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INTERNATIONAL TRADE

U.S. Agencies Need Greater Focus to Support Mexico's Successful Transition to Liberalized Agricultural Trade under NAFTA





Highlights of [GAO-05-272](#), a report to the Chairman, Committee on Finance, U.S. Senate

Why GAO Did This Study

In 1994, the North American Free Trade Agreement (NAFTA) created the world's largest free trade area and, among other things, reduced or eliminated barriers for U.S. agricultural exports to Mexico's vast and growing markets. As part of a body of GAO work on NAFTA issues, this report (1) identifies progress made and difficulties encountered in gaining market access for U.S. agricultural exports to Mexico; (2) describes Mexico's response to changes brought by agricultural trade liberalization and challenges to the successful implementation of NAFTA; and (3) examines collaborative activities and assesses strategies to support Mexico's transition to liberalized agricultural trade under NAFTA.

What GAO Recommends

To aid the successful implementation of NAFTA, GAO recommends that the U.S. Department of State, in cooperation with the U.S. Department of Agriculture (USDA) and other relevant agencies, develop an action plan under the Partnership for Prosperity Initiative laying out specific collaborative efforts on rural development that would support Mexico's transition to liberalized trade under NAFTA. GAO also recommends that the Department of State and other relevant agencies use the Initiative to expand collaboration with Mexico to facilitate credit availability in rural Mexico. U.S. agencies generally agreed with our recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-05-272.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4128 or yagerl@gao.gov.

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What GAO Found

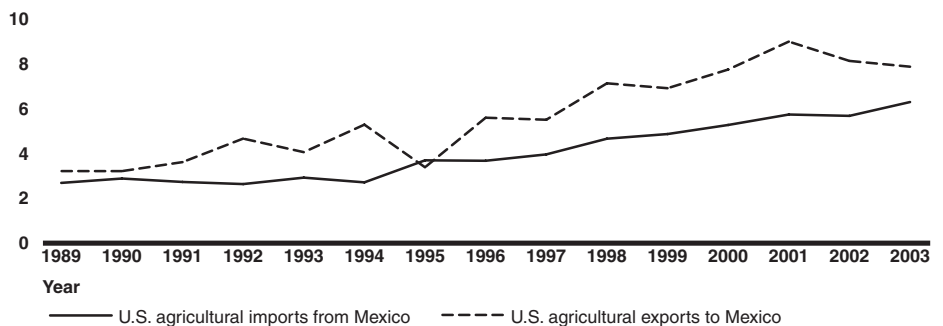
U.S. agricultural exports have made progress in gaining greater access to Mexico's market as Mexico has phased out barriers to most U.S. agricultural products, and only a handful of tariffs remain to be eliminated in 2008. Total U.S. agricultural exports to Mexico grew from \$4.1 billion in 1993 to \$7.9 billion in 2003. Despite progress, some commodities still have difficulties gaining access to the Mexican market. GAO found that Mexico's use of antidumping, plant and animal health requirements, safeguards and other nontariff trade barriers, such as consumption taxes, presented the most significant market access issues for U.S. agricultural exports to Mexico.

Mexico has put in place several programs to help farmers adjust to trade liberalization, but structural problems, such as lack of rural credit, continue to impede growth in rural areas, presenting challenges to full implementation of NAFTA. Lagging rural development fuels arguments that NAFTA has hurt small farmers, although studies, including some Mexican studies, do not support this conclusion. Opponents of NAFTA want to block further tariff eliminations and are demanding renegotiation of NAFTA's agricultural provisions. Concerned about such opposition, U.S. officials acknowledged the need to promote the benefits of NAFTA, while seeking ways to help Mexico address its rural development issues.

Historically, U.S. agencies have undertaken many agriculture-related collaborative efforts with Mexico. Since 2001, U.S.-Mexico development activities have taken place under the Partnership for Prosperity (P4P) Initiative to promote development in parts of Mexico where economic growth has lagged. Recognizing the importance of rural development to the success of NAFTA, Department of State and USDA strategies for Mexico call for building on collaborative activities under the P4P to pursue the related goals of rural development and trade liberalization under NAFTA; however, the P4P action plans do not set forth specific strategies and activities that could be used to achieve these goals.

Total Value of U.S.-Mexico Agricultural Trade, 1989-2003

2003 constant dollars in billions



Source: GAO, based on USDA Foreign Agricultural Trade of the United States database.

