

U.S. EMBASSY – MEXICO

(Senior Agricultural Attaché)

Lewis Stockard

Mexico is the United State's second largest single-country market for agricultural exports. Mexico is also our fastest growing market. However, the United States has probably more market access issues with Mexico than with any other country.

Factors Affecting Trade

Some of the factors which affect trade are exchange rates, income volatility, market orientation, tariff and non-tariff barriers. Concerning currency systems, George Soros said, "Currency systems are like marriage....whichever one you find yourself in, you think another one might be better." I see this a lot with the current talk about "dollarization." The theme of the day seems to be, "let's dollarize." I saw a quote from the Argentine Minister of Finance.... "Yes, we will accept the dollar as our national currency as soon as the United States puts Evita as the picture on the bill." I do not think that dollarization is going to happen anytime soon, but it is a dialogue that needs to go on.

Another factor people need to think about is comparative advantage. In the case of Mexico-U.S. trade, I think that you can see very clearly where the advantages are. When looking at the trade numbers from the last seven years, one notices that Mexican exports to the United States were composed of 70 percent high-value consumer-oriented products. The total was about 5.5 billion dollars, with consumer-oriented products being 3.8 billion of that total. About 2.0 billion dollars were fresh fruits and vegetables. I believe that this tells the story of where Mexico's comparative advantage is.

If you look at the U.S. exports to Mexico, the lion's share is held by bulk commodities such as grains and oilseeds. In these commodities, water resources and climate are important. The U.S. is able to produce higher yields at lower prices. Many people try to make the argument that we subsidize agriculture and that is why we overproduce. I do not agree with that.

The United States also produces a lot of consumer products which are exported to Mexico. This is the fastest growing area of exports from the United States. Here, the U.S. strength is in processed foods. The United States and Mexico are very balanced in agricultural trade. One year either country might have a slight surplus, but both are growing at about the same rate and the gap is generally narrow.

Information and Analysis

Renée Schwartz mentioned that there is a project ongoing through the Emerging Markets Office of USDA/Foreign Agricultural Service (FAS). This is a program designed to help emerging markets develop. Our desire is to work with Mexican Agriculture Under Secretary Casco's office to enhance and further develop Mexico's system for market information, analysis and dissemination. As a result of this project, we have focused on Mexico's most sensitive commodities - corn, sorghum, wheat, cattle, hogs, poultry, dry edible beans and apples. The purpose of the project is to help Mexico's farm sector make the transition to a more market-oriented system. We want to get information to Mexican producers which they can use to make their planting decisions. We want to be able to give them an idea where the market will be in the upcoming season, look at prices and generally have the information needed to make production decisions. With those reports, this year we intend to take them out to the respective production areas prior to planting season.

We intend to have a traveling road show composed of an analyst from SAGAR (Secretariat of Agriculture), an analyst from USDA/Economic Research Service (ERS), and a U.S. end-user of situation and outlook reports. An example would be a Michigan bean producer going to Sinaloa and explaining to the producers there how he uses USDA's situation and outlook reports to make his decisions for the upcoming year.

We also intend this year to help Mexico with its first situation and outlook conference. We will bring in experts from the United States and work with our counterparts in SAGAR to try to present a picture to the world of what we expect to see in Mexico in the upcoming year. We think that is very important with the relationship between the United States and Mexico. We believe that this type of project will work to reduce the types of trade tensions we are experiencing during this NAFTA transition.

The most important factor in the resolution of disputes and misunderstandings is relationships. In Mexico, it is especially important to develop the relationship between both sides of the table so that there is a trust, understanding and familiarity, and both sides can communicate honestly and openly. I believe that we are working toward that very well with our counterparts at SAGAR and SECOFI (Secretariat of Trade).

Harmonization of Standards

Another important area is harmonization of standards. U.S. market access issues have to do with differences in standards. Particularly, we have tensions over differences in understanding, implementation, and application of standards. We have several fora that we use to resolve those issues as outlined below.

- **The Annual Bi-National Commission (BNC) meeting between the United States and Mexico** has several working groups, such as the one for agriculture.

Historically, the BNC agricultural working group focused on technical cooperation and assistance. Both sides believed they were making progress and there was meaningful work going on. However, in 1997, we started bringing into the discussion particularly difficult and important trade policy issues, such as market access. Mexico and the United States each identified two or three of the most important issues which were not being resolved otherwise. We had a meeting of the minds. We started at the working level with the minister counselor for agricultural affairs at the U.S. Embassy and the director generals of Mexico's plant and animal health agencies. When there was an opportunity to make progress, which would take a high level decision, we would bump it up. Typically that would go to Under Secretary Casco in Mexico and Under Secretary Schumacher in the United States who would sit down and hammer out a pre-agreement. Finally, we would give it to our Secretaries of Agriculture at the Bi-National meeting and finalize the agreement. We have followed this model from 1997 until today. Some of our successes are: recognizing Mexico's Mexicali Valley as being free of Karnal bunt disease in wheat; recognizing the state of Sonora as being hog cholera-free (which qualified Mexico to export pork to the United States); recognizing Michoacan for the export of avocados to the United States; and recognizing fruit fly-free zones in Mexico (allowing export of fresh fruit without the expensive pre-clearance programs). Mexico has recognized California sweet cherries as being free of pests and has eliminated the phytosanitary import permit system which interfered with U.S. grain access to Mexico during sensitive Mexican harvest seasons. The United States just recently published the proposed rule recognizing Yucatan state as being free of hog cholera. In the very near future, we expect to be publishing a proposed rule recognizing the states of Sonora and Sinaloa as being free of Newcastle's Disease (advancing access of Mexican poultry to the United States). We may soon publish a final rule recognizing Mexico's poultry inspection system. Combining this final rule with the recognition of Sonora and Sinaloa as being free of Newcastle's disease will make it easier for Mexico to export poultry to the United States.

