convergence of

[1] The devaluation of the peso in 1995 resulted in PSEs falling to less than zero.

political forces in a struggle for control of the Congress than of Bush Administration policy.[2] The 2002 bill covers crop years 2002 through 2007.

Table 2. Canada, U.S. and Mexico PSE by product, 1995-2001

Product\Year	1995	1996	1997	1998	1999	2000	2001
Canada							
Wheat	17	16	7	9	11	14	18
Maize	4	5	6	8	14	24	16
Milk	47	46	53	59	57	55	50
Beef and Veal	8	6	6	8	8	9	8
Pigmeat	9	7	5	7	11	8	6
Poultry	5	6	7	4	2	2	3
Eggs	30	21	25	19	19	21	18
Other Grains	13	14	7	6	7	13	13
Oilseeds	11	9	6	8	9	15	20
United States							
Wheat	15	22	25	38	50	48	40
Maize	6	12	14	28	34	33	26
Rice	26	9	10	15	37	40	47
Sugar	39	39	41	53	68	50	48
Milk	35	44	45	61	56	45	51
Beef and Veal	3	3	3	3	4	4	5
Pigmeat	3	3	3	5	4	4	4
Poultry	4	3	3	4	4	4	4
Eggs	12	4	3	4	4	4	4
Other Grains	8	20	23	42	45	45	36
Oilseeds	5	5	5	15	24	27	25
Sheepmeat	4	4	4	5	16	16	15
Wool	38	3	3	4	5	5	5
Mexico							
Wheat	-5	22	15	30	34	37	44
Maize	28	7	30	32	39	47	50
Rice	18	21	3	6	25	35	32
Sugar	-1	36	34	39	57	54	45
Milk	-1	23	35	42	43	41	44

[2] It is important to realize that in the United States the Congress drives the policy direction through the provisions of the farm bill. While the President has veto power, he is driven by the same set of political forces, albeit not as directly. At the time the 2002 farm bill was debated the Senate was controlled Democrats and the House by the Democrats. There was an election struggle developing for control of the Congress. Arguably, this struggle had more to do with the generous outcome of the bill than did economic conditions in agriculture. The policy of the Bush administration, particularly as revealed in the Doha Round of WTO negotiations is little changed from that espoused leading up to the URAA and for that matter embodied in the URAA (see for example, Penn, 2002 and USDA, 2001). One of the important lessoned learned from the Workshops is that differences in the structure of government among the NAFTA countries has a substantial impact on the power of the executive branch to impose its will on the legislative branch. In this sense Mexico and the United States are more similar than Canada, where the parliamentary system gives the same party control over both the legislative and executive functions—**if** the majority party has its act together.

Beef and Veal	-25	12	24	19	9	10	7
Pigmeat	-28	-11	-3	4	14	4	9
Poultry	-20	-2	9	-2	-11	0	-8
Eggs	-20	-12	-16	-32	-44	-33	-23
Other Grains	27	13	22	23	34	35	30
Oilseeds	16	21	13	26	48	41	54

OECD data supplied by Aleksandar Jotanovic, Agriculture and Agri-Food Canada, 27-Mar-03

The reversion to pre-1996 policies reinstated the target price, arguably in decoupled form and without reinstatement of production control authority.[3] The argument over whether the new target price payments falls in the amber box centers around whether allowing farmers to update their program base and yields constitutes coupling even though a farmer does not have to grow the crop to be eligible for a deficiency payment (now referred to as a counter-cyclical payment. In addition to the target price, the 2002 farm bill retains the original decoupled fixed payments (in political vernacular referred to as market loss payments), but institutionalized the level of payments to include the supplemental payments that were added annually to level authorized in the 1996 bill. It also retained the marketing loan, which following the enactment of the 1996 bill was applied to all program commodities. Loan rates, from which loan deficiency payments are calculated based on current yields, were increased by somewhat variable percentages across commodities. For example, the wheat loan rate was increased from $2.58/bu. in 2001 to $2.80 in 2002-03, then to $2.75 in 2004-07.

The 2002 bill also expanded commodity coverage for one or more of these income support programs (Table 3).

The U.S. crop insurance program has become an important source of income support for producers located in high-risk areas (Tweeten). Under WTO the yield coverage is more than 70 percent and if the payout for losses (indemnities) of a crop insurance program is greater than the producer premiums, the difference will not qualify for green box status. There were no crop insurance changes made since 2001. However, the Congress continues to undermine the remaining economic rationality of this program by providing disaster payments to farmers who do not buy a sufficient level of coverage.