Contents

Letter

Results in Brief	1
Background	2
U.S. Agricultural Exports Have Gained Greater Access to Mexico under NAFTA, but Some Market Access Barriers Remain	4
Mexico Enacted Various Agricultural Programs in Response to Trade Liberalization, but Structural Problems Impair Growth and Challenge NAFTA Implementation	9
U.S. Agencies Undertake Collaborative Agricultural Efforts, but Do Not Focus on Rural Development Challenges to Mexico's Transition to Liberalized Trade	21
Conclusions	24
Recommendation for Executive Action	30
Agency Comments and Our Response	31
	32

Appendixes

Appendix I: Objective, Scope, and Methodology	36
Appendix II: Case Studies of Selected U.S. Agricultural Exports to Mexico	39
Appendix III: Three Major Mexican Agricultural Programs	57
Appendix IV: U.S.–Mexico Collaborative Activities Benefit Agricultural Trade (1994–2004)	62
Appendix V: Recent U.S.–Mexico Collaborative Agricultural Activities under Partnership for Prosperity	85
Appendix VI: Comments from the U.S. Department of State	88
GAO Comments	93
Appendix VII: Comments from the U.S. Department of Agriculture	94
Appendix VIII: GAO Contacts and Staff Acknowledgments	96
GAO Contacts	96
Acknowledgments	96

Tables

Table 1: Conventional NAFTA Tariff Reduction Schedules	5
Table 2: Examples of SPS Controversies between the United States and Mexico	18
Table 3: Animal and Plant Health Inspection Service (APHIS) Assistance and/or Collaborative Activities in Mexico, 1994–2004	62

Table 4: USDA Economic Research Service (ERS), Collaborative Activities with Mexico, 1994–2004	64
Table 5: USDA Agricultural Research Service, Collaborative Activities with Mexico, 1994–2004	67
Table 6: USDA Foreign Agricultural Service, International Cooperation and Development (ICD), Collaborative Activities with Mexico, 1994–2004	72
Table 7: USDA Agricultural Marketing Service (AMS), Collaborative Activities with Mexico, 1994–2004	79
Table 8: USDA National Agricultural Statistics Service (NASS), Collaborative Activities with Mexico, 1994–2004	81
Table 9: USDA Food Safety and Inspection Service (FSIS), Collaborative Activities with Mexico, 1994–2004	82

Figures

Figure 1: Total Value of U.S.–Mexico Agricultural Trade, 1989–2003	13
Figure 2: Figure 2: U.S. Agricultural Exports to Mexico by Largest Product Groups, 1994–2003	15
Figure 3: Total Volume of U.S. Fresh Apple Exports to Mexico, 1989–2003	39
Figure 4: Total Volume of U.S. Beef Exports to Mexico, 1989–2003	41
Figure 5: Total Volume of U.S. Corn Exports to Mexico, 1989–2003	44
Figure 6: Total Volume of U.S. Fructose Syrup Exports to Mexico, 1989–2003	47
Figure 7: Total Volume of U.S. Pork Exports to Mexico, 1989–2003	49
Figure 8: Total Volume of U.S. Poultry Meat Exports to Mexico, 1989–2003	51
Figure 9: Total Volume of U.S. Rice Exports to Mexico, 1989–2003	54

Abbreviations

Alianza	Alliance for the Countryside (Alianza para el Campo)
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
BSE	bovine spongiform encephalopathy
CFP	Cochran Fellowship Program

CIMMYT	International Maize and Wheat Improvement Center (Centro Internacional de Mejoramiento de Maíz y Trigo)
ERS	Economic Research Service
FAO	United Nation's Food and Agriculture Organization
FAS	Foreign Agricultural Service
FATUS	Foreign Agricultural Trade of the United States
FDA	Food and Drug Administration
FMD	foot and mouth diseases
FSI	Food Safety Initiative
FSIS	Food Safety and Inspection Service
GATT	General Agreement on Tariffs and Trade
HFCS	high-fructose corn syrup
NAFTA	North America Free Trade Agreement
NASS	National Agricultural Statistics Service
OPIC	Overseas Private Investment Corporation
PROCAMPO	Program of Direct Support for the Countryside (Programa de Apoyos Directos al Campo)
P4P	Partnership for Prosperity
SAGARPA	Mexican Ministry of Agriculture (Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación)
SCRP	Scientific Cooperation Research Program
SE	Mexican Ministry of the Economy (Secretaría de Economía)
SENASICA	Mexican National Service for Agriculture and Food Health, Wholesomeness and Quality (Servicio Nacional de Sanidad, Inocuidad y Calidad Agroalimentaria)
SIAP	Mexican Agricultural and Fisheries Statistics Service (Servicio de Información y Estadística Agroalimentaria y Pesquera)
SPS	sanitary and phytosanitary
SRE	Mexican Ministry of Foreign Affairs (Secretaría de Relaciones Exteriores)
TCB	trade capacity building
TRQ	tariff rate quota
USAID	Unites States Agency of International Development
USDA	United States Department of Agriculture
USTR	United States Trade Representative
WTO	World Trade Organization



