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U.S.-Mexico Agricultural Trade Liberalization

Statement of
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Mr. Chairman and Members of the Committee:

We are pleased to be here today to testify on our review of agricultural trade between the United States and Mexico. At the request of the Chairman, we have examined recent developments in U.S.-Mexico agricultural trade, focusing on (1) trends in trade flows, (2) the complementary and competitive nature of major fresh horticultural exports from Mexico to the United States, (3) bilateral and unilateral efforts to expand agricultural trade, and (4) remaining impediments to further expansion that will need to be addressed in free trade agreement negotiations. Today I will discuss what we have learned as a result of our analysis, including the views of U.S. agricultural industry groups regarding liberalization measures.

BACKGROUND

During the 1980s the total value of U.S.-Mexico trade increased by 89 percent, reaching $52.6 billion in 1989. A pivotal event in this process was Mexico's accession to the General Agreement on Tarrifs and Trade (GATT) in 1986, which led to a reduction of tariff rates and elimination of many nontariff barriers. Also important was the signing of the Bilateral Framework Agreement on Trade and Investment between the United States and Mexico in 1987. Subsequently, Mexico and the United States have concluded a number of other agreements in an effort to resolve trade disputes.

Efforts are now focused on laying the groundwork for negotiations on a free trade agreement.

On September 25, 1990, in accordance with the Omnibus Trade and Competitiveness Act of 1988, President Bush notified Congress of his intent to negotiate a free trade agreement with Mexico. This notification was the first step toward negotiating an agreement under U.S. "fast-track" procedures, which provide that the Congress must vote both an agreement and its implementing legislation up or down without amendments.

Authority for fast-track consideration expires in a few weeks. However, in accordance with the 1988 act, the President has requested a 2-year extension of fast-track procedures, to May 31, 1993. The extension is automatic unless either house of Congress disapproves the request before June 1, 1991. Bills have been introduced in both houses to disapprove the extension. The administration considers the extension of fast-track essential to successful negotiation of trade agreements because it assures negotiating partners that the agreement they negotiate is the agreement that will be voted on by Congress.

TRENDS IN AGRICULTURAL TRADE FLOWS

U.S.-Mexican agricultural trade increased from $2.3 billion during the recession year of 1982 to $5 billion in 1989, and Mexico's agricultural exports to the United States more than doubled from 1980 to 1989. While U.S. agricultural exports to Mexico did not experience such impressive growth, the United States enjoyed a substantial net surplus in agricultural trade with Mexico for the decade. In general, agricultural trade benefited both countries by allowing each to emphasize its comparative advantage in the production of certain commodities and to satisfy demand for other goods through lower-priced imports.

Mexican Agricultural Exports to the United States

While Mexican agricultural production for domestic consumption remained stagnant during the 1980s, Mexican agricultural exports to the United States experienced dynamic growth. From 1980 to 1989, the value of Mexican agricultural exports to the United States grew at an average annual rate of nearly 10 percent. Mexico's share of total U.S. agricultural imports rose from an average of 6.9 percent for the period 1980 through 1984, to more than 9 percent for the period 1985 through 1989. Mexico's agricultural exports to the United States increased from $1 billion in 1980 to nearly $2.3 billion in 1989. The only year during the decade that registered a significant decline was 1987.

U.S. Agricultural Exports to Mexico

U. S. agricultural exports to Mexico from 1980 through 1989 exhibited a more erratic pattern, with some years of decline and some of gain. They reached a value of $2.7 billion in 1989, about 10 percent higher than in 1980. Nevertheless, the United States enjoyed a surplus in agricultural trade with Mexico for 6 years out of the decade, and the cumulative surplus for the period was $3.3 billion.

COMPARATIVE ADVANTAGE EXPLAINS MUCH U.S.-MEXICO AGRICULTURAL TRADE

The nature of U.S.-Mexican agricultural trade has generally been complementary. Many Mexican agricultural exports to the United States do not compete with U.S. agriculture. Complementary or noncompeting commodities, such as coffee, cocoa, and tropical fruits, account for about 24 percent of the value of Mexican agricultural exports to the United States. Although many of the fresh horticultural commodities produced in Mexico are also produced in the United States, Mexican exports tend to supplement low U.S. production when imported during the winter months and provide greater year-round selection and lower prices for American consumers.[1]

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[1]See U.S.-Mexico Trade: Extent to Which Mexican Horticultural Exports Complement U.S. Production (GAO/NSIAD-91-94BR, Mar. 20, 1991).

Similarly, U.S. agricultural exports to Mexico benefit Mexican consumers. Mexico's domestic agricultural production has not kept pace with the country's 24 percent growth in population over the last decade. Consequently, Mexican consumers have come to rely increasingly on imports of U.S. agricultural commodities to meet a large portion of their demand for basic dietary staples, such as corn and beans. Mexico also depends on U.S. exports to meet a significant share of its demand for dairy and meat products.