- **The NAFTA SPS Committee** has several working groups, such as the meat and poultry working group.

This trilateral working group has been very effective in resolving harmonization issues. They are currently addressing harmonization of toxic residue tolerances and have recognized each others meat and poultry inspection systems. Additionally, animal health issues have been addressed.

- **The Bilateral Animal Health Working Group** invited FAS for the first time this last year.

Typically, this is a group of scientists and technicians from both sides trying to work out the details of standards and harmonization. They were having problems resolving the differences, so they invited FAS as an agency more accustomed to negotiating. This year, we were able to work out a mutually acceptable solution to Mexico's final rule on avian influenza. The United States initially was going to lose its market access to Mexico, but as a result of the working group and the FAS

involvement, the U.S. animal health agency was able to recognize Mexico's needs and came up with a proposed rule that will ensure U.S. access to Mexico. At the same time, the U.S. and Mexican poultry industries were working together at the industry level. This provided the support which was needed at the working group level to get the job done.

- There is also the **Bilateral Plant Health Working Group**.

Most of the market access issues between the United States and Mexico involve the plant health area and the recognition of disease and pest-free zones. This forum works very similarly to the Bilateral Animal Health Working Group. Once again, FAS was invited for the first time this year to sit in and observe how the negotiations were going for such issues as the Mexican pre-clearance program for U.S. apples, the U.S. pre-clearance program for Mexican avocados, and mutual recognition of Karnal bunt free areas. As a result, we were able to give both sides advice on issues.

- **The NAFTA Agricultural Trade Committee** had good success in the 1997 meeting where Mexico and the United States agreed to a more favorable administration of the tariff rate quota for dry edible beans.

It worked very smoothly until the demise of CONASUPO this year and an oversupply of beans in the Mexican market. However, we have had a good dialogue and, with the nature of our relationship, we have been able to understand both sides. The U.S. industry has recognized that Mexico has a unique situation this year and Mexico has recognized the importance of having a predictable and reliable administration system for the tariff rate quota.

- **Monthly meetings** between our office and SAGAR's National Agricultural Sanitary Commission (CONASAG) and monthly meetings with the SECOFI (Secretariat of Trade) Director General's Office for Agricultural and Industrial Negotiations.

These are a new development to try to advance all of the ongoing issues we have. We sit down on a monthly basis at the working level with CONASAG on animal and plant health issues and with SECOFI on other trade issues. We update each other and try to make plans to advance those issues. We believe that we have been very successful so far.

- Within USDA/FAS we have producers advising us as to what their interests are through two committees: the **International Trade Advisory Committee** and the **International Policy Advisory Committee**.

These committees are made up of different sectors of U.S. agriculture advising our administrator as to where their concerns lie and where their priorities are both commodity-wise and country-wise. We in the field work toward achieving those goals.

Issues for the Future

I am not going to say that everything has gone well. Some of the issues which very well may end up on this year's Bi-National Commission agenda for the U.S. include: the TCK disease issue for U.S. wheat; allegations of heavy metals residues in meat; and the dumping cases against U.S. hogs and U.S. cattle and beef.

In conclusion, the level of communication and cooperation that USDA has with our counterparts in Mexico has made a noticeable difference in the quantity and quality of trade which the U.S. has with Mexico.

AGRICULTURE AND AGRI-FOOD CANADA

Ken Ash and Glyn Chancey

There are four basic assumptions which underlie our view concerning informal approaches to dispute resolution:

- The most effective way to resolve disputes is to avoid them.
- Most disputes are a result of misinformation and misunderstanding.
- Even with perfect information, disputes inevitably arise.
- When disputes do occur, pre-established third party processes are essential to dispute resolution.

The Role of Information

As a government agency, much of the data and information that we have available sometimes conflict with established government policy. The first reality of being an information generator in a government bureaucracy is that there exists an institutional disincentive to being transparent. This disincentive can be minimized. In Canada, we have clear rules established with our Minister about what is produced and what is released. The Minister is quite comfortable with the facts of a situation being available, as long as the facts are correct. This includes forecasts and any other anticipatory information. Two simple examples illustrate the importance of information to achieve collaboration and avoid conflict.

We have found that simply telling people what is happening is a prerequisite to effective collaboration. Two years ago, AAFC produced a multi-year research work program. We wrote down what analysis we intended to do for the next two years, described it very briefly, and noted when we thought that the resulting information would be available. AAFC published this work plan and put it on the internet. This simple action is based on common sense, but not enough of this form of