United States Government Accountability Office
Washington, D.C. 20548

March 25, 2005

The Honorable Charles E. Grassley
Chairman
Committee on Finance
United States Senate

Dear Mr. Chairman:

In 1994, the North American Free Trade Agreement (NAFTA) created the world's largest free trade area and helped Mexico become one of the largest and fastest growing markets for U.S. agricultural products. U.S. agricultural trade officials consider NAFTA a model for U.S. efforts to liberalize free trade throughout the Western Hemisphere. NAFTA is an ambitious undertaking, bringing together the United States and Canada, two of the most competitive and advanced agricultural producing nations, and Mexico, a developing country with a large rural population still significantly dependent on traditional agricultural production methods. Since the beginning of the negotiations, concern over these disparities has provoked controversy in Mexico regarding the agricultural provisions of NAFTA, and the debate continues over the benefits of the agreement for Mexico's rural areas. This debate has significant implications for the full and successful implementation of NAFTA and long-term prospects for U.S. agricultural products in Mexico.

In response to your request for information on U.S.–Mexico agricultural trade and NAFTA, this report (1) identifies progress made, as well as difficulties encountered, in gaining market access for U.S. agricultural exports to Mexico since NAFTA went into effect; (2) describes both Mexico's efforts in response to changes brought by agricultural trade liberalization and challenges to the successful implementation of NAFTA; and (3) examines U.S.–Mexico collaborative activities and assesses strategies to support Mexico's transition to liberalized agricultural trade under NAFTA.

To address these objectives, we obtained and analyzed official data on agricultural trade trends from both U.S. and Mexican government agencies. We discussed the limitations and reliability of this trade data with U.S. Department of Agriculture (USDA) officials and determined that the trade data reported by USDA are sufficiently reliable for the purpose of this report. We conducted an extensive literature search and identified the most appropriate research and studies on Mexico's agricultural programs and on

the impact of NAFTA on Mexican agriculture. We took several steps to ensure the credibility of those studies we used for our report. We also met with U.S. and Mexican government officials in Washington, D.C., and in Mexico City. We contacted representatives of U.S. producer groups, academia, and other experts on U.S.–Mexico agricultural trade and Mexican agricultural sector development issues, and we reviewed extensive documentation and academic research provided by these sources. We also prepared case study analyses for seven agricultural commodities to illustrate the type of market access problems confronting U.S. agricultural exports to Mexico. While we describe Mexico’s use of trade measures, we did not evaluate the validity of their application. The commodities we selected for the cases studies were representative of products at various stages of the tariff elimination, different agricultural sectors (e.g., grains, horticultural, and animal products), various trade barriers, a range of dispute resolution mechanisms, and varying levels of export value and volume. We performed our work from February 2004 through February 2005 in accordance with generally accepted government auditing standards. Appendix I contains a full description of our objectives, scope, and methodology.

Results in Brief

Since NAFTA went into effect in 1994, U.S. agricultural exports have gained greater access to Mexico’s market. Mexico has phased out tariffs on all but a few agricultural imports from the United States and has ended its system of import licensing requirements—a key nontariff barrier. NAFTA also provided U.S. producers with additional recourse for resolving trade disputes. As implementation of NAFTA has progressed over the past decade, U.S. agricultural exports to Mexico have continued to demonstrate rapid growth, rising from \$4.1 billion in 1993 to \$7.9 billion in 2003. Yet some commodities still experience difficulties gaining access to the Mexican market. We found that Mexico’s use of antidumping actions, sanitary and phytosanitary requirements, safeguards, and a tax on beverages containing sweeteners other than sugar present the most significant market access problems for U.S. agricultural exports. For example, Mexico has applied special agricultural safeguard provisions on imports of U.S. live swine, pork, potato products, and fresh apples, while plant or animal health requirements have been applied to red meats, apples, and dry beans.

