

**THE INTERSECTION OF
DOMESTIC AND
FOREIGN POLICY
IN THE NAFTA
AGRICULTURAL
NEGOTIATIONS**

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On 12 August 1992 the United States, Canada and Mexico concluded negotiations for a North American Free Trade Agreement (NAFTA), and the leaders of the three countries signed the agreement on 17 December 1992. Agriculture proved to be one of the most difficult areas to negotiate, and the three countries had to settle for two separate agricultural agreements on market access—between the United States and Mexico, and Canada and Mexico. A number of characteristics of agricultural policy at the domestic, regional, and global levels imposed major constraints on the NAFTA negotiators, including the following: agriculture is subject to numerous trade barriers because it is a highly sensitive domestic issue in most industrial states; some of the most important regulations of the General Agreement on

*A list of acronyms used in this article is provided on pages 47-48.

Tariffs and Trade (GATT) do not apply to agriculture; and the Canada-U.S. Free Trade Agreement (CUFTA) does little to resolve the principal sources of agricultural conflict between the United States and Canada. This paper focuses on the efforts to deal with agricultural protectionism in the NAFTA negotiations. Since the shortcomings of the GATT and the CUFTA imposed major limitations on what could be accomplished in the NAFTA, it is also necessary to provide some background on the agricultural provisions in these agreements.

In comparing the perspectives and policies of the United States, Canada, and Mexico in the NAFTA negotiations, I rely partly on Robert Putnam's ideas regarding international negotiation as a "two-level game." Putnam's framework is highly relevant to the study of agricultural trade, because it helps us examine the relationship between a state's international interests and obligations (Level I) on the one hand, and the domestic interactions within the state (Level II) on the other.¹ At the international level of Putnam's "two-level game" state representatives bargain with each other to reach an agreement. At the domestic level these representatives must bargain with domestic constituencies whose concurrence is often needed to arrive at agreements that are considered to be legitimate and effective. The international interests of the state at Level I may often conflict with the domestic interests of groups within the state at Level II. However, a certain degree of consistency must develop between international and domestic interests if agreements are to be signed and implemented. Game theorists refer to interactions between the two levels in terms of "win-sets." A win-set consists of all possible Level I agreements that would win ratification at Level II. Putnam's approach is particularly useful for examining interactions between domestic and international politics in the NAFTA agricultural negotiations.² Before turning to the NAFTA negotiations, I will briefly

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provide some background on the current state of global agricultural trade relations.

Most countries are extremely reluctant to rely on market forces in their food and agricultural trade, and government intervention has been the norm rather than the exception in this area. While economically less-developed countries often impose taxes on agricultural producers and protect their manufacturing sectors from import competition, industrial states are more inclined to assist or protect agriculture relative to other economic sectors. Agricultural protectionism is prevalent in Western industrial states for a variety of reasons, including the unpredictable fluctuations in supply and demand, the chronic problem of food surpluses in relation to effective demand, the threat of serious social problems resulting from structural change in rural areas, the political influence of farmers and agribusiness groups, and the importance countries attach to food self-sufficiency.³ According to one trade negotiator, "the agricultural sector, without doubt, is the most distorted in the world."⁴

The agricultural protectionism of industrial states inevitably has had a major impact on the global trading system. Although the GATT has overseen some important achievements in decreasing trade barriers for manufactured products, agriculture has been largely excluded from these liberalization efforts. It is therefore not surprising that a large proportion of current trade disputes at both the global and regional levels are agricultural. Since 1947, about 45 percent of all GATT disputes have been over agriculture. Furthermore, the Canada-U.S. Free Trade Agreement's extraordinary challenge procedures under Chapter 19 (on dispute settlement) have been invoked thus far only for agricultural products—pork and hogs.⁵ The United States, Mexico, and Canada were of course acutely aware of the degree of agricultural protectionism when they set forth objectives for the NAFTA agricultural negotiations.

THE OBJECTIVES OF THE NAFTA AGRICULTURAL NEGOTIATIONS

The primary objectives of the agricultural negotiations in the NAFTA were basically the same as those in the GATT Uruguay Round and the Canada-U.S. Free Trade Agreement: "to improve and secure market access; to reduce trade-distorting subsidies, domestic as well as export; and to develop a framework of rights and disciplines to govern sanitary and phytosanitary measures."⁶ NAFTA

Chapter 7 on agriculture devotes more space (about one-third of the text) to the third of these objectives—sanitary and phytosanitary measures—than to any other specific subject. The sanitary and phytosanitary (SPS) provisions in Chapter 7 and the related provisions on “standards-related measures” in NAFTA chapter 9 are both patterned after the draft GATT Uruguay Round provisions and represent a marked improvement over the treatment of these issues in the Canada-U.S. Free Trade Agreement.⁷ Although the SPS measures in NAFTA continue to be deficient in various respects (e.g., with regard to enforcement powers), the first two objectives mentioned above have encountered more significant obstacles in both the regional and multilateral negotiations. This study focuses primarily on the first two objectives—to reduce trade distorting subsidies and to improve and secure market access—and deals only briefly with the sanitary and phytosanitary issue.

In discussing trade-distorting subsidies and market access, I will be focusing primarily on relations between the United States and Mexico and between the United States and Canada. This is not surprising since the United States clearly serves as the focal point for the NAFTA region. The United States is the largest agricultural trading partner of both Mexico and Canada, and Canadian-Mexican trade flows by comparison are extremely small. In 1990, for example, the United States accounted for almost two-thirds of Canada’s agricultural imports and for one-third of its exports, while Mexico accounted for only two percent of Canada’s agricultural imports and for one percent of its exports. In the same year, the United States supplied nearly 70 percent of Mexico’s agricultural imports and purchased 90 percent of its agricultural exports. Canada by contrast provided only about two percent of Mexico’s agricultural imports and purchased a similarly small percentage of its exports.⁸ This paper will demonstrate nevertheless that Canadian-Mexican agricultural trade can be of significance to some commodity sectors, that disputes have developed between the United States and Canada over the Mexican market, and that Canada and Mexico may on occasion adopt similar positions vis-à-vis the United States.⁹

TRADE-DISTORTING SUBSIDIES

Article 103.2 of the North American Free Trade Agreement states that, unless otherwise specified, the NAFTA provisions will prevail “in the event of any inconsistency” with other agreements.

Nevertheless, the many references to the General Agreement on Tariffs and Trade throughout the NAFTA text clearly indicate that the NAFTA is designed to supplement, and not to replace, American, Canadian, and Mexican commitments under the GATT. For example, the NAFTA Preamble stipulates that the three countries have resolved to "BUILD on their respective rights and obligations under the *General Agreement on Tariffs and Trade*"; and NAFTA Article 103.1 states that "the Parties affirm their existing rights and obligations with respect to each other under" the GATT.¹⁰

In the area of agricultural export subsidies, the shortcomings of the GATT had a major impact on what could be accomplished in the NAFTA negotiations. GATT Article XVI:4 prohibits export subsidies for manufactured goods, but a major exception is provided for agricultural and other primary products. The only limitation on agricultural export subsidies is an ambiguous provision (in Article XVI:3) that they should not permit a contracting party to gain "more than an equitable share of world export trade."¹¹ In view of the Article XVI exception, export subsidies or "restitutions" became a central feature of the European Community's Common Agricultural Policy, and an EC-U.S. agricultural export subsidy "war" developed in the 1980s.¹² Since Canada cannot compete with the treasuries of these two trading giants, the export subsidy war has had a devastating effect on the wheat economies of its prairie provinces.

U.S. Export Subsidies

Canada hoped that the Canada-U.S. Free Trade Agreement would deal with some of the detrimental effects of American export subsidy practices, especially the U.S. Export Enhancement Program (EEP). The CUFTA does go beyond the GATT in prohibiting export subsidies on agricultural trade *between the United States and Canada*, but Canada is primarily concerned about the impact of U.S. export subsidies *in its third-country markets*. On the latter issue the CUFTA only contains the nebulous statement that "each Party shall take into account the export interests of the other Party in the use of any export subsidy on any agricultural good exported to third countries."¹³ The United States clearly views this as a suggestion rather than an obligation, and a former U.S. Trade Representative has stated that "the Canadians [in the CUFTA negotiations] wanted very badly to get the right of prior consultation on all of our export enhancement program decisions," but "this is a concession that we were not willing to make."¹⁴

The United States has subsidized some of its agricultural exports to Mexico through the Export Enhancement Program, and Canada wanted the CUFTA prohibition of export subsidies on U.S.-Canadian agricultural trade extended to Mexico in a NAFTA agreement. Mexico agreed with Canada that the prohibition on bilateral agricultural export subsidies in the CUFTA should be trilateralized in the NAFTA. But the United States insisted on retaining the option of using its EEP in the Mexican market, and its position largely prevailed. Canada's agricultural negotiator explained that "we and the Mexicans had very similar objectives and we tried to get better disciplines than we got in export subsidies."¹⁵

Export subsidy programs such as the U.S. Export Enhancement Program in fact have both costs and benefits for less-developed countries such as Mexico. Although the cheaper foreign foodstuffs enable the Mexican government to pay less to subsidize urban consumers, they also undercut the prices of Mexico's rural producers. The intractable problems of rural poverty and emigration from the countryside are exacerbated. Despite the dual effects of export subsidies Mexico indicated that it did not want "to get subsidized imports from either their NAFTA partners or offshore."¹⁶ The Mexican government has been implementing a variety of far-reaching measures to make domestic agricultural policy more market-responsive. It would be unfair to expect less competitive Mexican corn producers, for example, to compete with the much larger U.S. and Canadian treasuries in a more open North American market. American officials, on the other hand, insisted that they would not be able to approve the NAFTA agricultural provisions if the needs of domestic interests in their own "two-level" game were not met. Thus, they were "emphatic that they could not sell a NAFTA agreement to their agricultural constituency if they could not meet subsidized competition in the Mexico market."¹⁷

This polarization of views contributed to the difficulty in negotiating the agricultural export subsidy provisions (they were the last trilateral provisions to be settled in the agricultural negotiations), and to the rather complex wording of the provisions. In the end, the three countries settled for the highly-qualified statement (in NAFTA Article 705.2) that it is "inappropriate" for the United States and Canada to provide agricultural export subsidies to Mexico "where there are no other subsidized imports of that good" into the country. Although the United States indicated that this provision would

permit it to compete with European Community (EC) export subsidies in the Mexican market, the Community in fact has not been a major wheat exporter to Mexico in recent years. As Table I shows, the EC accounted for only 3.8 percent of Mexico's total wheat and wheat flour imports in 1986-87 and for 5.8 percent in 1987-88; in 1988-89 and 1989-90 the EC did not export wheat to Mexico.

TABLE I
U.S., CANADIAN AND EC WHEAT AND WHEAT FLOUR
EXPORTS TO MEXICO

(percent of total wheat exports)

YEARS (July / June)

	1986-87	1987-88	1988-89	1989-90
U.S.	17.5%	40.0%	93.0%	100.0%
Canada	43.0%	45.6%	5.7%	
EC	3.8%	5.8%	0	0
Total Exports (000 tons)	549	677	1,163	211

Source: International Wheat Council, *World Grain Statistics-1991* (London, England).

Although the NAFTA permits the use of U.S. and Canadian export subsidies in the Mexican market, it also allows the Mexican government to adopt several policy responses. Article 705.7(b) states that "each Party retains its rights to apply countervailing duties to subsidized imports of agricultural goods from the territory of a Party or non-Party", and Article 705.3 indicates that Mexico can forestall the use of U.S. or Canadian export subsidies by taking countervailing duty action against subsidized imports from non-NAFTA countries such as members of the European Community. As for the Canadian objections to the use of the U.S. Export Enhancement Program in the Mexican market, NAFTA Article 705.5 states the "each Party shall take into account the interests of the other Parties in the use of any export subsidy on an agricultural good." Nevertheless, Canada's experience with the CUFTA clearly indicates how little impact such an ambiguous provision has had on U.S. export subsidy practices.

The American position in the CUFTA and NAFTA negotiations shows that it has no intention of scaling down its Export Enhancement Program in the absence of a multilateral agreement involving the European Community. Indeed, the NAFTA explicitly defers to the GATT on this issue when it states (in Article 705.1) that "the Parties share the objective of the multilateral elimination of export subsidies for agricultural goods and shall cooperate in an effort to achieve an agreement under the GATT to eliminate those subsidies." In marked contrast to the regional negotiations, American officials in the GATT Uruguay Round have pressed vigorously for imposing more discipline on agricultural export subsidies. Robert Paarlberg maintains that U.S. reformers deliberately created a "two-level game" in hopes that the Uruguay Round negotiations would undercut domestic farm lobbyists who favored a continuance of expensive export subsidy programs.¹⁸ The U.S. reformers were operating on the basis that "international negotiations sometimes enable governments to do what they privately wish to do, but are powerless to do domestically."¹⁹ By contrast American negotiators strongly opposed any major reforms on agricultural export subsidies in the CUFTA and NAFTA negotiations because they did not include "a sufficient critical mass" of countries to garner domestic approval. At a minimum the U.S. Congress would only approve an agreement that included all of the United States' major competitors.

Canadian Subsidy Practices

While Canada has criticized U.S. agricultural export subsidies, the United States has complained that Canada provides subsidies which are also trade-distorting. Major targets of U.S. dissatisfaction have been Canada's Wheat Board pricing practices and transportation subsidies. The Canadian Wheat Board is a Crown corporation committed to the monopoly control (or "single-desk selling") of all wheat exports produced in the prairie provinces and northeastern British Columbia, and to a price pooling system to share the risks among producers.²⁰ The Canadian Wheat Board Act directs the agency to provide producers with equal access and a fair share of available export markets for wheat and other designated grains, to ensure producers of a reasonable degree of price stability, and to market as much grain as possible at the best possible price.