While there is a clear pattern of complementary production for some of the major Mexican horticultural exports to the United States, there is significant overlap in harvest and marketing seasons for other commodities. Cantaloupes, watermelons, table grapes, and asparagus have complementary production seasons. Squash and mango crops are produced in both countries at about the same time but compete only to a limited extent. Other Mexican horticultural exports, such as tomatoes, cucumbers, bell peppers, and strawberries, compete directly with U.S. products. The harvest and marketing seasons for each commodity we studied are illustrated in our March 20, 1991, report.

The existing seasonal tariff structure is instrumental in preserving the complementary nature of horticultural trade between Mexico and the United States. Because Mexico has certain advantages, such as lower-priced land and labor, eliminating tariffs could change existing horticultural trade patterns.

However, U.S. production of most of the directly competing horticultural commodities increased during the 1980s, despite rising Mexican exports. Demand in the United States has increased, and technology has advanced. U.S. consumers benefited from increased fruit and vegetable imports in terms of greater supplies, greater variety, and, in some markets, lower prices.

BILATERAL AND UNILATERAL EFFORTS TO EXPAND AGRICULTURAL TRADE

During the past decade, agricultural trade between the United States and Mexico has benefited from a number of initiatives undertaken by both governments. Mexico's 1986 accession to GATT led to the reduction of its tariffs and the elimination of many nontariff barriers, providing opportunities for U.S. agricultural products to be exported to Mexico.

According to data provided by Mexico's Secretaria de Comercio y Fomento Industrial, in 1985 Mexico required import licenses on 317 different agricultural commodities. By 1990, only 57 agricultural commodities were subject to such licenses. U.S. agricultural exports to Mexico of some previously restricted products grew substantially following elimination of import licensing requirements. For example, the value of U.S. processed cereal exports (primarily breakfast cereals, breads, and biscuits) rose from $306,000 in 1986 to $14.2 million by 1989.

In 1988, Mexico suspended import licensing requirements for fresh and frozen chickens and chicken parts, thus allowing a 400 percent increase ($14 million to $56 million) in imports from the United States that year. In 1989, Mexico reinstated import licensing requirements for these products, and U.S. exports fell by 28 percent.

The United States has also provided opportunities for Mexican exports to find U.S. markets. During the late 1980s, Mexico emerged as the principal beneficiary of the U.S. Generalized System of Preferences program. In 1989 Mexico's agricultural exports under this program were approximately $200 million. The leading exports included sugar and sugar confectionary products ($47 million), vegetables ($24 million), and fruits and nuts ($13 million).

Under the 1987 Bilateral Framework Agreement on Trade and Investment, Mexico received an increase in the quotas for its steel exports to the United States in return for numerous market access concessions by Mexico, including the opening of its beer, wine, and distilled spirits markets.

Building upon the success of the agreement, the Presidents of Mexico and the United States concluded an understanding in October 1989 to expand bilateral trade and investment relations, establishing a negotiating mechanism known as the Trade and

Investment Facilitation Talks. These talks, however, were superseded in June 1990, when the U.S. and Mexican Presidents announced their intention to pursue negotiations leading to a free trade agreement between the two countries. In February 1991, Canada accepted an invitation to join the free trade negotiations.

According to a February 1991 report by the U.S. International Trade Commission, a free trade agreement with Mexico would benefit the U.S. economy overall. However, the Commission noted that benefits are likely to be small in the near term, in part because both countries already have relatively low tariff rates. Approximately 40 percent of Mexican exports to the United States, for example, enjoy duty-free treatment. The average tariff rate applied to Mexican agricultural exports to the United States is 7 percent ad valorem, and the trade-weighted duty on U.S. agricultural exports to Mexico averages 11 percent.

Agricultural trade between the United States and Mexico has also benefited from joint efforts to eradicate agricultural pests, promote research into the development and exploitation of new crops, and improve productivity of conventional crops and livestock. For example, in 1988 the U.S. Animal and Plant Health Inspection Service (APHIS) declared areas of the Mexican state of Sonora a fruit-fly-free zone. Fruit from this region does not require chemical treatment before being exported to the United States and is exempt from other restrictions applicable to fruit from other areas of Mexico. This achievement is also a great benefit to growers in California and Arizona because, in effect, Sonora serves as a buffer between the fruit-producing areas of the United States and the fruit-fly-infested areas of Mexico.

In addition, the United States and Mexico cooperated on the eradication of the screwworm, which formerly affected livestock in areas of Mexico and threatened U.S. herds.

IMPEDIMENTS TO FURTHER TRADE EXPANSION

A number of problems continue to impede expansion of U.S.-Mexico agricultural trade. Both governments still maintain some policies that impede trade, including import licensing requirements and strict health regulations. U.S. and Mexican border processing procedures and inadequate infrastructure in Mexico also constrain trade. In addition, Mexico's large external debt limits demand for all U.S. exports, including agricultural exports, and Mexico's ability to promote agricultural development.