Beginning in the early 1990s, Mexican authorities instituted several programs to help farmers adjust to trade liberalization, including NAFTA, but structural problems like tenuous land ownership and lack of rural

credit have impeded growth in rural areas, which presents challenges to the success of NAFTA. Mexican agricultural programs have targeted a range of farmers and objectives from income support to improved productivity. Yet critics note that Mexico still needs to address structural impediments to rural development. Lagging rural development has fueled arguments that NAFTA has hurt small farmers, although trade liberalization has not adversely affected Mexican agriculture as a whole. Opponents of NAFTA want to block further tariff eliminations and insist on a renegotiation of the agricultural provisions of the agreement. Both U.S. and Mexican officials warned about considerable opposition to the next round of tariff eliminations in 2008. One of the three remaining commodities scheduled to have tariffs lifted in 2008 is corn, which is particularly sensitive because it is the principal crop of small farmers. U.S. officials have acknowledged the need to promote the benefits of NAFTA, while seeking additional ways to help Mexico address its rural development issues.

Historically, U.S. agencies have collaborated with Mexico in support of mutual agricultural interests, but these activities have not been intended to address the challenges presented by lagging rural development to Mexico's transition to liberalized trade under NAFTA. Although the United States has provided technical assistance to recent free trade partners to facilitate their adjustment to trade liberalization, no such assistance was arranged for Mexico when the agreement was concluded. More recently, since 2001 the United States has supported collaborative bilateral efforts under a high-level bilateral initiative, the Partnership for Prosperity (P4P), to promote economic development in the parts of Mexico where economic growth has lagged. Officials from both countries are working on a broader approach to Mexican rural development under the initiative, but they recognize that much still needs to be done in this area. Under P4P the United States has provided some limited support for rural development in Mexico, including technical assistance to the Mexican government's new rural credit institution. The State Department's Mission Performance Plan and USDA's Unified Export Strategy for Mexico call for building on collaborative activities under P4P to pursue rural development and support trade liberalization under NAFTA. However, P4P documents generally have little to say about furthering the implementation of NAFTA, and P4P action plans do not set forth specific strategies or activities that could be used to support rural development in support of free trade.

To aid the full and successful implementation of NAFTA, we recommend that the Secretary of State, as the head of one of the lead agencies for the

P4P initiative, work with the Secretary of Agriculture and other relevant officials to develop an action plan under P4P that lays out specific collaborative efforts on rural development that would support Mexico's successful transition to liberalized agricultural trade under NAFTA. To promote rural development in Mexico and enhance small farmers' ability to benefit from NAFTA, which would also help shape a more positive perception of the agreement, we also recommend that the Secretary of State work with USDA and other relevant agencies to expand collaborative efforts with the Mexican government to facilitate credit availability in the countryside. The State Department and USDA generally agreed with our recommendations.

Background

Mexico's accession to the General Agreement on Tariffs and Trade (GATT) in 1986 initiated a process of market liberalization that provided significant opportunities for U.S. agricultural exports.¹ By the early 1990s, Mexico had become the fastest growing export market for U.S. agricultural products, and the United States enjoyed a substantial net agricultural trade surplus with Mexico. U.S. agricultural producer groups were generally supportive when the United States and Mexico entered into negotiations aimed at creating a free trade agreement, which eventually resulted in NAFTA.

NAFTA Commitments Designed to Eliminate Many Agricultural Trade Barriers

In negotiating NAFTA, the United States sought to gain additional market access for its agricultural exports to Mexico by eliminating Mexican agricultural tariffs. Mexico's agricultural tariffs averaged 10 percent, compared to average U.S. tariffs of 4.5 percent at the time NAFTA was being negotiated.² NAFTA called for Mexico to eliminate tariffs on most commodities immediately upon implementation of the agreement in 1994 and to do away with nontariff trade barriers, most notably its system of

¹The General Agreement on Tariffs and Trade (GATT) was created in 1947 to encourage liberalized trade between member states by regulating and reducing tariffs and nontariff barriers on traded goods. GATT, which was succeeded by the World Trade Organization (WTO) in 1994, functioned as the primary multilateral organization governing international trade.

²See GAO, *North American Free Trade Agreement: Assessment of Major Issues, Volume 2, GAO/GGD-93-137* (Washington, D.C.: Sept. 9, 1993).

import licensing requirements.³ Some products that Mexico considered to be particularly sensitive commodities were granted transition periods for tariff elimination to allow time for Mexican producers to adjust to increased import competition.

NAFTA sets forth the specific schedules for tariff elimination and places commodities in staging categories, or “baskets,” that define when the commodities should enter the market duty-free.⁴ In general, tariffs for products that were granted transition periods were reduced in equal increments over a specified time period (see table 1). However, for certain sensitive commodities (such as corn and poultry) the greater part of tariff reductions was postponed until the final years of the transition period, a practice referred to as “back-loading.”