Although there are differences of view regarding the Wheat Board within both the Canadian and U.S. farming communities,

Americans on balance are far more critical. Canadian farmers originally lobbied for and still largely support the agency which has been closely tied with the development of Western Canada. A small number of U.S. farm leaders has expressed some interest in emulating the Wheat Board's practices. For example, the president of the U.S. National Farmers' Union has stated that "we believe the Canadian Wheat Board to be an effective tool for producers and their cooperative associations."²¹ But the majority of U.S. farm groups have strongly opposed the Wheat Board's policies in recent years, and the U.S. National Association of Wheat Growers (NAWG) has been the most vocal critic. The NAWG, the American Farm Bureau Federation, and other opponents have lambasted the Wheat Board as a "state trading" agency that lacks price transparency and covertly subsidizes its exports. One of their main concerns is that the Wheat Board can export grain at prices below acquisition costs; i.e., below the price the Board pays to farmers for their product. The Wheat Board in fact has sustained very few deficits, and it is "only on rare occasions—and normally as the result of a deliberate policy decision by cabinet" that a "board deficit [has] been paid out of the federal treasury."²² Recently, deficits have emerged as a problem.²³

American protests have also been directed against Canadian transportation subsidies. The transport subsidies, like the Wheat Board, have strong historical linkages with the development of the Canadian West. In 1897 the federal government granted the Canadian Pacific Railway (CPR) a subsidy to build a rail line from Alberta through the Crow's Nest Pass into British Columbia, and the CPR in return agreed to charge fixed freight rates "in perpetuity" for grain and flour shipments for export. These Crow's Nest Pass (or "Crow") rates were subsequently fixed in law and extended to all Western grains and unprocessed grain products and to all export facilities. But as the Crow rates began to cover progressively less of the real cost of transporting grain, the railways stopped making grain-related investments and sought to limit their responsibilities for moving grain. This contributed to a highly politicized debate in Canada which culminated in a revision of the Crow rates. Under the Western Grain Transportation Act of 1983 the federal government provides the railways with a subsidy in return for their promise to continue charging lower fees for grain shipments. As with the Wheat Board, American farm groups maintain that Canada's transport subsidies

provide producers with an unfair advantage in exporting wheat and grains.

The Canada-U.S. Free Trade Agreement provides some limitations on Canada's Wheat Board pricing and transport subsidy practices. CUFTA Article 701.3 prohibits public entities—such as the Wheat Board—in either country from exporting agricultural goods to the other country for less than the acquisition price (plus handling and storage costs) of the goods; and the *Statement of Administrative Action* accompanying the U.S. bill to implement the CUFTA also indicates that the government will “pursue consultations with Canada regarding the price setting policy of the CWB as it affects goods exported to the United States.”²⁴

Regarding transportation subsidies, CUFTA Article 701.5 stipulates that “Canada shall exclude from the transport rates established under the Western Grain Transportation Act agricultural goods originating in Canada and shipped via west coast ports for consumption in the United States.” However, the provision does not affect transport subsidies on shipments to the U.S. through east coast ports. The reason for this distinction is that CUFTA does not deal with subsidies that are *generally available*. The transportation subsidy for shipments through west coast ports is *conditioned upon export*, while the transport subsidy for shipments through eastern ports is *generally available*; that is, it is used for products sent to Ontario as well as for those that are exported. American waterway subsidies which are generally available are also not affected by the CUFTA.²⁵

American wheat producers in particular were dissatisfied that the CUFTA did not do more to limit Canada's pricing and subsidy practices with the United States and with third country markets. As with U.S. export subsidies, the CUFTA does not address the issue of Canada's (alleged) trade-distorting subsidies on agricultural exports to third countries. A marked increase of Canadian durum wheat exports to the United States during the 1980s added to the hostility of U.S. wheat producers. The protracted durum wheat dispute is highly relevant to this study, because it eventually contributed to heightened Canadian-American tensions over NAFTA, and over the issue of wheat exports to the Mexican market.

Canadian-American Disputes over Wheat

Durum wheat is a type of hard wheat which is used primarily to manufacture pasta products. Durum is a more important wheat

variety in Canada than it is in the United States; it accounts for about 18 percent of the value of the total Canadian wheat crop but for only 4.2 percent of the value of the U.S. wheat crop. Canada is the world's largest durum exporter, accounting for about 50 percent of the world durum trade in 1989, while the United States is the second largest exporter with about 30 percent of the total trade. Canadian production of durum wheat more than doubled from about 2 million tonnes (metric tons) in 1985-86 to 4.6 million tonnes in 1991-92, leaving a growing surplus available for export. American imports of durum, which are all from Canada, increased from zero in crop year 1984-85 to 202,500 tonnes in 1987-88 and to 363,000 tonnes in 1991-92. Although these imports accounted for only a small percentage of *total* U.S. wheat production, their impact seemed greater because *durum* wheat production is concentrated primarily in the northern plains area of the United States. Indeed, North Dakota alone accounts for about 85 percent of the country's output of durum wheat. Furthermore, Canada has been exporting more durum than any other single type of wheat to the United States.²⁶

In response to growing dissatisfaction over the Canadian durum imports, the U.S. House Committee on Ways and Means and the U.S. Senate Committee on Finance requested that the U.S. International Trade Commission (ITC) conduct a study into competitive conditions in the American and Canadian durum wheat markets. The ITC investigation was initiated in Fall, 1989, under Section 332(g) of the U.S. Tariff Act of 1930, which provides for no restrictive action based on the findings. In June, 1990, the ITC reported that it had found "no consistent difference between prices of U.S.-grown durum and imported Canadian durum," and it basically concluded that Canada was not dumping durum into the U.S. market.²⁷ The main reasons for the increased exports, according to the ITC, were the higher quality, consistency, and uniformity of Canadian durum wheat.²⁸ The ITC also attributed increased Canadian durum exports in the U.S. market to the fact that the Export Enhancement Program "raises durum prices in the U.S. domestic market by increasing demand for durum, and, in combination with EC export subsidies, depresses prices in the world market."²⁹ The relatively high domestic U.S. price encouraged Canada to export durum to the United States, especially since it had lost some of its traditional markets to the U.S. and the European Community.

Although the ITC rejected charges that Canada was dumping its durum wheat, the Canadian Wheat Board had significant

deficits in 1990 and 1991. This led to U.S. charges that the Board was selling wheat at below acquisition costs—a violation of Article 701.3 of the CUFTA. Canada argued that the Wheat Board deficits resulted from lower than expected prices due to the U.S.-EC export subsidy war, but Senator Byron Dorgan of North Dakota and other Congressmen from wheat-producing states persistently pressured the U.S. Department of Agriculture to take further action on the durum wheat issue.³⁰ On 11 May 1992 the United States requested that a binational dispute settlement panel under CUFTA Chapter 18 consider whether Canada's cross-border durum sales were unfairly priced. The panel was asked to rule upon a variety of issues, including the proper method of determining the Wheat Board's acquisition price for durum, and the effect of Canadian transportation subsidies on durum exports to the U.S. through East Coast ports.

The dispute settlement panel of three Americans and two Canadians issued its final report on 8 February 1993, unanimously deciding largely against the U.S. position. For example, the panel ruled that the rail subsidy for grain shipments to Thunder Bay in eastern Canada was for domestic as well as U.S. shipments and therefore was permitted under the Canada-U.S. Free Trade Agreement.³¹ But the panel did not have enough data about Canada's pricing practices to determine whether its durum wheat exports had violated CUFTA provisions, and it called for a private accounting firm to provide annual confidential audits of the Wheat Board's prices (the United States had wanted quarterly audits). Canada was generally satisfied with the findings of the binational panel. Although there was some concern about the annual audits required of the Wheat Board, Canadian officials were pleased that the panel called for an information-sharing proposal that would not require the Wheat Board to publicize its prices.

On the other hand, a number of U.S. farm-state Congressmen were angered by the ruling. Their response indicates that Putnam's "two-level game" often continues to be played after an agreement has been ratified (e.g., the CUFTA), and can also affect negotiations for subsequent agreements (e.g., the NAFTA). Thus, Senator Kent Conrad of North Dakota stated that "the Canadian free-trade agreement is no free-trade agreement at all.... There are enough loopholes in this agreement to drive hundreds of Canadian grain trucks through"; several Congressmen demanded that the CUFTA dispute settlement mechanism be renegotiated.³² The President of the U.S. National Association of Wheat Growers (NAWG) also warned that the CUFTA "is an outrage to American wheat farmers that we cannot afford to have repeated in future trade agreements."³³

More specifically, the NAWG and its Congressional supporters called upon the Administration to address the durum wheat issue before submitting NAFTA for a Congressional vote. Of particular interest to the U.S. wheat growers were the three side agreements the United States, Canada, and Mexico were negotiating on the environment, labour, and import surges as the price for approval of NAFTA in the U.S. Congress. The NAWG wanted the side agreement on import surges to require price transparency for Canadian grain exports and also to prohibit the use of Canadian transportation subsidies for grain shipped to the U.S. through eastern as well as western ports. U.S. Trade Representative Mickey Kantor said that he would support an independent audit of the Wheat Board's pricing practices (as recommended by the binational panel) and any follow-up action if the audit revealed new information. However, Kantor indicated that the price transparency and transport subsidy issues could not be dealt with in a NAFTA side agreement for several reasons. First (as I will discuss later in this paper), the CUFTA rather than NAFTA will continue to regulate many of the Canadian-U.S. agricultural trade issues; and second, some of the subsidy issues under dispute can only be resolved in the GATT.³⁴

Having failed to affect the side agreement on import surges, a bipartisan group of nine farm-state senators (headed by Max Baucus, Chairman of the Senate Finance trade subcommittee) asked the administration to initiate a Section 22 trade action to limit U.S. imports of Canadian wheat. Under Section 22 of the Agricultural Adjustment Act, the United States can impose quotas or tariffs on imports found to be significantly hurting American producers. U.S. Trade Representative Kantor indicated that he would consider the senators' request. Although he had never before suggested that he would use the Section 22 powers against Canada's durum wheat exports, the administration clearly needed the votes of farm state Congressmen to win ratification of the NAFTA. In response the Canadian government warned that it would challenge any U.S. Section 22 action on wheat through the establishment of a binational dispute settlement panel under the CUFTA or some other action.³⁵

The failure to resolve the differences over Canada's durum wheat exports to the United States also contributed to heightened conflict over Canada's wheat pricing and transport subsidy practices with third countries (which, like U.S. export subsidies, are not dealt with in the CUFTA). The United States had always maintained that

its Export Enhancement Program would target only European Community markets and not the markets of "non-subsidizing" competitors such as Canada, Australia, and Argentina. Although U.S. declaratory policy was not always consistent with its actions, and the Export Enhancement Program interfered with some Canadian, Australian, and Argentinian wheat markets, the United States did continue to wage battle primarily with EC export subsidies.³⁶ It was also generally assumed in the NAFTA negotiations that the United States would only use agricultural export subsidies in the Mexican market in response to the adoption of such subsidies by non-NAFTA countries such as the European Community.³⁷ But in May, 1993, Congressmen began charging that Canada was taking wheat sales from the United States in the Mexican market, and they urged the Administration to counter these "unfair" Canadian exports with the Export Enhancement Program. For example, the Chairman of the House Agriculture Committee indicated in a letter to President Clinton that "in light of the continuing use of Canadian subsidies in the Mexican wheat market, it is imperative that you and your Administration's policy officials consider this matter promptly in order to level the playing field and make our wheat exports to Mexico more competitive."³⁸

Twenty-five U.S. House members also sent a letter to the Agriculture Secretary (on 19 May 1993), claiming that the American share of Mexican wheat imports had declined from 75 percent in earlier years to only 14 percent in 1992, while the Canadian share by contrast had risen to 66 percent in 1992. Canadian officials strongly rejected this claim, and International Wheat Council (IWC) statistics indicate that the market share issue is more complex than the U.S. House members have implied. According to the IWC, the United States captured 59.5 percent of the Mexican wheat market in 1992-93, while Canada had 38.6 percent. In the previous year (1991-92) the record was reversed, with Canada taking 64.4 percent and the United States 33.5 percent.³⁹ As Table I shows, both American and Canadian wheat market shares in Mexico have fluctuated widely since 1986, with Canada ranking as the top exporter in some years (e.g., in 1986-87 and 1987-88), and the United States ranking as the largest exporter in others (e.g., 1988-89 and 1989-90). Table I also shows that the European Community has not been a significant competitor in the Mexican market.

The U.S. Administration was sharply divided on the issue of using the Export Enhancement Program to target Canadian grain in third-country markets. On the one hand, the U.S. Trade Representative and the Agriculture Secretary joined with wheat producers, a number of senators in northern states, and members of the House Agriculture Committee to pressure for strong action against the Canadians. On the other hand, the State Department and Office of Management and Budget (OMB) opposed any move to target the EEP against Canadian markets. The State Department felt that such a policy would damage trade relations with Canada during a time of sensitive negotiations on the NAFTA side agreements, and the OMB had concerns about the budgetary implications of expanding the EEP.