As a general rule, the economic impacts of these changes in farm program provisions are to increase production and lower prices. The amount of increase in production and price reduction varies by program and by commodity (Tweeten, 2002). In the short run, livestock producers benefit in terms of lower feed costs and, in the long run, from increased consumption due to lower meat, egg, and milk prices.

[3] Prior to the 1996 farm bill, target price deficiency payments were paid on farmers' historical base acres when the annual average market price of wheat fell below the target price. Frequently, to be eligible for deficiency payments farmers were required to set aside a percentage of the base acres, which put these payments in WTO's blue box.

The 2002 Farm Bill added a requirement for country of origin labeling of meats, fish, produce, and peanuts by 2004, which is the subject of a separate paper in this workshop.

Table 3. Commodities and program coverage added in 2002 farm bill.

Commodity	Fixed payment	Target Price	Marketing loan
Milk	Na	.45($16.94-$BosCI)	na
Wool and mohair	Na	$1.00/lb. wool, $4.20/lb. mohair	na
Soybeans	$0.44/bu.	$5.80/bu.	Reduced $5.26/bu to $5.00/bu
Peanuts	$36/ton	$495/ton	$355/ton
Oil sunflowers Other sunflower	Na na	na na	$0.0915/lb. $0.1210/lb.
Flaxseed	Na	na	$0.0698/lb.
Canola	Na	na	$0.0949/lb.
Rapeseed	Na	na	$0.0947/lb.
Safflower seed	Na	na	$0.1253/lb.
Mustard seed	Na	na	$0.0988/lb.
Small chickpeas	Na	na	$0.0756/lb.
Lentils	Na	na	$0.1194/lb.
Dry peas	Na	na	$0.0633/lb.

Several, presumable WTO green box, farmer payments were authorized for conservation practices, environmental controls for livestock and poultry farms, wildlife habitat. In addition, green box acreage increases were authorized for the conservation reserve program (CRP), the wetlands reserve program, and a new grasslands reserve program.

Canada

While Canadian farmers have advocated increased government support in reaction to the U.S. 2002 farm bill, changes in policy have been modest at both federal and provincial levels. This lack of responsiveness has been tempered by grain and oilseed price increases due to weather adversities. Favorable production conditions in 2003 with a resulting decline in world market prices could rejuvenate Canadian farmers' demands for additional support.

The essence and philosophy of Canadian agricultural and food policy at present can be summarized from statements made to a prairie commodity group in a letter from the federal Minister of Agriculture Van Clief (January 30, 2003). The statements were made in the context of the request by the producer group for consideration to a more balanced playing field for Canadian grains and oilseeds: The Minister made the following points, which are paraphrased for purposes of this paper:

- We need to ask ourselves whether higher subsidies make the agricultural sector in the United States and EU more competitive over the long run, or whether they create sectors more dependent on subsidies:
- Australia, Argentina and Brazil, important players in global competition, are increasing their market shares, and are low subsidy countries.
- Canada needs a different approach to build a stronger, more profitable agriculture sector, and to avoid the mistakes of the United States, which includes 'farming the mailbox'.
- The objective in Canada has been to support in ways that help farmers deal with income problems by sharing with the provinces in spending on research and development and by providing safety nets like the Net Income Stabilization Account program (NISA).
- The Government of Canada will examine the U.S. FSRI Act (2002 Farm Bill) to determine how Canadian interests can be pursued and our rights protected. It will continue policy and economic analysis of the implementation of the U.S. FSRI Act (2002 Farm Bill) and remind U.S. officials that they need to lead by example if WTO negotiations on agriculture are to be successful. High subsidies will distort markets and compromise U.S. credibility at WTO.
- Canada is committed to using WTO to reduce trade-and production distorting subsidies. Canada is committed to the Cairns Group to pursue lower U.S. and EU subsidies.
- A commitment of $5.2 B over 5 years is made to strengthen Canadian agriculture, $175 million of which will be used to strengthen presence in key markets.
- We recognize grain producers for their leadership in meeting consumer demands for safe, high-quality, environmentally friendly food.
- We will ensure that the resources of the federal and provincial governments are used to facilitate business and the shift toward value-added opportunities.
- Canada, as an exporting nation, will take no action that would result in countervail actions by its trading partners.
- Canada favors the approach that combines risk management and income stabilization into an agricultural income safety net package.