Table 1: Conventional NAFTA Tariff Reduction Schedules

Staging categories for goods	Date of implementation	Rate of annual tariff reduction
A – enter duty free	January 1, 1994	Not applicable
B – five equal cuts	January 1, 1998	20 percent
C – ten equal cuts	January 1, 2003	10 percent
C+ – fifteen equal cuts	January 1, 2008	6.67 percent
D – continue duty free	Not applicable	Not applicable

Source: NAFTA Chapter 3 and House Doc. 103-159, Volume 1.

³Before NAFTA, Mexico controlled imports of various commodities by requiring prior import permits or licenses and limiting the number of licenses issued for these commodities. Prior to NAFTA, about 25 percent of the value of U.S. agricultural exports to Mexico were subject to licensing requirements.

⁴The Statement of Administrative Action for NAFTA clarifies the tariff reduction rates for each of the staging categories. The Statement of Administrative Action is a document that was submitted to Congress along with the implementing bill for NAFTA, and describes significant actions proposed to implement NAFTA (House Doc 103-159, p. 450).

NAFTA also called for Mexico and the other NAFTA partners to replace quantitative import restrictions with tariff rate quotas (TRQs). Products subject to TRQs enter the importing market duty-free up to the level of the quota. Once the duty-free level (quantitative limit) is reached, a duty is imposed on the over-quota imports. NAFTA partner countries committed to gradually expanding the duty-free quota for the commodities, reducing the over-quota tariff charged during the transition period, and ultimately eliminating the TRQs. As with the phasing out of tariffs, NAFTA TRQs follow the same scheduled transition periods of 4, 9, and 14 years.⁵

Application of Trade Measures under NAFTA Are Subject to Disciplines

In addition to providing for the elimination of tariff and nontariff trade barriers, NAFTA also established disciplines for the application of trade measures to counter threats or harm to domestic producers and consumers, such as sanitary and phytosanitary (SPS) requirements,⁶ antidumping and countervailing duties,⁷ and safeguard actions.⁸ For example, NAFTA requires that SPS measures must be science-based, nondiscriminatory, and transparent, and that they are applied only to the extent necessary to achieve a party's appropriate level of protection. Similarly, under NAFTA the parties are required to follow their domestic legal procedures when applying antidumping or countervailing duties measures in response to unfair foreign trade practices. NAFTA also calls for safeguards to be applied through fair and open administrative procedures and for compensation to be provided for the affected countries. Under NAFTA, a party's right to apply a safeguard terminates at the end of an agreed-upon transition period. Thereafter, a party may apply the

⁵NAFTA was the first free trade agreement to include TRQs as a method of eliminating quantitative restrictions on sensitive commodities.

⁶SPS requirements are measures that protect human, animal, and plant life and health from risks arising from animal or plant pests or diseases, food additives, or contaminants. Sanitary refers to human or animal health, while phytosanitary refers to plant health.

⁷Antidumping duties are a trade remedy that may be imposed to offset the injurious effect of unfair pricing practices known as "dumping." Dumping refers to the sale of a commodity in a foreign market at a price lower than its fair market value in the home market. Countervailing duties may be imposed on imports that harm or threaten harm to the domestic industry to offset subsidies provided to producers in the exporting country.

⁸Safeguards are temporary import barriers, usually in the form of duties, which may be applied in cases where a domestic industry is determined to be injured or threatened to be injured from increased imports. The industry is required to make adjustments during a transition period while the safeguard is in place.

safeguard only with the consent of the exporting party. Moreover, NAFTA allows the party applying a safeguard to impose duties only up to the level of its Most Favored Nation duties.

NAFTA Presented Challenges and Opportunities for Mexican Agricultural Sectors

Many studies projected that Mexico would benefit from improved access to U.S. agricultural markets for agricultural products under NAFTA. However, some observers raised concerns about the difficulties Mexico's more traditional agricultural producers might encounter as the country opened up to U.S. products. With more than 22 percent of the population dependent on the sector, but with many farmers unable to compete under free market conditions, agriculture is a significant yet vulnerable area of the Mexican economy. Differences in perceived opportunities and challenges resulted from the three distinct types of agricultural producers present in Mexico. Mexico's agriculture sector consists of a large number of small traditional farmers, some medium size commercially oriented growers, and a lesser number of large modern producers.⁹ These groups of farmers differ in many respects including farm size, access to capital, types of crops produced, and productivity. Small subsistence farmers produce primarily corn (maize), often at subsistence levels for self-consumption, in small parcels of less than 5 hectares of mostly rain-fed land.¹⁰ Corn is also among the major U.S. agricultural exports to Mexico, which is perceived by some to be in competition with the production of small subsistence farmers. Medium size farmers are involved in commercial-oriented operations, however, they face relatively high cost structures, which are marked by scarcity of capital and insufficiently developed marketing infrastructure. Some believe that medium size commercial farmers face the greatest impact from import competition and structural change. On the other hand, Mexico's large commercial farmers usually have larger plots of irrigated land and a higher productivity level. They have better access to capital, including direct investment and commercial lending from abroad. Mexican commercial farmers are also typically involved in production of

⁹About 75 percent of all Mexican agricultural producers have farms of less than 5 hectares.