On 24 June 1993 Agriculture Secretary Mike Espy announced the Administration's decision to use an "aggressive" EEP package to regain from Canada what the United States viewed as its fair share of the Mexican grain market. This decision marked a victory for the U.S. Department of Agriculture and the U.S. Trade Representative over the State Department and also indicated a significant change in the use of U.S. export subsidies. Although Mexico had not received EEP-supported exports for several years, Espy indicated that American exporters would now be able to bid for cash bonus payments to subsidize sales to Mexico of up to 1.4 million tonnes of wheat. (The overall EEP package for the 1993-94 marketing year covers sales of about 32 million tonnes of wheat).⁴⁰

Two influential U.S. senators, Robert Dole of Kansas and Max Baucus of Montana, linked their support for the NAFTA to Mexico's willingness to launch a countervailing duty case against Canadian wheat exports. They told Mexican President Carlos Salinas de Gortari on July 13 that "this action would indicate a strong desire to guarantee that the North American Free Trade Agreement will provide continent-wide trade, free of export subsidies." The two senators also warned that "failure to address this problem jeopardizes the support for the NAFTA among wheat producers and their congressional representatives."⁴¹ Still, according to a former Canadian agriculture minister, the Mexican government does not view the two senators' note "as being an official letter from the U.S. administration."⁴²

Canadian officials tend to view Mexico as one of their country's traditional wheat markets, and they were particularly concerned

about the U.S. decision to use export subsidies in the Mexican market. They also pointed out that the 1.4 million tonnes of wheat exports to Mexico eligible for bonuses under the Export Enhancement Program is about equal to Mexico's entire import market (of 1.2 to 1.5 million tonnes). As a result, Canada took the initial steps toward establishing a binational dispute settlement panel by requesting consultations with the U.S. under Chapter 18 of the CUFTA. Canada maintained that the United States, in targeting Canadian wheat exports in the Mexican market, was violating CUFTA Article 701.4 which states that "each Party shall take into account the export interest of the other Party in the use of any export subsidy on any agricultural good exported to third countries." At the monthly GATT Council meeting in July, 1993, Canada also accused the United States of using the EEP in the Mexican market where "we have been traditional exporters and where the supposed rationale for U.S. action is clearly absent."⁴³ Canada's complaint to the council was supported by Argentina, Australia, Brazil, Chile, and Venezuela, whose farm exports have also suffered as a result of U.S. and EC export subsidies.

It should be mentioned that Canadian farm groups have questioned whether the Conservative governments of Brian Mulroney and his successor, Kim Campbell, are playing a "two-level game" with Canada's Wheat Board and transport subsidies at their expense. While verbally defending these long-term Canadian institutions against American criticism, the government has been implementing policy changes that some farm groups feel pose a major threat to the Wheat Board. These changes result from the Tories' predilection for privatization and de-regulation, and also perhaps from a perceived need to alter policies in response to U.S. displeasure, and to the CUFTA, NAFTA and GATT negotiations.

In 1943 the Wheat Board was given monopoly control over the export marketing of wheat, and in 1949 the Board's powers were extended to include the export marketing of oats and barley. More recently the government decided (after minimal formal consultation with farmers) to take oats away from the Board and put it on the open market as of 1 August 1989. This decision created a rift among Canadian farm groups, with the majority of farmers involved opposing the government's move. Some private-sector oriented groups along with the Alberta government approved of the decision, arguing that the Wheat Board was not well-equipped to market oats, a small-volume crop with specialized markets. On the other hand, Wheat Board advocates, including the Wheat Pools, the Canadian Federation of Agriculture, and the National Farmers' Union warned

that the decision could mark the beginning of an erosion of the Wheat Board's marketing powers.⁴⁴

Their fears were heightened when Agriculture Minister Charles Mayer, after months of uncertainty, announced that the government would end the Wheat Board's role as the sole marketing authority for barley exports to the United States as of 1 August 1993. This decision meant that farmers would now have a choice of selling their barley to the Wheat Board or of transacting their own agreements with U.S. buyers. Mayer also revealed plans to revamp the Crow Benefit rail subsidy for transporting grain. Instead of subsidizing the railways in return for reduced freight rates, the government would devise a plan to provide the money directly to farmers and the railways would raise their rates to cover costs.

As with the oats issue, the Alberta government and several commodity groups (such as the Western Wheat Growers Association) had supported these moves to develop a continental market for barley trade. However, the prairie pools, the government of Saskatchewan, the Canadian Federation of Agriculture and a number of other groups had argued that a large majority of farmers wanted the Wheat Board monopoly on barley marketing to continue, and they had demanded a producer plebiscite on the issue. When the Agriculture Minister made the decision on barley and rejected the idea of a plebiscite, fears were expressed that

today, barley is the target. Tomorrow it could be wheat. Ottawa's approach is clear—the role of farmers is to be disorganized victims of the 'open market' mindset.⁴⁵

Ironically, several influential U.S. senators, including Max Baucus of Montana and Kent Conrad of North Dakota, two persistent critics of the Wheat Board, strongly criticized the barley marketing decision as an abuse of the Canada-U.S. Free Trade Agreement. In a sharply-worded letter to the Canadian Minister of Agriculture, the two expressed concerns that uncontrolled sales of Canadian barley by private companies and individual farmers as well as the Wheat Board could disrupt the grain markets of the U.S. Pacific Northwest. The Canadian agriculture minister responded angrily that "those people who complain regularly...about the Board's practices should see this as something that opens up and addresses the price transparency issue in a pretty substantial way."⁴⁶ Despite American concerns

about Canada's moves toward deregulation of barley marketing, the Canadian Wheat Board remains the prime target of U.S. criticism.

The main challenge to the Mulroney government's barley marketing decision came not from the United States but from domestic groups in Canada. Shortly after the agriculture minister's announcement on barley, the Saskatchewan, Alberta, and Manitoba wheat pools decided to take the federal government to court on the issue. The federal cabinet had passed an order-in-council to bring about the change in barley marketing, and court hearings revolved largely around the question whether it had the authority to do this without prior approval by the Canadian parliament. Federal Department of Justice lawyers argued that barley was added to the Canadian Wheat Board Act by an order-in-council in 1949, and therefore that the cabinet also had the right to remove barley from the Wheat Board's sole jurisdiction without parliamentary approval. Lawyers defending the wheat pool argued that the government in effect had amended the Canadian Wheat Board Act when it had added barley to its marketing powers. Since barley became part of the statutory regime outlined in the act, it could only be removed if parliament amended the statute.

On 20 July 1993 a Saskatchewan provincial court ruled that the federal government was within its powers in removing barley from the Wheat Board. But the Saskatchewan Court of Appeal subsequently decided that this judgment was faulty because only a federal court could rule on an issue involving a federal statute (the Wheat Board Act). The wheat pools then decided to appeal their case, even though the government's decision to remove the Wheat Board's monopoly on barley marketing would be implemented (on August 1) before the federal court could rule on the case. On 10 September 1993 the federal government suffered a major setback when a federal court judge overturned the cabinet order-in-council on barley marketing. The judge determined that the cabinet had exceeded its authority, because any changes to the Wheat Board Act must be approved by Parliament. Canada's agriculture minister was angered by this decision and expressed the government's intention to immediately appeal the case. It is likely that the barley marketing issue ultimately will be decided by the Supreme Court of Canada. The success of the wheat pools in overturning the federal government's decision on barley to this point is certainly one of the more interesting court cases in recent years in Canada.⁴⁷

As is the case for U.S. export subsidies, the North American Free Trade Agreement does not address the issues of Canadian transportation subsidies and Wheat Board pricing practices for exports to third countries, including Mexico. Since the NAFTA does not prohibit the use of agricultural export subsidies in sales to Mexico, the United States can use EEP-assisted sales to the Mexicans largely as it chooses. Thus a U.S.-Canadian struggle over grain sales to Mexico is looming even as the three countries move towards final approval of the NAFTA. It is obvious that the United States and Canada are both unwilling to contemplate major alterations in their agricultural subsidy practices in an agreement involving only three North American states. If their conflicting perceptions on this issue are to be resolved, this can only occur in a multilateral GATT agreement. Multilateral negotiations can give the international trade liberalization efforts (Putnam's level I) certain advantages over domestic forces of trade protectionism (Putnam's level II) for a variety of reasons, including the following:

Concerted policy-disarmament by all countries reduces the size of the adjustments required of each; reform is more politically acceptable if the economic costs of adjustment are seen to be widely and equitably shared; and externally-specified obligations can provide the political "cover" needed to effect changes that are desired but which are too politically sensitive to be tackled solely in a national context.⁴⁸

Yet differences over agricultural subsidies in the GATT Uruguay Round still have not been resolved. In December, 1991, the past Director-General of the GATT, Arthur Dunkel, released a draft Uruguay Round agreement calling for a reduction of agricultural export subsidies by 36 percent in value and by 24 percent in volume over a seven-year period. (The 24 percent reduction in volume applies on a product-by-product basis to all agricultural exports that a GATT member subsidizes.)⁴⁹ The Dunkel draft also calls for a reduction of trade-distorting domestic subsidies by 20 percent as measured by an Aggregate Measure of Support (AMS). Although the United States and Canada had wanted much larger reductions in agricultural export subsidies, some European Community members, especially France, viewed the Dunkel targets as overly ambitious. After a lengthy dispute over the Dunkel figures, the United States

and the European Community finally reached the so-called Blair House agreement on 20 November 1992. This agreement would require the EC to reduce the volume of its subsidized agricultural exports by 21 percent over six years instead of the 24 percent required in the Dunkel draft.

But France remains dissatisfied with the more lenient subsidy reductions called for in the Blair House accord, and it has threatened to veto any move by the European Community to give its final approval to the accord. The French government's intransigence on this issue results from its response to strong domestic pressures in its own "two-level game" in the GATT negotiations. Although farmers account for only five percent of France's working population, many French view their nation as being primarily agricultural, partly because so many were born in the countryside. (In 1945, farmers had accounted for over one-third of the working population.) Farm lobbyists have therefore been quite successful in convincing much of the populace that the agricultural negotiations can have an impact, not only on the welfare of some French farmers, but on the identity of France itself. Furthermore, the trade negotiations could have major implications for the French economically. France has become the world's second largest agricultural exporter after the United States, accounting for about one-half of the European Community's total farm output, and it had an agricultural trade surplus of 53 billion French francs (about \$10 billion U.S.) in 1992.⁵⁰

The United States is unlikely to accede to the most recent French demands, partly because of the domestic pressures emanating from American agricultural interests. For example, 19 U.S. farm groups, including the American Farm Bureau Federation and the National Grange, have warned President Clinton that they would not support an Uruguay Round agricultural accord if it included weaker discipline over agricultural subsidies than that contained in the Blair House accord.⁵¹ Despite the ongoing differences, a multilateral rather than a regional agreement will be required if the U.S.-Canadian conflicts over trade-distorting subsidies are to be resolved. France may eventually have to adopt a more flexible position in the face of growing impatience from the United States, other members of the European Community such as Britain and Germany, and the "Cairns group" of smaller country agricultural exporters, which includes Canada.

MARKET ACCESS ISSUES

The GATT provides a major exception for agriculture on market access issues as well as export subsidies. Although GATT Article XI calls for the elimination of quantitative restrictions on imports, such barriers are permitted for agriculture when they are needed to enforce supply management measures that "restrict the quantities" or "remove a temporary surplus of the like domestic product." This exception was patterned partly after Section 22 of the U.S. Agricultural Adjustment Act (AAA), which authorizes the use of import quotas for commodities under price support programs. When agricultural surpluses developed in 1951, the U.S. Congress became discontented with the Article XI exception. It first amended Section 22 to permit the imposition of farm import quotas regardless of any international agreement, and then it virtually required the Secretary of Agriculture to impose quantitative restrictions on a wide range of agricultural products for which there was no supply management program. When GATT members challenged these import controls, the United States sought and received a broad waiver in 1955 (which has no time limit) from its Article XI obligations.⁵²

Since then American leaders have gradually become aware of the financial costs of their restrictive agricultural policies and of the dangers of emulation by others. For example, when the European Community included variable levies (which are in fact import quotas) as a central part of its Common Agricultural Policy, it was difficult to criticize the EC for merely following the U.S. example. Hence the United States began to develop a more critical view of agricultural import quotas in the Kennedy and Tokyo Rounds of GATT negotiations. By the time of the GATT Uruguay Round, the U.S. position had transformed completely.⁵³ The United States has offered to relinquish its 1955 GATT waiver if other countries agree to *tariffication*, or the conversion of all import quotas in agriculture to tariff equivalents; all tariffs would then be gradually reduced and eventually phased out. In offering to relinquish its GATT waiver, the United States has been playing a two-level game with its own domestic groups as well as with other GATT members. American officials anticipate that a tariffication agreement in the Uruguay Round would increase their bargaining leverage vis-à-vis U.S. sugar, cotton, dairy and peanut producers who have come to depend on Section 22 to impose import quotas. Canada, however, has been playing a very different two-level game than the United States on the

GATT Article XI issue, and Canadian-U.S. differences over import quotas have been evident in the GATT, CUFTA, and NAFTA negotiations. To explain the Canadian position, it is necessary to devote some attention to the country's supply management system.

Canadian Supply Management Policies

Under the protective umbrella of the Article XI exception, Canada developed a complex supply management system for dairy, egg, and poultry products in the 1960s and 1970s. The system is administered by marketing boards which are designed to provide adequate and stable incomes for producers through a combination of administered prices, production quotas, and import controls.⁵⁴ The United States has been a long-term opponent of Canadian supply management-related import barriers, and in 1975 it complained to the GATT about Canada's import quotas for eggs. A GATT working party formed to deal with the issue supported the Canadian position, concluding that "the Canadian supply management programme for eggs, as described and explained to the Working Party, was in conformity with the requirements of Article XI:2(c)(i)."⁵⁵ Canada continued to develop its supply management program in the 1970s and 1980s on the assumption that it was in full accordance with the GATT.

Despite the 1975 working party decision, the GATT began to take a more critical look at Canadian supply management policies in December, 1988, when American officials requested that a dispute settlement panel be formed to deal with Canada's import restrictions on processed dairy products (i.e., ice cream and yogurt). In September, 1989, the GATT panel determined that the Article XI exception applied only to raw dairy products, and the GATT Council therefore instructed Canada to either "terminate" its import restrictions for processed dairy products or "bring them into conformity with its obligations under the General Agreement."⁵⁶ Canada reluctantly agreed to accept the GATT decision, but it deferred action until the conclusion of the Uruguay Round. The United States was in fact receiving considerable support for its tariffication proposal in the GATT Uruguay Round negotiations, and Canada found that it had few allies on this issue. Supply management has also been contentious in a Canadian domestic context, with many consumers, food processors, and agricultural economists calling for major changes. Thus, T.K. Warley has noted that

many of the discontents now being voiced with the operation of our national supply management systems have been around for almost two decades. What is new is that developments in international trade policy have compelled us to confront features of the schemes that hitherto we have been unwilling to tackle in a purely domestic context.⁵⁷

Yet the Canadian government has been highly susceptible to strong counter-pressures from farm groups and their supporters to retain and even strengthen the supply management system. The protectionist dairy industry has been the most effective in exerting pressure, because the two most populous provinces—Ontario and Quebec—account for 78 percent of the country's industrial milk production and for 64 percent of its fluid milk production. Furthermore, the high-profile Quebec dairy industry provides one-third of the province's farm cash receipts, and the federal government has often catered to its demands in efforts to avert national unity problems.