The focal point for safety net support is the Net Income Stabilization Account (NISA). This program continues to evolve as disaster programs, such as the Canadian Farm Income Program (CFIP) is phased into NISA. NISA is a voluntary program whereby the government matches farmers' tax-deferred contributions that may be withdrawn in low-income years.

Mexico

For the first time in Mexico's modern history, a different political party (PAN) has been in charge of the Executive Branch, under the leadership of President Fox. While Congress is much more diverse, it is still dominated by the previous ruling party (PRI). The change in the presidential helm resulted in a suddenly spirited Congress fueled by a broader political spectrum. The result has created a politically charged environment in the Mexico with the unprecedented need of interaction of an inexperienced administration and an energetic Congress. The benefit of the political struggle has been a more balanced approach potentially leading to a longer-term design for Mexican agricultural policy. The result has been initiatives, such as the Law of Sustainable Rural Development, that truly supports the administration programs. In addition, the Sector Development Program for Crops, Livestock, Rural Development, Fisheries, and Nutrition 2001-2006, provides a serious analysis of the situation and a roadmap for future government programs in agriculture.

In spite of such forwards looking steps, Mexican agricultural policy seems to be a counterbalanced reaction to the U.S. farm policy. The 2002 U.S. Farm Bill did not provide any relief to the already politically hot environment in Mexico. Doing away with the freer market rationale of the U.S. 1996 Farm Bill, which really began in 1998, created turmoil in the Mexican agricultural sector. In addition, the mid-term elections coming in 2003 have created the conditions for certain political interests to influence public opinion on the benefits and maladies of NAFTA within the Mexican agricultural sector. These groups are requesting the administration to:

- Renegotiate the agricultural chapter of NAFTA, at least for corn and edible beans.
- Establish timely, multi-year support for agriculture.
- Create an emergency fund for agriculture.
- Give amnesty on loan default for agricultural producers.

The Mexican government publicized an Agrifood Armored-Plate Program (Programa de Blindaje Agropecuario) in an effort to counterbalance the provisions and advantages that the 2002 Farm Bill provides to the producers in the United States. This program contemplated provisions to effectively deal with trade disputes, harmonize regulations and standards, provide multi-year income support for grain and oilseeds, and provide farmer subsidies for energy (Rosenzweig, 2003). In reality, because of a late reaction, lack of definition and lack of additional funds, to the public it seemed like a desperate move by the administration to buy time and to appease increasingly vocal political adversaries.

Mexican farm programs continue to have a strong social component emphasizing support for small-holding and subsistence agriculture. The following are some of the main reasons for these policies (SAGARPA, 2001b; 2002):

- Approximately 25 percent of the Mexican population lives in rural areas.
- The size of traditional agricultural plots in this segment of the populations is very small with 60 percent of the production units being less than 5 ha (12.4 ac) and 30 percent smaller than 2 ha (5 ac). In terms of scale and productivity, this is insufficient for a family to live in any decent conditions thus creating strong incentives for migration and abandonment of land.
- A large segment of the population is made up of indigenous producers in very marginal production areas.

Modifications of the Mexican farm program have been suggested to accommodate producers with land tenure smaller that 1 ha (0.5 ac). Although these programs are externally evaluated (FAO-SAGARPA, 2003), there is still a need for monitoring mechanisms that allow assessment of the benefits as well as the beneficiaries of these programs and a direct linkage to the policy makers. This would give policy makers the opportunity to tailor future programs or to modify existing programs to fit the needs of specific segments of the population.

One of the main drawbacks of the Mexican policy making process is the lack of a strong analytical support system that would analyze the impacts of policy options and aid in designing long-term plans for the sector. This lack of analyses, based on an objectively developed economic outlook/baseline hinders the implementation of multi-year programs that could provide the much-needed certainty to agricultural producers in their operations. Without the sound economic analyses, the legislative process gets blindsided to the potential long-term negative impacts of naive policy proposals and actions. For example, in 2003, import tariffs for poultry were scheduled to be phased down to zero from 260 percent, while the tariffs for pork were to drop from 20 percent to 0. Clear economic signals indicating the development of a strong vertically-integrated and internationally-coordinated poultry industry made possible an agreement to extend the phase-out period, but yet encourage continued adjustment to change. In contrast, the hog industry, with equal potential, is set to utilize antidumping and countervailing duty measures to shield sector producers from pork product imports.