The principal nontariff barrier U.S. agricultural exports face is Mexico's system of import licensing requirements. While Mexican authorities have made substantial progress since 1986 in eliminating import licenses, many U.S. agricultural exports to Mexico are still limited by these licensing requirements.

Some of the commodities still subject to import licenses are among the top 10 U.S. agricultural exports to Mexico. These include corn, animal fats, milk, and dairy products. As I previously pointed out, the trend since 1986 has been to reduce the number of products subject to import licenses. However, this requirement was reinstated for certain agricultural commodities, such as chicken parts in 1989 and peaches and nectarines in 1990. According to U.S. Trade Representative officials, Mexico's continued reliance upon import licenses is inconsistent with its commitments under GATT.

The Mexican government has expressed firm resolve to retain indefinitely some form of control over imports of a number of agricultural commodities such as corn, dried beans and dairy products, that are considered dietary staples.

Mexican officials have indicated a willingness to eliminate import licensing requirements for other agricultural products that are not considered staples. However, they insist on linking removal of import licenses for some of these products, particularly poultry and deciduous fruits, to concessions on the part of the United States. These officials indicated they cannot ask Mexican poultry and deciduous fruit producers to accept U.S. competition if the producers are not allowed to compete in U.S. markets. Other Mexican officials insisted that U.S. sanitary restrictions on these products are not free of political considerations and that the

United States must make concessions if it expects Mexico to open its markets.

Most Mexican fruit crops face restricted access to the United States because of their history of pest infestation and the threat they pose for U.S. orchards. U.S. markets are also closed to many Mexican livestock and animal products because they may carry diseases that could contaminate U.S. herds and flocks. Mexican plant and animal health officials would like to address some of these problems by extending the concept of pest-free zones to other areas of Mexico and for other commodities.[2] Mexican officials would also like to see the United States respond more quickly to changes in the status of plant and animal health problems so that Mexican agricultural commodities can be exported to the United States as soon as these problems are resolved. From their perspective the current system represents a nontariff barrier to trade, since it restricts imports from Mexico long after the technical data are available proving that the plant or animal health problem has been resolved.

APHIS officials agree that the current process for changing import requirements in response to resolution of a plant or animal health problem is rather lengthy. According to these officials, it is not

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[2]Current sanitary concerns affecting Mexican agricultural exports include the Mexican and Mediterranean fruit flies, the avocado seed weevil, Exotic New Castle disease, hog cholera, sheep and goat scrapie, and bovine tuberculosis.

unusual to take more than a year to remove U.S. market access restrictions on an agricultural commodity after technical data are available proving that the sanitary problem has been resolved. APHIS officials acknowledge that, in comparison, Mexican authorities are generally able to clear restrictions on U.S. commodities within a matter of days. However, they explained that the current U.S. process is mandated by law.

Limited border processing facilities in both the United States and Mexico have caused other problems. According to U.S. census data, commercial traffic across the U.S.-Mexican border grew by at least 70 percent during the 1980s. As trade has increased, agricultural commodities have faced rising competition from manufactured goods for scarce infrastructure and administrative resources. Problems due to these causes include processing delays for truck traffic, an embargo on grain shipments by rail, and overcrowding at livestock holding pens. Recently, however, both the U.S. and Mexican governments have undertaken steps to expedite the processing of border commercial traffic.

Some Mexican horticultural commodities also face nontariff barriers involving U.S. marketing orders and quotas. According to spokesmen for Mexican producers, U.S. marketing orders have been a significant impediment to Mexican exports in the past. They said Mexican producers have usually been able to meet the standards imposed by U.S. marketing orders, but their exports have suffered when the commodities involved have come under new U.S. marketing orders or when requirements have changed for existing marketing orders.

REACTION FROM THE U.S. AGRICULTURAL INDUSTRY TOWARD A FREE TRADE AGREEMENT

Movement toward a free trade agreement will inevitably find some U.S. industries facing more competition domestically, while others will enjoy increasing opportunities in the Mexican market. For example, U.S. grain and oilseeds producers generally support further trade liberalization with Mexico because they believe liberalization would help them increase their exports. On the other hand, U.S. fresh produce growers express concern that they could face stiffer competition from lower-priced Mexican fruits and vegetables if tariffs are eliminated or reduced. They urge caution about entering into free trade negotiations.

U.S. fresh fruit and vegetable growers want a "level playing field" in trade with Mexico. They argue that they are burdened with strict U.S. labor and environmental laws and regulations that the Mexican horticultural industry does not face. They believe that eliminating tariffs without first addressing these discrepancies would threaten their economic well-being and competitiveness. A U.S. growers' association representative emphasized that tariffs should only be phased out gradually as labor and environmental difficult to address in international negotiations. We would point out, however, that other U.S. free trade agreements have dealt with the problem of industry adjustment to changing competitive conditions by gradually phasing out tariffs.

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Mr. Chairman and members of the Committee, this concludes my prepared statement. I will be happy to try to answer any questions the Committee might have.