To satisfy supporters as well as opponents of supply management, the Canadian government has followed a two-track policy. At the same time as officials have vigorously supported supply management in the global and regional trade negotiations, they have also moved to bring about changes in domestic supply management policies. For example, Agriculture Canada initiated a review of the country's agri-food policies in 1989, including an examination of the dairy industry. The May, 1991, report of the *Task Force on Dairy Policy* indicated that the supply management system should become more market responsive and more attuned to the needs of consumers and processors; it also recommended that "the government continue to press for a clarification and strengthening of Article XI:2(c)(i) in the Uruguay Round of GATT negotiations in order to maintain a system of supply management for the dairy industry in Canada."⁵⁸ Grace Skogstad has noted that "whether this implicit quid pro quo of commitment to instruments of supply management as a plank in Canadian trade policy in exchange for domestic policy restructuring will yield the domestic policy outcomes governments and processors seek is a matter of debate."⁵⁹

Serious negotiations over tariffication were repeatedly delayed in the Uruguay Round because of the persistent conflict between the United States and the European Community over agricul-

tural export subsidies. After the November, 1992, Blair House agreement was finally reached on export subsidies, major U.S.-EC differences emerged on agricultural market access issues which continued to block a GATT agricultural agreement (see discussion of this more recent U.S.-EC dispute below). As a result, the United States wanted to deal with agricultural market access issues involving Canada—and Mexico—in the regional negotiations. It became evident, however, that Canada considered its supply management policies to be non-negotiable in both the CUFTA and the NAFTA talks. Although the United States obtained some liberalization of Canada's egg and poultry quotas in the Canada-U.S. Free Trade Agreement, Canada upheld its right to retain those quotas. Thus, CUFTA Article 710 states that "the Parties retain their rights and obligations with respect to agricultural...goods under...GATT Article 11." In its synopsis of the CUFTA, the Canadian government also provided assurances that "dairy farmers will continue to benefit from supply management programs since these are not affected by the agreement and are consistent with Canada's GATT obligations."⁶⁰ In marked contrast, the U.S. Statement of Administrative Action (accompanying the bill to implement the CUFTA) noted that the United States had "not yet succeeded in eliminating" Canadian quotas on supply-managed products, but that the U.S. administration would "seek to eliminate the remaining agricultural import barriers" through the GATT Uruguay Round and further bilateral talks.⁶¹

The NAFTA Market Access Agreements

In the NAFTA negotiations the United States pressured for the tariffication of Canada's import barriers for supply-managed products, and also of Mexico's import licensing regime. In return, the United States offered to exempt Mexico and Canada from its Section 22 import quotas. As with the CUFTA negotiations, however, Canada refused even to consider tariffication for its dairy, egg, and poultry products. Mexico by contrast was willing to negotiate an end to its import licensing regime. Hence two sets of negotiations were conducted for agriculture: between Canada and Mexico and between the United States and Mexico. As a result the NAFTA accord contains only bilateral agricultural provisions on market access (Mexico-U.S. and Mexico-Canada), and the CUFTA's market access provisions will continue to apply for agricultural trade between the United States and Canada. The NAFTA has trilateral provisions for other

aspects of agricultural trade such as domestic support, export subsidies, and sanitary and phytosanitary regulations.

In the Mexico-U.S. market access provisions, the two countries have agreed to phase out all agricultural tariffs and non-tariff barriers without exception. A number of agricultural tariffs on U.S.-Mexican trade will be eliminated immediately, but some more sensitive products have reduction periods extending to 5, 10, or 15 years. Those products with 15-year tariff (and tariff rate quota)⁶² reduction periods include corn, dry beans, milk powder, orange juice and sugar for Mexico; and orange juice, peanuts, sugar, and certain fruits and vegetables (asparagus, avocados, broccoli, cantaloupe, cucumbers, onions, and garlic) for the United States. Furthermore, the United States and Mexico can invoke special safeguards (under Annex 703.3) to prevent rapid import surges of a limited number of sensitive products after the NAFTA is implemented. These safeguards normally apply only at certain times of year when imports are considered to pose a more serious problem for domestic producers. The special safeguard provision applies to tomatoes, onions, eggplant, chili peppers, squash, and watermelon in the United States; in Mexico to 17 items including live pigs, pigmeat, potatoes, apples, and some coffee products.

The most innovative and important aspect of the Mexico-U.S. market access provisions relates to the two countries' non-tariff barriers in agriculture. Thus Mexico has agreed to exempt the United States from its farm import licenses, and in return the United States will exempt Mexico from its Section 22 quota rules (Section 22 is used to impose quotas on peanuts, cotton, dairy and sugar imports). The two countries will convert their import quotas to *tariff rate quotas* (TRQs), which call for zero tariffs within the quota limits, and for regular tariffs for over-quota amounts. These over-quota tariffs will be set initially at a rate equivalent to the protection offered by current quota limitations, and then will decline to zero over a ten- to fifteen-year transition period. The duty-free quota part of the TRQ will also increase gradually during the transition period.

The Mexico-Canada market access provisions are similar to the Mexico-U.S. provisions in calling for the phased removal of agricultural tariffs and non-tariff barriers. But since Canada insisted that it would retain its quotas for supply-managed products, Mexico indicated that it would exclude the same products from their market access agreement. As a result the two countries will retain their

current tariffs and non-tariff barriers with each other in the dairy, poultry, and egg industries. They will also maintain their tariffs on sugar trade. The exclusion of sugar in the Mexico-Canada agreement is a special case, unrelated to the GATT Article XI exception. Mexico wanted Canada to adopt the same restrictive import regime against third-country sugar exports that the United States and Mexico will have. (Under the NAFTA provisions Mexico is to establish border protection equal to that of the United States for sugar imports from the rest of the world by the end the sixth year of the agreement). Canada would not agree to this demand, because substantially higher Canadian sugar prices would adversely affect consumers and also disadvantage the food processing sector. Therefore it was agreed that Canada would actually increase its tariff on Mexican sugar to the level Mexico currently applies on Canadian sugar, and that these tariffs will be maintained. Mexico will continue to treat Canada the same as any other GATT trading partner for the supply-managed products and sugar, and only the United States will eventually receive unrestricted entry into Mexico for these products. For all other agricultural products Canada and the United States will receive the same or equivalent access to the Mexican market. In sectors other than the supply-managed products and sugar, Mexico and Canada will replace their quotas with tariff rate quotas, or with ordinary tariffs.⁶³

As with the U.S.-Mexico agreement, Canadian and Mexican tariffs will decline to zero either immediately, or over a five- ten- or fifteen-year period. Mexican corn and dried beans will have a fifteen-year tariff reduction period for Canada as well as the United States. Unlike Mexico and the United States, Canada will not have a fifteen-year tariff reduction period for any products. However, it will have a ten-year reduction period for its most sensitive fruits, vegetables and flowers (fresh tomatoes, frozen cauliflower and broccoli, green onions, cucumbers, frozen strawberries, tomato paste and cut flowers). These products are also subject to Canada's special safeguard measures which allow it to reimpose existing tariffs if imports exceed specified volumes. Mexico's special safeguard measures apply to the same products for trade with Canada as with the United States.

Since Canadian-American agricultural market access issues will continue to be governed by the Canada-U.S. Free Trade Agreement, the relevant CUFTA provisions are incorporated into Annex 702.1 of the NAFTA. As previously noted Canada's Article XI import

quotas and the U.S. section 22 import quotas (vis-à-vis Canada) will remain. It also should be noted that the Canadian government did weaken its supply management stance in the NAFTA in one respect. While the CUFTA permits Canada to add new products to its supply management program vis-à-vis the United States, the NAFTA states (in Annex 703.2, Section B) that "the rights and obligations of the Parties [Canada and Mexico] under Article XI.2(c)(i) of the GATT shall apply...only to the dairy, poultry and egg goods."

Canada's unwillingness to compromise on its supply management system in the NAFTA negotiations was consistent with its position in the CUFTA and GATT Uruguay Round talks. But the question arises as to why the United States and Mexico were willing to exempt each other from their import quota regimes in agriculture. Some American producers have become highly dependent on the Section 22 import quotas, and certain Mexican producers in turn are extremely reliant on the country's protectionist import licensing system. To understand the differences in perspective, it is necessary to provide some background on Mexican agricultural policies and on Mexico-U.S. agricultural trade relations.

Agriculture in Mexico, as in many economically less-developed countries, is marked by extreme diversity. The sector includes commercial enterprises and subsistence farmers, irrigated and non-irrigated (or rainfed) cropland, and confined and range-fed livestock operations. Various agricultural commodities also tend to be associated with specific types of production and with particular areas of the country. For example, while vegetables, wheat, cotton, oilseeds, and sorghum are produced in large, irrigated farms in the North, the country's staple commodities—corn and dry beans—are produced on small, non-irrigated farms in Mexico's central states. Mexico's problems with staples production are compounded by the fact that it is deficient in arable land. Only 12 percent or 57 million acres of Mexican territory is arable (0.7 acres/person), compared with 464 million arable acres (1.9 acres/person) for the United States. Furthermore, one quarter of Mexico's arable land is irrigated and water resources are generally scarce.⁶⁴

Mexico's trading patterns reflect its problems with the production of sufficient dietary staples. Although the export of fruits and vegetables to the United States has provided Mexico with badly-needed foreign exchange, the country is highly dependent on imports of basic foodstuffs such as corn, sorghum, and wheat. The

United States is the primary external source of these products, but Canada has also been a large wheat exporter to Mexico in recent years. Unlike Mexico, the United States and Canada are competitive producers of their main dietary staples. Agriculture accounts for only about 3 percent of the gross domestic product (GDP) in the United States and for 3.5 percent in Canada, but it accounts for 9 percent of the GDP in Mexico. Thus Mexico is taking a much greater risk in liberalizing its agricultural trade policy than its two more developed North American partners.

Mexico's status as a less-developed country and the traditional policies of Mexican governments have contributed to difficulties in producing dietary staples. From the 1940s to 1980 Mexican governments often provided credit, machinery, investment incentives, fertilizers, technical assistance and other benefits to the more productive, irrigated areas that produced horticultural and other products for export. Such crops helped to provide Mexico with foreign exchange required for industrial growth and debt servicing charges. In contrast, governments sometimes neglected the rainfed subsistence areas that were largely devoted to corn and bean production. They also kept prices for basic grains at low levels so that inexpensive food could be provided to the rapidly growing urban areas.

Beginning in the 1960s the Mexican government provided guaranteed prices to staple producers, and it purchased basic commodities (corn, beans, rice, wheat, sorghum, soybeans, safflower, and cottonseed) at support prices through the national regulatory agency CONASUPO (National Popular Subsistence Corporation). But the price support levels did not provide increases in real producer prices (adjusted for inflation), and they often fell below world prices. The government support prices were also linked with restrictive trade policies including import licensing requirements. Hence staple producers did not have the incentive to increase agricultural productivity under competitive conditions. Not surprisingly, the production of staples did not meet the needs of the country's growing population, and the small grain producers in rainfed areas experienced increasing poverty.⁶⁵

At various times, Mexican governments have attempted to confront the problems of rural poverty and inadequate production of staples. The most ambitious effort was the *Sistema Alimentario Mexicano* (Mexican Food System) or "SAM", introduced by the

administration of President López Portillo (1976-82). The SAM provided a wide array of subsidies for basic grain production and also encouraged research into increasing production in rainfed (i.e., non-irrigated) areas. The objectives were to achieve self-sufficiency in corn and dried beans by 1982 and in other basic grains by 1985 while Mexico's substantial oil revenues helped finance the necessary agricultural subsidies. The combination of SAM subsidies and favorable weather contributed to impressive gains in 1981, when the production of basic grains increased by 22 percent over the previous crop year. But these gains were achieved at substantial cost to the Mexican government and in late 1982 it ended the SAM program as a result of the precipitous decline in world oil prices and a subsequent foreign debt crisis.⁶⁶

Hence producers of staple crops have remained among the poorest people in Mexico with low incomes, inadequate diets, and little health care and education. About 26 percent of Mexico's active work force is employed in agriculture, and by far the largest group of growers and labourers is engaged in corn production in rainfed areas. Indeed, there are 3 to 4 million owners of *minifundio* and daily labourers involved in corn production, and corn acreage accounts for over one-half of Mexico's total cropland. Nevertheless, Mexico's corn yields per acre average about one-third of those in the United States, and the country must often import corn from the U.S. to meet domestic demand. Mexico has also been unable to achieve self-sufficiency in livestock and dairy production. Not surprisingly, Mexican agriculture is significant as the main source of illegal migrants to the United States. The Mexican policies, along with programs such as the *ejido* land-tenure system and inclement weather, contributed to an agricultural crisis requiring the import of more agricultural products in 1988 than in any other previous year.⁶⁷

Mexico's agricultural, trade and indebtedness problems eventually encouraged a change to more outward-oriented policies in efforts to increase the country's competitiveness. Starting in 1983, Mexico began to reform agriculture as part of a general effort to increase market orientation and decrease state intervention and regulation in the economy. President Carlos Salinas de Gortari (1988-94) has had a significant role in liberalizing the country's trade policies both in his present position and as a government official in the administrations of President Portillo and President Miguel de la Madrid (1982-88). A major policy change was Mexico's accession to

the GATT in 1986 and its subsequent moves to lower its trade barriers unilaterally by a greater amount than required. As a result, Mexico's licensing requirements applied to 57 percent of U.S. agricultural exports in 1988 but to only 26 percent of U.S. exports in 1991.