¹⁰Subsistence farming refers to agricultural production that provides for the basic needs of the farmer without surpluses for marketing. According to Mexican government data, around 85 percent of corn producers have farms of fewer than 5 hectares.

higher-valued commodities, notably fresh fruits and vegetables, which have undergone dynamic export growth since the early 1990s.¹¹

Agricultural trade expansion since NAFTA's implementation generally has been consistent with expectations. While U.S. trade data indicates Mexican agricultural exports have done well under the agreement, some observers maintain NAFTA has had negative consequences for small farmers. For example, one study asserts that employment opportunities for Mexican subsistence farmers have declined under NAFTA.¹² According to this study, imports of cheaper corn have contributed to lower corn prices in Mexico, which has led medium size farms to cut back their demand for labor supplied by subsistence farmers. However, a December 2003 World Bank report noted that NAFTA did not bring about many of the anticipated negative effects on poor subsistence farmers and had not had a devastating effect on Mexican agriculture as a whole.¹³ This research notes that as consumers, Mexican farmers may have benefited from lower corn prices.¹⁴ In addition, corn production in Mexico has not declined, but rather had increased by about 14 percent since NAFTA was enacted, to a record high in 2003. Other research conducted by several Mexican academic institutions concluded that NAFTA had resulted in benefits for the country's farm sector, including increased agricultural exports and greater investment in agricultural production.¹⁵

¹¹The value of Mexican fruit and vegetable exports to the United States in 2003 real dollars almost doubled from about \$1.7 billion in 1993 to \$3.3 billion in 2003 according to U.S. Census data.

¹²*The Environmental and Social Impacts of Economic Liberalization on Corn Production in Mexico*, study commissioned by Oxfam Great Britain and the World Wildlife Fund International, September 2000.

¹³Daniel Lederman, William F. Maloney, and Luis Serven, *Lessons from NAFTA for Latin American and Caribbean (LAC) Countries: A Summary of Research Findings*, Office of the Chief Economist for Latin American and Caribbean, the World Bank, December 2003, advance edition.

¹⁴USDA points out that rapid urbanization in Mexico has created great political urgency for a low-price food policy; food imports help the provision of low-cost food.

¹⁵Evaluación integral de los impactos e instrumentación del capítulo agropecuario del TLCAN (Comprehensive Evaluation of the Impact and Implementation of NAFTA's Agricultural Chapter), El Colegio de México, Universidad Autónoma de Chapingo, and Facultad Latinoamericana de Ciencias Sociales, April 2004.

U.S. Agricultural Exports Have Gained Greater Access to Mexico under NAFTA, but Some Market Access Barriers Remain

As implementation of NAFTA has progressed over the past decade, Mexico has phased out tariffs on agricultural imports in accordance with the agreement's scheduled transition periods of 4, 9, and 14 years and has done away with a key nontariff trade barrier, import licensing requirements. U.S. agricultural exporters have benefited both from this process of continued trade liberalization under NAFTA and from the additional assurances provided through the NAFTA dispute settlement mechanism. Exports to Mexico have increased significantly since NAFTA, continuing a trend of export growth that started in the mid 1980s. However, despite the progress made, some U.S. agricultural products continue to experience difficulties gaining access to the Mexican market, typically due to antidumping, SPS requirements, safeguards, and other trade measures Mexico has put in place. These difficulties are not unlike challenges U.S. agricultural exports face in other major markets, such as Canada or Japan.

NAFTA Increased Market Access and Provided Additional Recourse for Resolving Disputes

Although Mexico had taken several steps to allow greater access to its markets prior to 1994, NAFTA provided a legal agreement and framework through which further market liberalization could take place. Further, NAFTA's dispute settlement mechanism provided U.S. exporters with additional rules and processes for resolving disputes that did not exist prior to NAFTA.