Rosenzweig (2003) presents a detailed report on Mexican policy changes during the 2001-2003 period. Direct payments (PROCAMPO), marketing support (ASERCA), and the Alliance for Agriculture (Alianza para el Campo) make up the bulk of the budget for the Mexican agricultural programs. The Fox administration has gradually increased the level of subsidies across all three programs to compensate for the 1994-95 crisis.

PROCAMPO, the most socially oriented program will account for more than one-third of the expenditures (Table 4). About 2.8 million producers benefited from this program in 2002. More than 85 percent of the beneficiaries were very smallholders, which in many instances only harvest crops for subsistence.

Table 4. Direct payment program - PROCAMPO

Item	1999	2000	2001/[e]	2002/[p]
Total Budget US$ M*	937.2	1,037.9	1,100.5	1,242.0
Payment / hectare				
Fall/Winter	62.6	70.8	77.8	82.9
Spring/Summer	70.8	77.8	82.9	87.3
Producers benefited (000)				
Ejido system	2,302	2,265	2,267	2,352
Small producers	371	365	376	392
Other	51	51	52	56

Source: Presidencia de la Republica, 2002
*Rough conversion of $MX10:US$1

The marketing support program continues providing support for specific agricultural activities (Table 5). The crops protected under this program are rice, wheat, sorghum, corn, soybeans, safflower, cotton, peanuts, barley, and canola. This program was originally designed to provide support for producers to pay for marketing expenses, such as storage and transportation. It was directed mainly to provide a relief to those highly producing areas, located far from the centers of consumption. In its original form, this subsidy was widely criticized for the distortions it caused in the production patterns and the inequitable distribution of resources among relatively few producers. The newly approved changes portend a more rational and widespread application of this subsidy for agricultural producers.

Table 5. Marketing payments and regional market development programs (US$ M*)

Item	1999	2000	2001/e	2002/ p**
Rice	4.2	6.9	12.7	9.2
Wheat	83.1	76.6	95.1	140.0
Sorghum	20.1	12.3	70.1	29.9
Corn	36.8	82.5	201.8	177.2
Soybean			5.1	
Safflower			5.5	4.9
Cotton	13.1		25.8	20.7
Peanuts			0.4	
Barley			1.4	0.4
Canola			1.1	
Other market development		114.4	94.0	
Complementary support				51.0

Source: Presidencia de la Republica, 2002
*Rough conversion of $MX10:US$1
**Rosenweig, 2003

The Alliance for Agriculture is a series of programs that include support for crops, livestock, rural development, irrigation, promotion and information systems and crop and animal protection (sanitary and phytosanitary) (Table 6). Their main objective is to promote investment, encourage technology transfer, develop market awareness, foster compliance with animal and plant protection regulations, and generally support the rehabilitation of the infrastructure. This program is supported by both federal and state funds. The contribution of the states is variable, but reaches up to half of the federal appropriations. These cost-sharing programs require a contribution from the producers to be eligible for their benefits. Every program varies in its level of support, but the importance of these programs resides in the multiplier effect that is achieved from increased investment in agriculture. The cost-sharing contributions from the producers can be as high as the level of the subsidy.

Table 6. Support for Mexican Agriculture under the Alianza para el Campo (Alliance for Agriculture) Program (US$ M*)

Item	1999		2000		2001/[e]		2002/ [p]	
	Federal	State	Federal	State	Federal	State	Federal	State
Crops	83.9	56.2	57.9	49.1	122.5	55.8	120.5	40.7
Livestock	40.4	25.8	38.4	26.9	46.2	30.7	79.5	31.1
Info and Promotion	3.2	6.9	2.9	8.3	4.9	3.1	8.9	3.2
Rural development	102.1	43.0	148.0	43.1	202.8	56.1	426.7	54.8
Sanitary and Phytosanitary	20.2	14.3	22.0	15.1	28.2	23.5	24.1	26.9
Irrigation	54.5	0.8	59.3	2.7	57.5	n.a.	50.2	n.a.
Total SAGARPA	249.7		269.2		404.6		659.6	
Total Government	304.2	147.1	328.5	145.2	462.2	169.1	709.8	156.6

Source: Presidencia de la Republica, 2002
*Rough conversion of $MX10:US$1

Private investment in agriculture has been hindered by the high cost of money (up to three times the level in the U.S.). Agricultural lending has been scarce and expensive. Private banks consider agriculture an expensive portfolio and a very high-risk investment. For this reason, the benefits of the lending and investment programs have been marginal.