Mexican leaders also concluded that a restructuring of corn policy was needed with or without free trade, and NAFTA offered the opportunity to accomplish this goal. As part of the restructuring policy the Mexican government has initiated a fundamental land reform program. Before 1992, the Mexican constitution promised that all peasants would have access to land, and the government expropriated and redistributed substantial amounts of privately-held acreage. This *ejido* system was inimical to private ownership and discouraged foreign investment. For example, *ejidatarios* (those who farm the *ejidos*) lacked ownership and could not enter into commercial transactions or transfer their rights to the land. In January, 1992, the Mexican constitution was amended to eliminate many of the former restrictions on land tenure and to provide a more positive setting for foreign investors and private landholders.⁶⁸

Another major factor in the move to trade liberalization was the government's view that Mexico's long-term interests lay in unrestricted access to the larger U.S. market. Mexico's agricultural exports to the United States increased in value from about \$1 billion (U.S.) in 1980 to \$2.3 billion in 1989. Proximity to the United States and a longer growing season have given Mexico a decided competitive advantage in exporting horticultural products. Mexican fruit and vegetable exports to the United States have also benefited from lower labour costs, an undervalued foreign exchange rate, and the involvement of large transnational corporations in the agricultural sector as well as from fewer environmental and labour safety regulations. As a result, Mexican exports have provided over one-half of the winter fruits and vegetables consumed by Americans in recent years. Furthermore, Mexico's positive balance of trade with the United States in fruits and vegetables increased from \$215 million in 1980 to \$742 million in 1986. While total U.S. agricultural trade worldwide rose at an average rate of 2.3 percent from 1982 to 1988, U.S.-Mexican agricultural trade grew by 11.6 percent during this period. Today, the United States accounts for about 90-95 percent of Mexico's agricultural exports and for 70-75 percent of its agricultural imports.⁶⁹

Although American import duties on agricultural products are generally low, the United States maintains higher seasonal tariffs on horticultural goods to limit Mexican imports during the main marketing period for U.S. products. To achieve more secure access to the U.S. market for its agricultural exports, Mexican officials realized that some tradeoffs would be necessary. Thus, American negotiators indicated that the United States would refuse to remove its tariffs and non-tariff barriers in the sensitive fruit and vegetable sector if Mexico continued to protect its corn producers. When Mexico agreed to tariffy without exception, it effectively undercut the protectionist citrus and sugar producers in the United States.⁷⁰

Of course the move to agricultural free trade with the United States presents some major risks for Mexico. For example, since Mexican corn and bean producers are subsistence peasant farmers rather than commercial farmers, there is no way to ensure them alternative occupations. The possibility also exists that agricultural trade liberalization in the NAFTA will lead to mass emigration to Mexican and American cities.⁷¹ To ease the adjustment to free trade in corn with the United States, the Mexican government will have to establish various domestic programs during the fifteen-year transition period. It is likely that it will provide assistance: to establish rural-based industries and to facilitate a gradual migration out of the villages where the bulk of corn producers live; to modernize the agricultural sector with technology and infrastructure; and to encourage a further change in emphasis from production of staple to exportable crops. Despite the risks to its corn producers, the Salinas administration feels that free trade with the United States, which includes agricultural free trade, offers the best opportunities for Mexico.

The United States also had compelling reasons for supporting agricultural free trade with Mexico. Of course the interdependence between the two countries is highly asymmetrical, with the U.S. far less dependent on Mexican trade. Thus Mexico accounts for only about 7 percent of American agricultural exports and for 10 percent of its agricultural imports. But Mexico still has become an increasingly important agricultural export market for the United States. While the total U.S. balance of trade with Mexico in the decade of the 1980s was negative, the United States had a surplus of \$3.3 billion in its agricultural trade balance with Mexico during that period. Mexico was the United States' fourth largest single-country

agricultural market in 1990, and the third largest in 1991 and 1992 after Japan and Canada. In fiscal 1992 Mexico's strong economic growth (and also the availability of U.S. Department of Agriculture financing for exports) contributed to an increase in its purchases of U.S. agricultural exports by 27 percent to almost \$3.7 billion in value. As well, Mexico remained the top market for U.S. exports of fats, oils, greases, and dairy products, and it became the top market for seeds and the second largest market for U.S. feed grains.⁷²

Although Mexico has been liberalizing its agricultural trade policies, it continues to maintain some major import barriers in this area, and the United States viewed the NAFTA as a vehicle for opening the Mexican market further. Before the recent market-oriented reforms in Mexico, 100 percent of import categories were covered by licensing. The coverage of licenses has been reduced substantially, but the use of licenses for agricultural commodities remains more important than for other products. Mexican tariffs also continue to pose significant barriers to the export of some U.S. agricultural products. Furthermore, Mexico maintains strict controls over the import of basic foodstuffs, which include products that the United States would like to export in larger quantities. In 1990, for example, the tariff equivalents of Mexico's import licenses were about 73 percent for corn and about 50 percent for wheat—a substantial trade barrier.

The United States agreed to exempt Mexico from its Section 22 import barriers even without comparable changes in market access policies by such countries as Canada, Japan, and South Korea (the latter two countries maintain a ban on rice imports). Nevertheless, the administration was not particularly concerned that it was relinquishing its 1955 U.S. GATT waiver unilaterally (i.e., without mutual concessions from other GATT members), because the waiver would be abandoned only in regard to Mexico. American officials also viewed the agreement with Mexico in the NAFTA as providing a positive demonstration effect for the GATT Uruguay Round, where the United States is leading the drive for tariffication. Thus the Chairman of the U.S. House Agriculture Committee, Kika de la Garza, has stated that "if NAFTA falls by the wayside, it will be an indication to the rest of the world—for those working on the GATT—that if we do not care about our neighbours north and south, we are not going to care about the rest of the world."⁷³ In contrast to the United States, Canada strongly opposed tariffication in the GATT

negotiations, and it was fearful that relinquishing its supply-management related quotas in the CUFTA and NAFTA would establish an undesirable precedent for the global talks.

Despite the advantages to the United States of freer agricultural trade with Mexico, the NAFTA will clearly involve some trade-offs in the U.S. agricultural sector. The gains should go primarily to grain and soybean producers, while the losses are more likely for citrus and winter fruit and vegetable growers and some food processors, mainly in California, Florida, and Texas. Although the United States has negotiated a longer tariff phaseout period and safeguard provisions for its more sensitive agricultural products, some American fresh fruit and vegetable growers have protested that the transition period does not provide adequate protection. Florida agricultural groups have also argued that the NAFTA's volume-based safeguard mechanism against import surges should be supplemented by a price-based safeguard mechanism, because small changes in import quantities at peak marketing times could result in major price swings. In addition they have joined with U.S. winter vegetable producers to demand that the tariff phaseout period for import-sensitive products be increased to twenty years. But the strongest protests have been voiced by the American sugar producers who forced the U.S. administration to play a two-level game in the NAFTA negotiations with one of the more protectionist agricultural sectors.

The U.S. Sugar Producers

The United States is the fifth largest sugar-producing country in the world, but it continues to depend on sugar imports to meet its domestic requirements. Almost all U.S. sugar is grown in four sugarcane-producing states and fourteen sugarbeet-producing states. The world sugar market has been marked by unstable and low prices, and the United States has a long history of government involvement to protect its sugar producers. It should be noted that almost all national governments intervene in the sugar trade because of sugar's importance as a staple in a wide variety of manufactured goods, and because of its large investment requirements and its role in generating employment and foreign exchange.⁷⁴

The current U.S. sugar program was authorized by the 1981 Agriculture and Food Act, and modified by the 1985 Food Security Act and the 1990 Food, Agriculture, Conservation, and Trade Act.

The program provides support to domestic producers by establishing a loan rate which ensures them a minimum U.S. market price for their sugar. To maintain prices at the required level, the U.S. Department of Agriculture (USDA) uses a TRQ to limit the supply of foreign raw cane sugar. The TRQ permits imports within the quota limit at low—or no—tariff levels, but imposes a rather prohibitive 16 cents per pound tariff on sugar imports above the quota limit. Each year the USDA produces estimates of the domestic production and demand for sugar and establishes the import quota that will support domestic prices at the target level. The U.S. Trade Representative then allocates individual quotas to foreign suppliers, based on their percent share of U.S. imports during the 1975-81 period when imports were relatively unrestricted. In contrast to imports, no limits are normally placed on domestic sugar production. As a result, about 81 percent of sugar deliveries for U.S. consumption were produced domestically in 1991-92, and only 19 percent were imported.

Despite the U.S. tariff rate quota system, a number of factors have contributed to an increase in the supply of sugar relative to demand. In the 1980s American output of both cane and beet sugar increased as a result of higher productivity and the assurance of relatively high prices through the price support program. At the same time, a new technology to produce high fructose corn syrup (HFCS) caused the consumption of sugar to decline steadily. The use of HFCS rapidly increased because of its technical ability to substitute for sugar in many products, especially soft drinks, and because of its much lower production costs relative to sugar. Thus, the consumption of corn sweeteners surpassed sugar as the predominant sweetener in the United States in 1986. The use of low calorie sweeteners in the United States (mainly aspartame and saccharin) also increased rapidly from about 6 percent of total U.S. sweetener consumption in 1980 to almost 15 percent in 1991.

In response to the rising domestic sugar production and declining demand, the United States reduced annual imports from about 4.2 million tons on average in 1979-81 to a quota of about 1 million tons in 1988. The imports under quota represented only about 19 percent of U.S. sugar consumption in 1991-92 compared to about 40 to 50 percent before the 1980s. Despite the decline in imports, the factors mentioned above (increased productivity, and competition from HFCS and low-fat sweeteners) have continued to pose pressures for change in the current system of support for

American sugar producers. The U.S. sugar program provides growers and processors with about \$561 million in benefits annually, and the changes occurring in the U.S. sugar market have posed a major threat to them. From the perspective of the producers, the NAFTA represents a potential new threat to their favored position.

The NAFTA formula for liberalizing the U.S. sugar import program is quite complex. Chapter 7 of the agreement stipulates that the United States and Mexico will gradually reduce their barriers to sugar trade with each other and will harmonize their border protection vis-à-vis the rest of the world. By the end of a fifteen-year transition period all restrictions on Mexican-U.S. sugar trade will be eliminated. In the first six years of the agreement Mexico's sugar exports to the United States will be limited to its current quota of 7,259 tonnes *if* it does not become a net surplus producer of sugar. However, if Mexico becomes a net surplus producer for one year during the initial six-year period, it will gain duty-free access to the U.S. market for up to 25,000 tonnes of sugar per year. Beginning in year seven of the agreement, if Mexico is a net surplus producer it will be able to ship up to a maximum of 150,000 tonnes of sugar to the United States. This quota will increase 10 percent a year over the remainder of the fifteen-year transition period. But if Mexico becomes a net surplus producer for two consecutive years, it will have unlimited access for its net exportable surplus to the United States beginning with year seven the agreement. At the end of fifteen years there will be free trade in sugar between the two countries, regardless of Mexico's status as a producer.

American sugar producers are extremely concerned that the NAFTA provisions on Mexican sugar exports will undermine their position. Indeed, the chairman of the National Legislative Committee of the American Sugar Cane League essentially charged the Bush Administration with playing a two-level game at their expense in the NAFTA negotiations:

The present Administration, together with its immediate predecessor, has been trying to legislatively destroy our industry for years.... Because of the wisdom of Congress, its efforts have been unsuccessful. Under the proposed NAFTA, the Administration is attempting to do administratively through a secretly-negotiated trade agreement that which it was prevented from doing legislatively.⁷⁵

A primary concern of the U.S. sugar industry and its Congressional supporters is that Mexico will increase its exportable surplus of sugar by substituting high fructose corn syrup (HFCS) for sugar in its soft drink industry. (Unlike the United States and Canada, Mexico still uses sugar rather than HFCS in its soft drink production.) The U.S. industry has demanded that the determination of Mexico's "surplus producer" status be modified to include other caloric sweeteners such as HFCS as well as sugar in the calculations. When pressed on this issue in the U.S. Senate Finance Committee, Deputy Agriculture Secretary Ann Veneman acknowledged that the Mexicans had refused to negotiate a deal that would prevent their substitution of HFCS for sugar. Nevertheless, the U.S. Department of Agriculture maintains that Mexico will be unable to increase its use of corn sweeteners in the near term. The sugar industry has expressed many other concerns to the U.S. Congress about the NAFTA, including the provisions on market access and the length of the period after which Mexico would gain unlimited access to the U.S. market.⁷⁶

After the NAFTA was signed on 17 December 1992, the sugar industry shifted its attention from the agreement itself to the proposed supplementary or side agreements. In a 4 October 1992 speech, Democratic presidential candidate Bill Clinton had indicated that he would seek three side agreements to strengthen the NAFTA provisions on the environment, labour, and import surges. President-elect Clinton reiterated this promise at the time of the NAFTA signing, and the sugar industry soon pressured for a provision limiting Mexican sugar exports in the proposed side agreement on import surges. Citrus and winter vegetable growers joined with the sugar producers in demanding a more generic provision in the side agreement that would protect several agricultural sectors which were threatened by imports.

In calling for additional safeguards against imports of Mexican sugar, the American producers could rely on some support from Mexico's export competitors. Since the United States will retain its global quota for sugar imports, any planned increases in the Mexican sugar quota will be offset by a reduction in the quota for other countries. Other sugar exporters to the United States such as the Caribbean Basin Initiative (CBI) countries and Australia complained that they would lose market share in the United States and that

increased Mexican production for export could lead to a drastic decline in world sugar prices. The CBI countries also joined the U.S. producers in arguing that high fructose corn syrup should be included with sugar when determining Mexico's status as a net exporter or importer.