Mexico Successfully Reduced Tariffs and Other Barriers

Mexico has thus far implemented its NAFTA commitments by reducing or eliminating tariffs according to schedule and removing nontariff barriers, resulting in greater access for U.S. agricultural goods. In the latest round of tariff eliminations (on Jan. 1, 2003), Mexico eliminated tariffs on more than a dozen commodity imports from its NAFTA partners, including products important to U.S. producers such as rice, soy oil, and pork. On January 1, 2003, in accordance with its commitments under NAFTA, Mexico had eliminated tariffs or TRQs on all but three commodities: corn, dry beans, and milk powder.¹⁶ Two of these commodities, corn and beans, are considered particularly sensitive commodities for Mexican agriculture because they are among the principal crops of small Mexican farmers and are also staples of the Mexican diet. TRQs on these commodities are

¹⁶Mexico also maintains tariffs until January 1, 2008, on poultry imports under a safeguard measure it imposed in July 2003. See discussion below on Safeguards.

scheduled for full elimination by the end of the 14-year transition period in 2008.¹⁷

In addition, Mexico has done away with import licensing requirements, a key nontariff barrier. These import licensing requirements functioned, in effect, as a type of quota, since only the volume of goods authorized under the import license could be imported, and they were intended to protect Mexican producers of agricultural commodities that were sensitive to foreign competition. Prior to NAFTA, many major U.S. agricultural exports to Mexico, such as poultry, dairy, wheat, corn, and dry beans, were subject to import licensing requirements. NAFTA permitted Mexico to use phased-in tariff elimination as a mechanism to transition away from the use of import licensing requirements. Under the agreement, Mexico immediately did away with import licensing requirements and converted them to either regular tariffs or TRQs. Additionally, NAFTA set a schedule to gradually eliminate both the tariffs and TRQs.

**NAFTA Dispute Settlement
Provides Additional Recourse for
U.S. Producers**

NAFTA also benefits U.S. exporters by providing them with a formal mechanism for resolving disputes.¹⁸ Under the agreement, disputes that cannot be resolved through consultations between member countries may be brought before impartial, independent panels. Since both the United States and Mexico are members of the WTO as well as NAFTA, the United States can file trade grievances under the dispute settlement mechanism provided by either agreement. According to United States Trade Representative (USTR) officials, the United States generally would utilize the NAFTA dispute settlement mechanism if it determined that Mexico is in violation of a provision that is specific to NAFTA and is not covered under the WTO. These officials explained that the United States would rely on the WTO's dispute settlement process if the matter also affected WTO members that are not members of NAFTA. According to information provided by USTR, to date, the United States has only brought one

¹⁷Similarly, the United States is expected to eliminate its remaining tariffs on imports of sugar, peanuts, and orange juice from Mexico by 2008.

¹⁸NAFTA's dispute settlement procedures are set forth in four separate NAFTA chapters: Chapter 11 (disputes related to investment), Chapter 14 (disputes related to financial services), Chapter 19 (disputes related to antidumping and countervailing duties), and Chapter 20 (disputes related to the general interpretation or application of the agreement).

agricultural dispute settlement case against Mexico under NAFTA, compared to four under the WTO process.¹⁹

According to a U.S. Department of Agriculture (USDA) report, most trade disputes are resolved through informal discussions or consultations involving government and private sector representatives, rather than formal dispute settlement procedures.²⁰ For example, through government-to-industry negotiations, a minimum price agreement was established for U.S. apples, and through government-to-government negotiations, an agreement was reached to modify Mexico's dry bean quota auctions. In addition, through industry negotiations, a dispute involving U.S. and Mexican grape industry labeling regulation was resolved. The use of industry negotiations also deterred the Mexican cattle industry from filing an antidumping petition against imports of U.S. cattle. Another alternative dispute settlement mechanism is the NAFTA Advisory Committee on Private Commercial Disputes Regarding Agricultural Goods, which recommends less adversarial resolutions to agricultural contract or commercial disputes.²¹

¹⁹Under NAFTA, the United States requested consultations regarding Mexico's application of TRQs to dry beans in 2000 (NAFTA 2020), which was settled in 2001. In this case, Mexico and U.S. negotiations resulted in an agreement of Mexico's TRQ allocation through an auctioned permit system for dry beans. The United States has requested formal consultations with Mexico through the WTO for the following disputes involving agricultural products: antidumping investigation on high-fructose corn syrup in 1997 and 1998 (DS/101 & 132); antidumping duties on imports of hogs in 2000 (DS/203); antidumping duties on beef and rice in 2003 (DS/295); and tax on beverages in 2004 (DS/308). Mexico has revoked its antidumping duties on hog imports and high-fructose corn syrup. Conversely, according to USTR, to date Mexico has brought six dispute settlement cases against the United States under NAFTA and one under the WTO dispute settlement process. It is worth noting that a country's decision to initiate a case under NAFTA or WTO dispute settlement proceedings does not necessarily mean its trade partner's actions violate provisions of these trade agreements.