FIRA-Bank of Mexico, the government development bank that operates credit guarantees and discounts through private banks, severely diminished its operations in the late 1990s. The development of diverse mechanisms and simplification of the processes is a genuine effort to improve the level of lending in agriculture. However, the adverse economic conditions in the country have discouraged significant levels of investment in the sector. (SAGARPA, 2002)

Due to inefficiency and poor management, on of the main agricultural lending arms of the government, Rural Bank or BANRURAL, severely scaled down its agricultural operations from 1.5 million producer/customers in 1982 to only 235,000 in 2000 (SAGARPA, 2002). As a result, the Fox administration has decided to terminate BANRURAL and to replace it with a new agricultural lending institution with different lending mechanisms, revamped technical support and improved customer service.

Private agricultural insurance has been discouraged by high administrative costs. Government agricultural insurance programs are operated by AGROASEMEX, the government insurance agency. The program includes a subsidy to insurance premiums for crops according to the activity and the region in the country. For livestock, the subsidy covers up to 30 percent of the insurance premium, with limits on a per-head basis (SAGARPA, 2000a).

Evaluation for Major Conflict Areas

The following evaluation is designed to indicate based on the above explanation whether government program developments have been converging since the 2001 baseline assessment by the authors. The countries are discussed in order of the relative magnitude of chance.

Facilitate Growth and Progress

Mexico: If effectively implemented, the Alliance for Agriculture program holds substantial potential for closing the large infrastructure gap identified in research, extension, irrigation, and technology. In addition, improvements in credit availability and service for agriculture hold the potential for convergence in the availability of credit. In contrast, increased use and threat of use of antidumping, countervailing duty, and licensing measures have been counterproductive in fostering adjustment and improved trading relationships.

United States: The inclusion of Cool provision in the 2002 Farm Bill was a sizable step backward in trading relations with both Canada and Mexico. Substantial barriers to trade in sugar and dairy remain.

Canada: The major areas of conflict involving barriers to trade resulting from state trading, grading procedures, and supply management programs remain. Pressures to eliminate single desk selling appear to have subsided from both a U.S. and Canadian interest group perspective.

Regulation

United States: Continued pursuit of confined animal feeding (CAFO) regulations by the Environmental Protection Agency (EPA) holds the potential for widening the disparity in regulation and its related costs, particularly with Mexico.

Mexico: Pursuit of the application of animal and plant health procedures and Hazard Analysis Critical Control Point (HACCP) training in cooperation with the United States is closing the gap in regulations affecting trade.

Canada: No significant new areas of conflict.

Market Intervention

United States: The reinstatement of the target price in the U.S. 2002 Farm Bill and the expansion of its provisions to an enlarged set of commodities was a major step backward in pursing convergence of policies under NAFTA.

Mexico: Mexico has attempted to match U.S. levels of support and to prevent spillover effects on the hog industry.

Canada: With relatively favorable grain prices, Canada appears to be pursuing a wait-and-see strategy regarding the effects of the 2002 Farm Bill on its farmers and agricultural economy. The Net Income Stabilization Account (NISA) continues to be the focal point for safety net support of the broad spectrum of Canadian farmers who choose to utilize it. Supply management programs continue to dominate the dairy and poultry industries. Unspecified standby support may materialize if world price conditions deteriorate for field crops.

Implications

Government program convergence is the key to the resolution of trade disputes, which leads to the integration of markets. Convergence requires commonality of policy – the same set of guiding principles for program development across the three NAFTA countries. With such a common understanding, government programs that foster trade disputes can be avoided. The result will be the integration of markets. This requires communication among policy makers and analysts regarding commonalities of policy goals and an understanding of program impacts prior to their adoption.

One has to look hard to find examples of converging government programs under NAFTA since 2001. Those that have been identified result, in part, from increased country-to-country cooperation, such as that occurring between the United States and Mexico in infrastructure development. If nothing else, the U.S. 2002 Farm Bill experience may have sensitized its legislators to the need to consider the impacts of policy and program changes on its trading partners.

Absent the adoption of new institutional arrangements for aggressively pursuing policy convergence, such as discussed in the 2002 workshop, substantial progress in convergence of policies under NAFTA would appear to depend upon multinational agreements within World Trade Organization (WTO) Doha Round and its sequels. U.S. proposals to increase market access, reduce domestic support, and eliminate the WTO blue box, if implemented could lead to significantly program convergence under NAFTA.

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