Although the administration certainly felt pressured by the U.S. sugar producers and their Congressional advocates, they had reasons for giving greater consideration to other interest groups and issues. Most U.S. studies conducted both before and after the NAFTA was signed indicated that the American farm sector overall would gain from the agreement (these same studies tended to find that the Mexican agricultural sector overall would sustain losses).⁷⁷ For example, a report prepared for the Administration by the Agricultural Policy Advisory Committee (APAC) recognized that the NAFTA would add to competitive pressures for U.S. producers of cotton, sugar, and certain fruits and vegetables, but it also indicated that the agreement would increase export opportunities for grains, oilseeds, dairy, tree nuts and meats. Weighing the costs against the benefits, the APAC concluded that "the proposed NAFTA agreement provides long term net export growth opportunities for U.S. agriculture and is in the economic interest of the United States."⁷⁸ Even in such sectors as fruits and vegetables, studies predict that U.S. producers will have gains as well as losses. It is possible, for example, that U.S. fresh apple, pear, and peach exports to Mexico could double during the transition period. Thus, the authors of one study conclude that

some U.S. fruit and vegetable producers would increase their exports to Mexico with the removal of import license requirements. U.S. grape growers plan to sell grapes in Mexico due to divergent seasons. Other fruit and vegetable producers may find markets for their high quality products in the upper-income, urban groups, a market that should expand under an FTA. U.S. exports to Mexico of fresh oranges, apples, pears, nectarines, peaches, almonds, and pistachios are also expected to increase under an FTA.⁷⁹

In view of these studies, it is understandable that the U.S. administration would give more credence to agricultural export interests than to protectionist interests when considering the issue of import surges. The danger also existed that support for the demands

of the sugar producers would divide the U.S. agricultural community. Thus more competitive sectors such as the grain producers opposed the inclusion of additional agricultural safeguards in the side agreement on import surges, because they feared that the safeguards would also interfere with U.S. farm exports to Mexico. As an indication of the strong agricultural support for NAFTA, over 100 U.S. agricultural groups formed a coalition, termed "AG for NAFTA," in July, 1993, to pressure for Congressional passage of the agreement. The coalition is composed primarily of agribusiness groups which strongly supported the trade policies of the Reagan and Bush administrations. It also includes some of the most important general farm organizations such as the American Farm Bureau and the National Grange. It should be mentioned that the Farmers' Union and National Farmers' Organization, which usually support the Democratic party, are opposed to NAFTA as currently negotiated.⁸⁰

American sweetener users (consumers and manufacturers of sweetener-containing products) were also not particularly sympathetic to the demands of the sugar producers. The sweetener users pay the cost of supporting the producers through higher prices which result from U.S. import restrictions on lower-priced world sugar. Domestic manufacturers argue that the higher price of their raw sugar inputs detracts from their competitiveness. The U.S. General Accounting Office generally agrees with this view and has estimated that the cost of the U.S. sugar program to sweetener users amounts to about \$1.4 billion annually.⁸¹ As a result, the President of the U.S. Sweetener Users Association views producer claims that Mexican sugar will flood the U.S. market under the NAFTA provisions as grossly exaggerated. The association maintains that the NAFTA will create opportunities for U.S. companies to supply Mexico's growing consumer demand for sugar-containing products.

Another factor gravitating against a strong U.S. position on import surges was that this was a relatively unimportant issue to the U.S. Congress. Although a number of Congressmen called for additional safeguards against imports in a side agreement, the side agreements on environment and labor were—and continue to be—far more salient. Whereas some Congressional leaders seem prepared to vote against the NAFTA accord if environmental and labour issues are not addressed to their satisfaction, they are clearly less committed to a strong side agreement on import surges. Moreover,

redistricting has resulted in a new U.S. Congress that is more representative of recent demographic changes allocating fewer members from rural areas and more from the suburbs. Although sugar producers continue to have some strong Congressional supporters, they can expect to receive less support than previously.

Finally, officials and advisors in the Clinton Administration have generally downgraded the importance of the sugar producers' demands. Mexico is currently a net importer of sugar, and the U.S. Department of Agriculture (USDA) and U.S. Trade Representative maintain that it is unlikely to become a net sugar exporter in the near future. They believe that the current pattern of U.S.-Mexican sugar trade should not change appreciably during the initial six-year period of the NAFTA. Even if Mexico were able to increase its sugar exports to the United States, the overall U.S. import level would not necessarily increase because the quotas the United States allocates to other countries would be lowered. Furthermore, the USDA considers it unlikely that Mexico will substitute corn sweeteners for sugar in its beverage industry because the price differential between these two inputs in Mexico would make such a shift uneconomical. Agriculture officials have also argued that there are additional safeguards for the United States after year seven of the agreement, and that fifteen years is sufficient time for the U.S. sugar industry to adjust to free trade with Mexico.⁸²

U.S. Secretary of Agriculture Mike Espy has also stated that, despite some concerns about the sugar provisions, the NAFTA will be "good for American agriculture in general." Espy has maintained that "an absolute top priority" is to increase opportunities for U.S. agricultural exports, and that the NAFTA will benefit U.S. beef, corn and dairy exports to Mexico.⁸³ In addition, the U.S. National Economic Council prepared an options paper on the side agreements in March, 1993, which cautioned that a strong agreement on import surges would probably be used more to block U.S. exports than to protect U.S. industries. The Council also indicated that American pressures for a strong import surges accord would lead to charges that it was reopening the NAFTA agreement. In accommodating the demands of U.S. sugar producers, other industries in all three countries would pose similar demands to re-open the NAFTA on their behalf.⁸⁴

As a result the United States adopted a mild stance on import surges, proposing to Canada and Mexico that the three countries set

up a NAFTA Safeguards Committee as a consultative mechanism that would have no powers to limit unexpected import surges beyond those already mentioned in the original NAFTA text. The American negotiators proposed the more mild conditions to avoid Mexican and Canadian charges that they were reopening the NAFTA agreement, but Mexico and Canada remained concerned that a side deal on import surges could be used as an excuse by the United States to reimpose import restrictions. On 12 August 1993 the United States, Canada and Mexico reached final agreement on the three side accords. The side accord on import surges, titled "The Understanding on Emergency Action," establishes a working party on emergency action, but it does not strengthen the three countries' powers to limit imports beyond those already provided in the NAFTA text.⁸⁵

Although the U.S. administration pressed for the longer fifteen-year phaseout period for sugar import barriers, it undoubtedly views the NAFTA negotiations as a two-level game which facilitates curbs on protectionist producers such as those in the sugar industry. As one agricultural trade specialist has stated, the sugar program is considered to be "one of the most wasteful agricultural programs in terms of costs imposed on sugar buyers and perverse incentives given to U.S. growers."⁸⁶ Unlike U.S. Department of Agriculture commodity programs that provide direct payments to producers, the sugar program does not impose payment limitations on beneficiaries. Thus the U.S. General Accounting Office estimates that one farm received over \$30 million in benefits from the sugar program in 1991, and that the 33 largest farms each received over \$1 million in benefits that year. About 150 farms—only one percent of all U.S. sugar farms—received 42 percent of the entire sugar grower benefits in 1991, and four manufacturers of high fructose corn syrup received 87 percent of the HFCS industry's indirect benefits from the sugar program.⁸⁷ Since there are cane sugar, beet sugar, and HFCS producers in many states, they have traditionally enjoyed considerable Congressional support for their interests. In short, the NAFTA has provided the U.S. administration with a powerful tool in its efforts to decrease costly protectionism in the industry.

In summary, despite the pressures of U.S. sugar and horticultural producers, the NAFTA calls for a phasing out of all agricultural tariffs and non-tariff barriers between Mexico and the United States within fifteen years. However, this study outlined the fact that

Canada continues to apply the GATT Article XI exception for its supply managed dairy and poultry products. As with the American position on export subsidies, bilateral or trilateral negotiations did not "provide a sufficient critical mass" for Canada to alter its supply management policies.

Only a multilateral Uruguay Round agreement would provide sufficient pressure, and also counterbalancing benefits, to induce the Canadian government to agree to tariffication. Until recently, it seemed that a broad consensus was emerging in the GATT in favour of tariffication, and that those countries opposed to tariffication were increasingly isolated. At the Brussels ministerial meeting in December, 1990, about 13 countries were supporting the GATT Article XI exception, and the European Community initially expressed sympathy with this view. But in August, 1991, the EC negotiators agreed with the United States that a comprehensive agreement on agriculture would have to include tariffication. Just before the GATT Director-General tabled his draft Uruguay Round agreement, Canada led a group of only six countries (Canada, Japan, South Korea, Israel, Norway and Switzerland) arguing that Article XI should be clarified and strengthened. Since Norway and Switzerland are considering membership in the European Community and Israel has close ties with the EC, only three of these countries (Canada, Japan, and South Korea) could be viewed as resolute opponents of tariffication.⁸⁸

Still, conflict has emerged between the United States and the European Community over the EC's policy on market access in agriculture. The tariffication provisions in the draft Uruguay Round agreement are ambiguously worded, and the United States has charged that the European Community has distorted the spirit of the provisions by interpreting them in the most restrictive manner possible. As a result, the United States maintains that the Community's market access offer tabled in the GATT would actually *increase* EC trade protection for such agricultural commodities as rice, wheat, and corn. According to U.S. officials, this would violate the Dunkel draft GATT agreement which specifies that access opportunities after tariffication should be at least equivalent to those existing before tariffication. American negotiators insist that the European Community must produce a better market access offer for agriculture, or the U.S.-EC agreement on export subsidies (the Blair House accord) could be jeopardized.

The firm American stance is also linked to U.S. domestic pressures, since the American Farm Bureau Federation has warned that it could not support an agreement that actually decreased the existing level of access. Furthermore, the U.S. Agriculture Secretary has described a better access agreement as a "deal breaker" without which he cannot take the GATT accord to farm state senators.⁸⁹ At a minimum, the tariffication issue in the GATT Uruguay Round will not be seriously addressed until the current U.S.-EC market access dispute is resolved. Despite the adamant U.S. position on this issue, it should be mentioned that the European Community is not the only actor whose market access offer is being seriously questioned. For example, Canada and several other dairy producing countries are very dissatisfied with the U.S. market access offer for dairy products.

SANITARY AND PHYTOSANITARY MEASURES

Article 724 of the NAFTA defines sanitary and phytosanitary measures as those designed to protect animal or plant life from a variety of risks, including "the introduction, establishment or spread of a pest or disease", "the presence of an additive, contaminant, toxin or disease-causing organism in a food, beverage or feedstuff", "a disease-causing organism or pest carried by an animal or plant," and "the introduction, establishment or spread of a pest." While the market access provisions of the CUFTA will continue to govern Canada-U.S. agricultural trade, the health and sanitary provisions of NAFTA are trilateral and will largely supersede those of the CUFTA. In some respects the negotiations on sanitary and phytosanitary measures have been more productive than those on trade distorting subsidies and market access:

The negotiations on health and sanitary issues have been productively engaged in all three negotiations. They were started in the Canada-U.S. They were built on and elaborated in the GATT and further refined in the NAFTA.⁹⁰

A distinctive characteristic of agriculture is the importance of border regulation to protect human health and the health of domestic plants and animals. A contentious trade policy issue is whether sanitary and phytosanitary measures at the border exist for legitimate domestic reasons, or whether they are used as non-tariff barriers to trade. One test of legitimacy is whether imports and domestic products are treated equally. Even if there is equal treatment,

differential standards across countries in themselves give rise to complaints of unfair trade. For example, American producers have complained about unfair competition with Mexican growers who can use DDT and other chemicals that are illegal in the United States.⁹¹

Specific provisions on SPS measures in agriculture are contained in NAFTA Chapter 7, Section B, and more general provisions which are relevant to the SPS issue are found in Chapter 9 on "Standards-Related Measures." The provisions in these two chapters seek to achieve a variety of objectives. They affirm that each country may take its own standards-related measures and may prohibit the imports of other countries' goods that do not comply with those requirements; they call upon each country to provide "national treatment", applying its measures in a nondiscriminatory fashion to domestic and foreign goods; they caution that each country must apply its measures in a manner that does not create unnecessary obstacles to trade or disguised restrictions on trade; they indicate that each country's measures should rely whenever feasible on international standards, scientific principles, and an appropriate risk assessment (although the proviso is added that standards more stringent than those used internationally may be imposed); and they call upon the three countries to "pursue equivalence of their respective SPS measures."⁹²

As a result of experience with the CUFTA and the GATT Uruguay Round negotiations, the NAFTA provisions outline clearly the goals and principles to follow on sanitary and phytosanitary issues. Nevertheless, Josling and Barichello note that the mechanisms to enforce the SPS objectives outlined continue to be sorely lacking:

The language of the agreement is heavily laden with "shoulds" and "mays". Few enforcement mechanisms are included to ensure that these measures do not become or remain as disguised trade barriers. This is worrisome because, with the removal of other trade barriers, industries inevitably will pressure governments to use technical barriers—in addition to antidumping and countervail actions—to restrict imports. The NAFTA does, however, clearly articulate the principles and objectives being sought, even if the results cannot be effectively enforced. In conjunction with the dispute settlement procedures, a clearer

statement of principles will be helpful in resolving disputes, offsetting, at least in part, the lack of enforcement provisions.⁹³

CONCLUSION

This study demonstrates that the NAFTA agricultural negotiations were influenced by, and also had an impact on, domestic and global as well as regional agricultural policies. The domestic pressures for protectionism in agriculture, combined with the GATT's failure thus far to regulate agricultural trade and the Canada-U.S. Free Trade Agreement's inability to resolve some major agricultural differences between the two North American states, imposed major constraints on what could be accomplished in the NAFTA negotiations.

