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## **A POLICY LEADERSHIP COMMISSION FOR NAFTA**

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*If there are to be positive and progressive next steps in the NAFTA process, there must be a Secretariat that is continuously pushing and monitoring progress. This Secretariat must have ways of concretely measuring progress—scoring the gains and losses. Economists have an important role to play in developing this scoring process. Such a Secretariat could have a series of special working groups to provide advice, facilitate dialog, and ease the transition. (Knutson and Ochoa, February 2001).*

### **INTRODUCTION**

The above conclusion, reached in discussions at the Seventh Agricultural and Food Policy Information Workshop, forms the basis for this paper. The idea of a Secretariat arose from the frustration and realization that the root causes of the conflicts that have developed under NAFTA are not being addressed in a manner that takes policy to the next level of harmonization.

Throughout the previous seven workshops, the contributions of NAFTA have been identified and analyzed. In general terms, trading rela-

tions, terms of trade, and trade itself have all benefitted as a consequence of the arrangements first negotiated between the United States and Canada in 1989, and later by signing the agreements known as NAFTA in 1995. However, these workshops have also determined that the agreements, the processes they established for resolving disputes and, particularly, for moving forward in the achievement of freer trade indicate that much work remains to be done. Terms of trade in selected areas, differential subsidization (particularly in the crops area), data availability and analysis, market structure evolution and competition, and increasing incidence of trade disputes indicate that the present process of NAFTA has significant weak links.

Our purpose is to expand on the NAFTA Secretariat idea, to discuss the roles it might play, how it might operate, the problems it might solve, and the issues it would raise. This paper accepts the conclusion and charge of the Seventh Workshop to finish a task initiated by Knutson, Loyns, and Ochoa (2002) that compared and discussed policy and program compatibility across agriculture in the three NAFTA countries. In that paper, and in the general discussion that followed, there were a number of issues identified which led to the group conclusion that there is a need for a leadership body or agency within NAFTA with authority to become a focal point for dispute settlement; to provide data, analysis, and policy planning; and to exercise leadership that is reflective of NAFTA objectives. No such institution was built into NAFTA. The rubric used for this NAFTA Secretariat is the Policy Leadership Commission (PLC). What we hope to come from this paper and the discussion that follows is an articulation of the needs and role for a PLC as another contribution of the Policy Disputes Information Consortium exercise.

Illustrative of the institutional framework that impedes NAFTA performance are trade disputes that are dominated by domestic trade remedy laws (TRLs). The comments of Françoys Raynault earlier in this publication indicate that the role of the NAFTA Secretariats in each country is not proactive and is limited to trade dispute referrals after the relevant TRLs have taken their course.

## PREVIOUS WORKSHOPS

It is not possible to cover all of the instances identified in previous workshops where authoritative leadership is was needed to move NAFTA forward in the achievement of freer trade. The following, however, reflect some of the We offer six major conclusions that clearly indicate this need:

- The overwhelming issue coming from the workshops is the increase in frequency and the cost of full-blown trade disputes among the NAFTA partners. These disputes are most frequently administered outside the NAFTA in the sense that they are brought and processed under domestic TRLs.
- A serious NAFTA flaw is that individual countries can pursue their domestic subsidies without consideration of the effects on other countries. The ultimate irony is that these subsidies are contributing factors to TRL actions that also undermine NAFTA. The result is significant trade distortions in major field crops with spin-off effects on the livestock, dairy, and poultry sectors because of the feed grain connection.

Fulton and Furtan (2000) argue that harmonization means equivalent levels of support to producers in all three countries irrespective of the particular programs, determined jointly by periodic consultation.

- Closely related to the second point there is a need for analyses, proposals and leadership for integrating the excluded commodities from the original agreements into the NAFTA framework which includes tobacco, sugar, dairy, poultry, wheat and barley.

These excluded commodities are serious constraints on progress toward harmonizing trade among the three partners and on reducing trade and resource distortions.

- There is a lack of analysis of the distributional consequences of trade agreements.

As a result, charges and countercharges are not properly sorted out in the arena of objective research and education. This lack of information is a contributor to misconceptions about the impacts of NAFTA and thereby contributes to policy and trade stress. These workshops were conceived to contribute to objective analysis and information flows, but we are a drop in a veritable sea of charges, countercharges and misinformation.

- Data and analyses are scarce regarding the evolution of market structures and competition as business and trading relations react to more open trading conditions.

The papers on structure and competition in the Sixth Workshop (2002 publication) were far from definitive in their conclusions, but they certainly pointed to data problems, the need for more analysis and most importantly, to the inability of competition/antitrust policies in their present form to deal with evolving structure and competition issues.

- On the positive side, Knutson, Loyns, and Ochoa (2002) identified a number of opportunities for increased harmony and freer trade among the NAFTA partners that should not encounter serious conflict.

These opportunities include leveling the playing field in education, extension, research, economic information, grading systems, plant and animal protection, environmental regulation, disaster assistance, agricultural credit, food programs, and infrastructure. Taking advantage of these opportunities requires the initiative of a leadership body and varying degrees of cost sharing. In the case of Mexico, they are keys to encouraging capital investments by the agribusiness community, which, in turn, creates job opportunities for the rural poor and reduces pressures for immigration.

## **FUNCTIONS OF THE POLICY LEADERSHIP COMMISSION**

What follows is designed to be a starting point for a discussion of the functions that the PLC might perform. In a sense, it is a wish list based on the experience of the authors in the agriculture and agri-food indus-

tries. This list does not consider the needs of other industries covered by NAFTA, although it is recognized that they may have comparable as well as unique needs. With these constraints in mind, we propose for consideration the following four PLC functions.

**Data and Analysis.** The PLC would be a clearing-house for information, data, analysis, and performance assessment. The output from this function would feed into other PLC functions such as policy planning and provide an objective source of information for mediation/dispute settlement processes. In carrying out this function, The PLC would procure, compile and manage a database; manage, and distribute primary and secondary data on NAFTA issues; and be a clearing-house for research and information related to NAFTA operation.

**Dispute Settlement.** The PLC would be the first referral for dispute settlements instead of the appeal process from TRL decisions as now exists. Its powers would include analysis, negotiation, mediation and dispute settlement recommendations, all under carefully prepared guidelines that are designed to promote the objectives of NAFTA that reflect reasonable business and economic protocols, and that reduce the current state of trade dispute idiocy. Consideration should be given to prohibiting TRL actions within NAFTA. If this function is unacceptable because of sovereignty considerations, the PLC should have safeguards and penalties to protect against groundless interest group actions.

**Planning and Evaluation.** The PLC would conduct policy/program assessments and performance analyses related to NAFTA operations, its successes, and its limitations. The PLC would have policy planning capabilities and the authority to pursue needed initiatives within NAFTA and by the member countries to achieve harmonization. The PLC would provide proposals for the next steps in NAFTA development as well as for expansion considerations such as a Free Trade Agreement of the Americas.

**Competition policy.** The PLC would include a competition unit to assemble and to distribute structure/conduct data and information. This

unit would serve as a co-ordinator of country-competition/antitrust activities in matters related to NAFTA competition issues and would advise on policy development on competition issues.

In general, the PLC would be the catalyst for change within NAFTA and by its member countries to achieve freer trade. It would be an active contributor to the process of dispute settlement. It would be an open source of information on NAFTA and its progress. In this way, the PLC would contribute to overall improvement of public understanding of the role and contribution of NAFTA in a North American context.

## REFERENCES

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