As Robert Putnam has noted, a government must bargain with its domestic constituencies at the same time as it is negotiating with foreign governments if its international agreements are to become legitimized and effective. Since most industrial countries have influential domestic groups strongly committed to agricultural protectionism, the bargaining process with domestic interests in agriculture tends to be particularly intense. Protectionist agricultural groups also are often able to use the political system to their advantage. In the U.S. system marked by a separation of powers and a lack of party discipline, the Congress has been particularly susceptible to domestic agricultural pressures. In Canada, the Federal government has been reluctant to alter the supply management system, partly because of the strength of the dairy industry in Quebec. Domestic priorities in agriculture have had a major impact on the GATT which provides exemptions for agriculture in its Article XVI banning export subsidies and its Article XI banning quantitative restrictions on imports. Although the CUFTA went beyond the GATT in prohibiting export subsidies on agricultural trade between the United States and Canada, it did little to limit U.S. agricultural export subsidies in the more important third-country markets. The CUFTA also accomplished little in the area of market access, since Canada retained its right to use import quotas for supply-managed products, and the United States continued to impose import quotas through its 1955 GATT waiver.

In view of the above constraints, the NAFTA accomplishments in the areas of agricultural subsidies and market access were

limited. The United States prevented the NAFTA from extending the CUFTA ban on agricultural export subsidies between the U.S. and Canada to Mexico, and Canada refused to relinquish its prerogatives to use import quotas for supply-managed dairy and poultry products in the NAFTA agreement. It is true that the United States agreed to exempt Mexico from its Section 22 import quotas in return for Mexico's agreement to exempt the United States from its import licensing regime. But this breakthrough in the negotiations had limited impact because NAFTA has two bilateral agreements on market access in agriculture, between the United States and Mexico, and Canada and Mexico. In the Canadian-Mexican bilateral, Canada retains the right to use agricultural import quotas under GATT Article XI.

All three countries had issues that they considered non-negotiable in the NAFTA talks, partly because they were too sensitive domestically. The American position on agricultural export subsidies, the Canadian position on agricultural import quotas, and the Mexican position on energy-sharing issues would all fall into this category. In his discussion of two-level games, Putnam notes the irony that

ceteris paribus, the stronger a state is in terms of autonomy from domestic pressures, the weaker its relative bargaining position internationally. For example, diplomats representing an entrenched dictatorship are less able than representatives of a democracy to claim credibly that domestic pressures preclude some disadvantageous deal. This is yet another facet of the disconcerting ambiguity of the notion of 'state strength'.⁹⁴

In regard to American export subsidies and Canadian supply management policies, the trilateral negotiations did not provide sufficient "critical mass" for either country to agree to changes requested by its two trading partners. Furthermore, since GATT Articles XI and XVI sanction the use of agricultural import quotas and export subsidies under specified circumstances, a resolution of differences over these issues in North America is likely to be achieved only in a GATT Uruguay Round Agreement. Thus, the NAFTA agricultural negotiations were delimited, not only by domestic prerogatives, but also by unresolved issues at the global level. The United States will simply not offer major concessions on export

subsidies in a North American context until its major protagonist—the European Community—agrees to similar reforms.

Despite the limitations imposed on the negotiators in the NAFTA agricultural agreement, in some respects the NAFTA negotiations did have an impact on the member countries' agricultural policies. American, Canadian, and Mexican government leaders in recent years have all used the regional and international trade negotiations as a means of bringing about domestic changes—often in the direction of deregulation, privatization, and trade liberalization. For example, Robert Paarlberg notes that U.S. reformers wanted to use the GATT Uruguay Round as a “two-level game” to undercut domestic farm lobbyists who benefited from expensive U.S. export subsidy programs.⁹⁵ In addition, the U.S.-Mexican agreement to relinquish agricultural import quotas permitted the United States to curb the protectionism of its sugar producers, and Mexico to continue with the far-reaching reforms of its agricultural policies.

Even in their most sensitive policy areas, the three governments have sometimes utilized the CUFTA, GATT, and NAFTA negotiations to bring about domestic change. For example, Canada has followed a two-track policy in efforts to satisfy both domestic supporters and domestic and international opponents of its supply management policies. At the same time as Canadian officials have strongly defended supply management in the regional and global trade negotiations, they have also taken actions to make the supply management system more market responsive. Another example of two-track policy-making relates to the Canadian Wheat Board. Although Canadian officials have defended the Wheat Board in the CUFTA, NAFTA, and GATT negotiations, many Canadian farm groups have accused the government of adopting policies that in effect have weakened the Wheat Board's authority. Two major examples: the government decided to take the export marketing of oats away from the Wheat Board, and it attempted (thus far unsuccessfully) to end the Board's monopoly over barley exports. These changes have been attributed both to the Conservative government's predilection for privatization and de-regulation, and to its desire to deflect U.S. criticism of Canadian “state trading” practices.

The continued difficulties with negotiating agricultural issues clearly indicate that agriculture is simply “not seen as an economic activity like the others” for a variety of economic, political, and social reasons. Although classical economists would like agri-

cultural trade to "be made as free and as unsubsidized as possible," governments may always treat their agricultural sectors as somewhat of an exception.⁹⁶ In the NAFTA negotiations, Mexico was certainly risking more than the United States or Canada in agreeing to liberalize its agricultural trade. Despite the fifteen-year phaseout period for protection of Mexican corn producers, thousands of peasant farmers "could be left with few choices but to abandon their land and head either to Mexico's already crippled cities or to the United States."⁹⁷ According to a recent World Bank report, agricultural modernization in Mexico could displace up to 700,000 workers.⁹⁸ Some American and Canadian agricultural producers are also more vulnerable to trade liberalization agreements than producers in other sectors where production levels and markets are more predictable and controllable. Nevertheless, agricultural protectionism has contributed to costly inefficiencies in the United States, Canada, and Mexico, and all three countries would benefit in certain respects from trade liberalization in this area. To achieve trade liberalization in agriculture, and also protect the livelihood of farmers at a reasonable level, it is essential to adopt a varied approach to negotiations that considers the domestic, regional, and global repercussions of agreements such as the NAFTA.

GLOSSARY

AAA = Agricultural Adjustment Act
AMS = aggregate measure of support
APAC = Agricultural Policy Advisory Committee
CBI = Caribbean Basin Initiative
CONASUPO = National Popular Subsistence Corporation
CPR = Canadian Pacific Railway
CUFTA = Canada-United States Free Trade Agreement
EC = European Community
EEP = Export Enhancement Program
GATT = General Agreement on Tariffs and Trade
GDP = Gross Domestic Product
HFCS = high fructose corn syrup
ITC = International Trade Administration of U.S. Department of Commerce
IWC = International Wheat Council
NAFTA = North American Free Trade Agreement

NAWG = National Association of Wheat Growers
OMB = Office of Management and Budget
SAM = *Sistema Alimentario Mexicano* (Mexican Food System)
SPS = sanitary and phytosanitary
TRQ = tariff rate quota
USDA = U.S. Department of Agriculture

FOOTNOTES

¹ See Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization* 42 (Summer 1988): 427-60.

² For a detailed application of Putnam's approach to agricultural trade issues see William P. Avery, ed., *World Agriculture and the GATT*, *International Political Economy Yearbook* v.7 (Boulder: Lynne Rienner Publishers, 1993).

³ T.K. Warley, "Western Trade in Agricultural Products," in Andrew Shonfield, ed., *International Economic Relations of the Western World 1959-1971*, v.1 (London: Oxford University Press, 1976), 293-94. For a detailed discussion of the relationship between economic development and agricultural protectionism see Kym Anderson and Yujiro Hayami, *The Political Economy of Agricultural Protection: East Asia in International Perspective* (Sydney: Allen & Unwin, 1986).

⁴ Michael Gifford (Assistant Chief Canadian Negotiator, Office of NAFTA, and Senior Coordinator and Negotiator, Agriculture), testimony before Canada House of Commons, *Minutes of Proceedings and Evidence of the Standing Committee on Agriculture*, 3rd Session of the 34th Parliament, 26 November 1992, 45:22.

⁵ James F. Smith, "Comments on NAFTA and the Trade in Agricultural Products," *United States-Mexico Law Journal* I (1993): 287; For a discussion of the CUFTA's extraordinary challenge committee on pork, see Theodore H. Cohn, "Emerging Issues in Canada-U.S. Agricultural Trade under the GATT and FTA," *Canadian-American Public Policy*, no. 10, University of Maine, June 1992, 22-27.

⁶ Gifford, testimony before House of Commons, 45:8.

⁷ See Tim Josling and Rick Barichello, "Agriculture in the NAFTA: A Preliminary Assessment," *C.D. Howe Institute Commentary* no. 43, April 1993, 8-10. For the draft Uruguay Round provisions on sanitary and phytosanitary measures in agriculture, see *Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations*, MTN.TNC/W/FA, 20 December 1991, Section L.

⁸ See Congressional Budget Office (CBO), *Agriculture in the North American Free Trade Agreement*, CBO papers, May 1993, 10, 43.

⁹ For bilateral versus trilateral perspectives of North America, see Theodore Cohn, "Canadian and Mexican Trade Policies towards the United States: A Perspective from Canada," in John Curtis and David Haglund, eds., *Canada and International Trade*, vol. I (Montreal: Institute for Research on Public Policy, 1985), 3-61.

¹⁰ References to the NAFTA text in this study are taken from *North American Free Trade Agreement between the Government of Canada, the Government of the United Mexican States and the Government of the United States of America*, December 1992.

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¹² The United States had used agricultural export subsidies to dispose of surpluses before the European Community was established. For historical background on this issue see Theodore H. Cohn, *The International Politics of Agricultural Trade: Canadian-American Relations in a Global Agricultural Context* (Vancouver: University of British Columbia Press, 1990).

¹³ References to the CUFTA text are taken from Canada Department of External Affairs, *The Canada-U.S. Free Trade Agreement* (Ottawa: External Affairs, 10 December 1987).

¹⁴ Letter from the U.S. Trade Representative Clayton Yeutter to the Honorable Charles W. Stenholm, in U.S. House of Representatives, Hearing before the Committee on Agriculture, *United States-Canadian Free Trade Agreement*, 100th Cong., 2nd sess., 25 February 1988, 19.

¹⁵ Gifford, testimony before House of Commons, 45:24.

¹⁶ *Ibid.*, 45:23.

¹⁷ *Ibid.*

¹⁸ Robert L. Paarlberg, "Why Agriculture Blocked the Uruguay Round: Evolving Strategies in a Two-Level Game," in Avery, ed., *World Agriculture and the GATT*, 41-45.

¹⁹ Putnam, "Diplomacy and Domestic Politics," 457. Paarlberg describes how the U.S. domestic farm lobby to this point has outmaneuvered the reformers in the GATT Uruguay Round negotiations. See *Ibid.*, 45-52.

²⁰ For a recent discussion of the Canadian Wheat Board see "Orderly Marketing: Prairie Farmers' Seven Decades of Struggle to Market Their Grain," *The Western Producer—Special Report* (Saskatoon), 17 June 1993.

²¹ Robert G. Lewis, "U.S. Farmers Have Mixed View on CWB," in *Ibid.*, 42.

²² William E. Morriss, *Chosen Instrument—A History of the Canadian Wheat Board: The McIvor Years* (Winnipeg: The Canadian Wheat Board, 1987), 2.

²³ For a more detailed discussion of competing U.S. and Canadian views regarding Wheat Board deficits see Theodore H. Cohn, "Free Trade and Canadian Agriculture: An Opportunity or a Threat?," paper presented at Conference on "Canada in Transition," at the Universidad Nacional Autónoma de México, Mexico City, 25-27 November 1992.

²⁴ The United States-Canada Free Trade Agreement Implementation Act, "Statement of Administrative Action," in *Communication from the President of the United States* transmitting a statement of administrative action, pursuant to 19 U.S.C. 211(e)(2), 2212(a), House Document 100-216, 100th Congress, 2d Session, 26 July 1988, 235. This Statement is prepared by the Executive for the U.S. Congress.

²⁵ The U.S. Army Corps of Engineers work on the Mississippi and other inland rivers that transport American agricultural goods for export.

²⁶ U.S. International Trade Commission, *Durum Wheat: Conditions of Competition Between the U.S. and Canadian Industries*, Report on Investigation no. 332-285 Under Section 332(g) of the Tariff Act of 1930 as amended, USITC Publication 2274, June 1990; Lawrence D. Fuell, "Bilateral Agricultural Trade Disputes between Canada and the United States and Their Impact on Multilateral Trade Negotiations," paper presented at International Studies Association Annual Meeting, Acapulco, Mexico, 23-27 March 1993, 12.

²⁷ U.S. ITC, *Durum Wheat: Conditions of Competition Between the U.S. and Canadian Industries*, ix.

²⁸ The ITC found that "in the United States...varietal certification and licensing are not obligatory as in Canada. Hence, some U.S. farmers...may plant varieties that produce higher yields, rather than varieties having the end-use characteristics that millers consider desirable." (*Ibid.*, x).

²⁹ *Ibid.*, 4-7.

³⁰ For example, see "Dorgan Says Madigan to Investigate Canadian Durum Wheat Export Policy for Violations of Free Trade Agreement," *News from U.S. Congressman Byron L. Dorgan*, Washington, D.C., 31 May 1991.

³¹ A detailed discussion of the panel report is beyond the scope of this study. For the complete text of the report, see "Before the Panel Convened Pursuant to Chapter 18 of CUFTA in the Matter of: The Interpretation of and Canada's Compliance with Article 701.3 with respect to Durum Wheat Sales," *Final Report*, 8 February 1993.

³² John Saunders, "Canada Wins Time in Wheat War," *Globe and Mail*, 10 February 1993, B1.

³³ Adrian Ewins, "Americans Won't Give Up," *The Western Producer*, 18 February 1993, 4.

³⁴ *Inside U.S. Trade*, 19 February 1993, 1-2, and 12 March 1993, 4. The NAFTA agricultural provisions contain two bilateral agreements on market access, between the United States and Mexico, and Canada and Mexico. The CUFTA agricultural provisions will therefore

continue to regulate market access issues between the United States and Canada.

³⁵ Drew Fagan, "Canada Chafing over Wheat Threat," *Globe and Mail*, 17 September 1993, B3.

³⁶ A September 1989 report of the U.S. Department of Agriculture's Office of Inspector General indicated the ironic fact that "while the EC's wheat market shares have generally increased since the EEP's inception, those of Australia, Argentina, and Canada have decreased," and that "the continuation of the EEP could adversely affect these countries' exports." See Allan I. Mendelowitz, "Status Report on GAO's Reviews of the Targeted Export Assistance Program, the Export Enhancement Program, and the Export Credit Guarantee Programs," U.S. General Accounting Office, 16 November 1989, 19.

³⁷ A synopsis of the NAFTA agreement prepared by the three governments begins the discussion of export subsidies with the statement: "Recognizing that the use of export subsidies within the free trade area is inappropriate except to counter subsidized imports from a non-NAFTA country..." (emphasis added). See *Description of the Proposed North American Free Trade Agreement* prepared by the governments of Canada, the United Mexican States and the United States of America, 12 August 1992, 6.

³⁸ *Inside U.S. Trade*, 28 May 1993, 7.

³⁹ *Ibid.*; Courtney Tower, "U.S. Will Subsidize Wheat to Mexico," *The Western Producer*, 1 July 1993, 1.

⁴⁰ *Inside U.S. Trade*, 18 June 1993, 1-2, and 25 June 1993, 1-2.

⁴¹ "Mexico Urged to Act on Canadian Wheat," *Globe and Mail*, 17 July 1993, B3.

⁴² Courtney Tower, "Mexicans View American Threat as Unofficial," *Western Producer*, 19 August 1993, 9.

⁴³ Lisa Schlein, "Canada Asks GATT to Block Wheat Subsidies," *Globe and Mail*, 22 July 1993, B4.

⁴⁴ Barry K. Wilson, *Farming the System: How Politicians and Producers Shape Canadian Agricultural Policy* (Saskatoon: Western Producer

Prairie Books, 1990), 148-49; Geoffrey York, "Wheat Board Action Revives Trade Fears," *Globe and Mail*, 25 January 1989, A8; Adrian Ewins, "Sudden 1989 Removal of Board Control over Oats Still Angers Supporters of Orderly Marketing," *The Western Producer—Special Report*, 17 June 1993, 22-23.

⁴⁵ Garry Fairbairn, "New Barley Policy Hurts Farmers," *Western Producer*, 10 June 1993, 1.

⁴⁶ Adrian Ewins, "Demand for Barley Exaggerated: U.S. Marketer," *Western Producer*, 17 June 1993, 3; "Canada's New Barley Policy Criticized," *Globe and Mail*, 14 June 1993, B2.

⁴⁷ Karen Briere, "Ottawa Will Appeal Loss in Barley Case Decision," *Western Producer*, 16 September 1993, 1.

⁴⁸ K.D. Meilke and T.K. Warley, "Agriculture in the Uruguay Round: A Canadian Perspective," paper prepared for the Canadian Agricultural Economics and Farm Management Society's Annual Meeting, Montreal, 9-13 July 1989, 19-20.

⁴⁹ Twenty-two agricultural products are listed in the Dunkel agreement as subject to the 24 percent reduction, including wheat and wheat flour, coarse grains, oilseeds, skim milk powder, cheese, and so forth. For the entire list of products see GATT Secretariat, "Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations," MTN.TNC/W/FA, 20 December 1991, Annex 8, L.34.

⁵⁰ "French Farmers against the World," *The Economist*, 11 September 1993, 47-48.

⁵¹ *Inside U.S. Trade*, 17 September 1993, 9-10.

⁵² Robert E. Hudec, *The GATT Legal System and World Trade Diplomacy* (New York: Praeger, 1975), ch. 16.

⁵³ For a discussion of changes in the U.S. position regarding GATT Article XI from the 1950s to the early 1990s see Theodore H. Cohn, "The Changing Role of the United States in the Global Agricultural Trade Regime," in Avery, ed., *World Agriculture and the GATT*, 17-38.

⁵⁴ For a discussion of the domestic factors underlying the development of Canada's supply management policies see Grace Skogstad, "Policy Under Siege: Supply Management in Agricultural Marketing," *Canadian Public Administration* 36 (Spring, 1993): 1-23.

⁵⁵ "Canadian Import Quotas on Eggs," Report of the Working Party adopted on 17 February 1976 (L/4279)," in GATT, *Basic Instruments and Selected Documents*, 23rd Supplement, 32nd Session, Geneva, January 1977, 92.

⁵⁶ GATT, "Canada—Import Restrictions on Ice Cream and Yoghurt: Report of the Panel," L/6568, 27 September 1989, 30.

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⁵⁷ T.K. Warley, "International Pressures on Supply Management," unpublished paper, 1.

⁵⁸ *Growing Together—Evolution of the Canadian Dairy Industry*, Report of the Task Force on National Dairy Policy, 31 May 1991, 15-17.

⁵⁹ Skogstad, "Policy Under Siege," 20.

⁶⁰ External Affairs, *The Canada-U.S. Free Trade Agreement: Synopsis* (Ottawa: External Affairs, 1987), 28.

⁶¹ The United States-Canada Free Trade Agreement Implementation Act, "Statement of Administrative Action," in *Communication from the President of the United States*, pursuant to 19 U.S.C. 211(e)(2), House Document 100-216, 100th Congress, 2d Session, 26 July 1988, 237-38. This Statement is prepared by the Executive for the U.S. Congress.

⁶² See discussion of tariff rate quotas below.

⁶³ Gifford, testimony before House of Commons, 45:7-45:8.

⁶⁴ CBO, *Agriculture in the North American Free Trade Agreement*, 3-4; Bert R. Peña and Amy Henderson, "U.S.-Mexico Agricultural Trade and Investment after NAFTA," *United States-Mexico Law Journal* I (1993): 261.

⁶⁵ James F. Smith, "United States-Mexican Agricultural Trade," *University of California, Davis Law Review* 23 (1990): 432-33; Peña and Henderson, "U.S.-Mexico Agricultural Trade," 261-62.

⁶⁶ For a discussion of the SAM's official objectives see *Sistema Alimentario Mexicano—Primer Planteamiento de Metas de Consumo Y Estrategia de Produccion de Alimentos Basicos para 1980-1982*; and Cassio Luiselli, *The Sistema Alimentario Mexicano (SAM): Elements of a Program of Accelerated Production of Basic Foodstuffs in Mexico*, Research Report Series, 22, Center for U.S.-Mexican Studies, University of California, San Diego, 1982. For competing views regarding the SAM's effectiveness see Michael R. Redclift, *Development Policymaking in Mexico: The Sistema Alimentario Mexicano (SAM)*, Working Papers in U.S.-Mexico Studies, 24, Program in United States-Mexican Studies, University of California, San Diego, 1981; and Merilee S. Grindle, ed., *Issues in U.S.-Mexican Agricultural Relations: A Binational Consultation*, Monograph Series, 8, Center for U.S.-Mexican Studies, University of California, San Diego, 1983, 23-29. See also Eduardo Segarra, "The Proposed United States-Mexico-Canada North American Free Trade Agreement: The Mexican Perspective," *Southern Journal of Agricultural Economics* 24 (July, 1992): 47.

⁶⁷ Ruth K. Agather and Timothy N. Tuggey, "The Meat and Potatoes of the North American Free Trade Agreement," *St. Mary's Law Journal* 24 (1993): 840-41.

⁶⁸ CBO, *Agriculture in the North American Free Trade Agreement*, 9; Peña and Henderson, "U.S.-Mexico Agricultural Trade," 262-64.

⁶⁹ CBO, *Agriculture in the North American Free Trade Agreement*, 10; Smith, "United States-Mexican Agricultural Trade," 432; U.S. General Accounting Office, *Trends in Imports of Fruits, Vegetables, and Other Agricultural Products*, GAO/RCED-87-177FS, September 1987, 22-23; Segarra, "The Proposed United States-Mexico-Canada North American Free Trade Agreement," 49.

⁷⁰ Sidney Weintraub, "The North American Free Trade Agreement as Negotiated: A U.S. Perspective," in Steven Globerman and Michael Walker, eds., *Assessing NAFTA: A Trinational Analysis* (Vancouver: The Fraser Institute, 1993), 11; Gifford, testimony before House of Commons, 45:9-45:10.

⁷¹ Thomas Grennes, "Toward a More Open Agriculture in North America," 150, and Rogelio Ramirez De la O, "The North American Free Trade Agreement from a Mexican Perspective," 72-73, in Globerman and Walker, eds., *Assessing NAFTA*.

⁷² U.S. Department of Agriculture, Economic Research Service, *Foreign Agricultural Trade of the United States*, January / February, 1993, 4-9; Segarra, "The Proposed United States-Mexico-Canada North American Free trade Agreement," 49; Peña and Henderson, "U.S.-Mexico Agricultural Trade," 259.

⁷³ *Inside U.S. Trade*, 20 August, 1993, 5.

⁷⁴ The material in this section on the U.S. sugar industry is taken primarily from U.S. General Accounting Office, *Sugar Program: Changing Domestic and International Conditions Require Program Changes*, GAT/RCED-93-84, April 1993; Robert D. Barry, Luigi Angelo, Peter J. Buzzanell, and Fred Gray, *Sugar—Background for the 1990 Farm Legislation*, U.S. Department of Agriculture, Economic Research Service, Staff Report no. AGES 9006, February 1990; and Ralph Ives and John Hurley, *United States Sugar Policy: An Analysis*, International Trade Administration, U.S. Department of Commerce, April 1988.

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⁷⁶ *Ibid.*, 13-15.

⁷⁷ See CBO, *Agriculture in the North American Free Trade Agreement*, 28; Tim Josling, "NAFTA and Agriculture: A Review of the Economic Impacts," in Nora Lustig, Barry P. Bosworth, and Robert Z. Lawrence, eds., *North American Free Trade: Assessing the Impact* (Washington: The Brookings Institution, 1992), 144-75; USDA, Office of Economics, *Preliminary Analysis of the Effects of the North American Free Trade Agreement on U.S. Agricultural Commodities*, September 1992; and U.S. International Trade Commission, *Potential Impact on the U.S. Economy and Selected Industries of the North American Free Trade Agreement*, USITC Publication 2596, January 1993.

⁷⁸ "Report of the Agricultural Policy Advisory Committee Regarding the North American Free Trade Agreement," September 1992, 1.

⁷⁹ Mary E. Burfisher, Robert M. House, and Suchada V. Langley, "Free Trade Impacts on U.S. and Southern Agriculture," *Southern Journal of Agricultural Economics* 24 (July, 1992): 77. See also Thomas H. Spreen, Ronald P. Muraro, and Gary F. Fairchild, *Analysis of the Impact of the North American Free Trade Agreement in the U.S. Citrus Industry*, Report prepared for the American Farm Bureau Federation, 1992.

⁸⁰ *Inside U.S. Trade*, 30 July, 1993, 21-22; Robert Lewis, "NAFTA Faces Uncertain Status in the United States," *The Western Producer*, 16 September 1993, 58.

⁸¹ GAO, *Sugar Program: Changing Domestic and International Conditions*, 24.

⁸² U.S. Department of Agriculture, "The North American Free Trade Agreement: Import Protection," *Fact Sheet*, 21 August 1992.

⁸³ *Inside U.S. Trade*, 15 January 1993, 8.

⁸⁴ *Ibid.*, 12 March 1993, 16. The Clinton administration created the National Economic Council as a policy-making body of Cabinet-level economic advisers. Modeled after the National Security Council (which was created in 1947), the NEC has become a focal point for the administration's decision-making on domestic and international economic matters. The creation of the NEC represents the upgrading of economic issues relative to security and military affairs in the White House. The NEC has a relatively small staff, and on international trade matters it is primarily involved with coordinating the activities of other agencies.

⁸⁵ *Inside U.S. Trade*, 16 August, 1993, S-1, S-2.

⁸⁶ Grennes, "Toward a More Open Agriculture," 161-62.

⁸⁷ GAO, *Sugar Program: Changing Domestic and International Conditions*, 32-36.

⁸⁸ Gifford, testimony before House of Commons, 45:8, 45:14-45:16.

⁸⁹ *Inside U.S. Trade*, 14 May 1993, 18.

⁹⁰ Gifford, testimony before House of Commons, 45:8. Sanitary and phytosanitary issues are of course often contentious. For a discussion of Canadian-U.S. disputes over such issues, see Cohn, "Emerging Issues in Canada-U.S. Agricultural Trade under the GATT and FTA," 34-39.

⁹¹ Grennes, "Toward a More Open Agriculture," 149.

⁹² See Josling and Barichello, "Agriculture in the NAFTA," 8-10.

⁹³ *Ibid.*, 10.

⁹⁴ Putnam, "Diplomacy and Domestic Politics," 449.

⁹⁵ Paarlberg, "Why Agriculture Blocked the Uruguay Round," 41-45.

⁹⁶ Barry Wilson and Peter Finkle, "Is Agriculture Different? Another Round in the Battle Between Theory and Practice," in Grace Skogstad and Andrew Fenton Cooper, eds., *Agricultural Trade: Domestic Pressures and International Tensions* (Halifax: Institute for Research on Public Policy, 1990), 14, 20.

⁹⁷ Anthony De Palma, "The Mexicans Fear for Corn, In Danger from Free Trade," *Globe and Mail*, 12 July 1993, A1.

⁹⁸ Santiago Levy and Sweder van Wijnbergen, "Transition Problems in Economic Reform: Agriculture in the Mexico-U.S. Free Trade Agreement," cited in Peña and Henderson, "U.S.-Mexico Agricultural Trade," 275.

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