²⁰United States Department of Agriculture, *Effects of North American Free Trade Agreement on Agriculture and the Rural Economy*, WRS-02-1 (Washington, D.C.: July 2002).

²¹The intent is to achieve prompt and effective resolution of commercial disputes, with special attention to perishable items. The committee is composed primarily of private sector representatives but also has government participants.

U.S. Agricultural Trade with Mexico Has Continued to Increase since NAFTA

Since NAFTA's implementation, total U.S. agricultural exports to Mexico have nearly doubled, rising from \$4.1 billion in 1993—the last year prior to NAFTA's implementation—to \$7.9 billion in 2003 (adjusted for inflation).²² Between 1993 and 2003, the value of U.S. exports to Mexico grew on average by 17.4 percent annually. By comparison, U.S. agricultural exports to the world grew at an average annual rate of 2.3 percent over the same time period. U.S. exports to Mexico have comprised an increasingly larger share of the United States' total agricultural exports; Mexico's share grew from about 8 percent in 1993 to about 13 percent in 2003. Moreover, according to USDA's export strategy for Mexico, the full implementation of NAFTA, a growing urban population, increasing per capita income, and lack of arable land make Mexico an excellent long-term prospect for U.S. agricultural products.

U.S. agricultural exports to Mexico already underwent significant growth after Mexico joined GATT in 1986 and began opening its market to foreign trade. By the early 1990s, Mexico attained its position as the third largest importer of U.S. agricultural products, after Canada and Japan. The overall increases in agricultural exports to Mexico since NAFTA began came about despite the collapse of the Mexican peso in late 1994, which harmed Mexican purchasing power for foreign goods and triggered an economic downturn. Beginning in about 1996, Mexico's economy began a recovery, and U.S. exports to Mexico expanded accordingly. Not all increases in exports to Mexico can be attributed to NAFTA because factors such as economic growth, weather, exchange rates, domestic supply, and population growth also affect Mexico's demand for U.S. products.

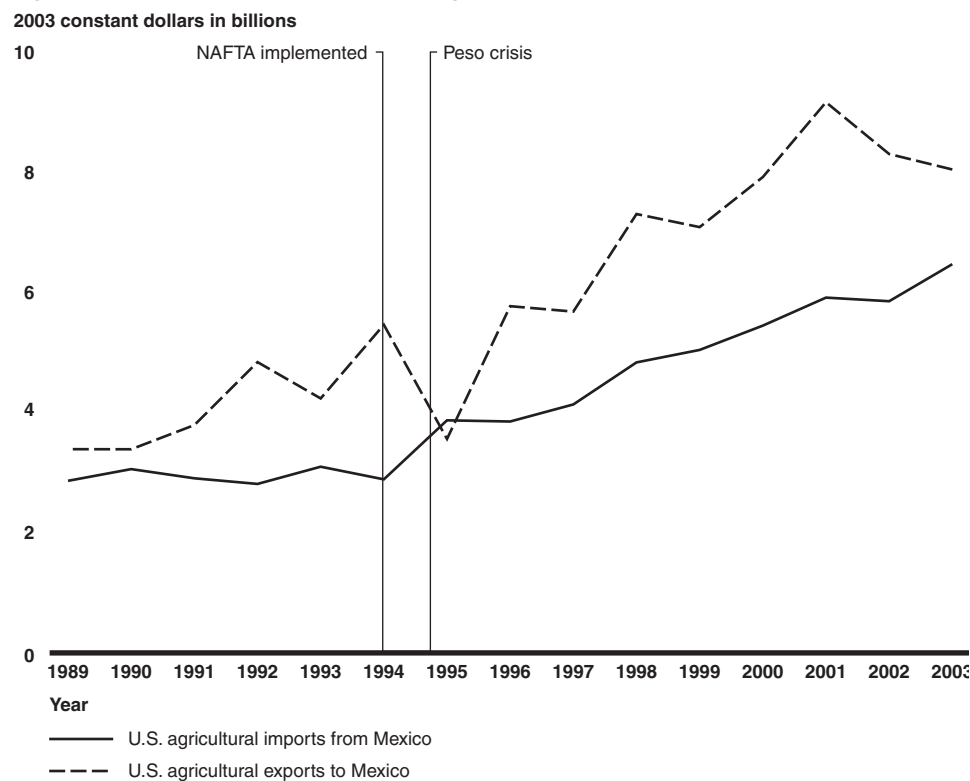
U.S. imports of agricultural products from Mexico have also increased since NAFTA, rising from about \$2.9 billion in 1993 to \$6.3 billion in 2003 (adjusted for inflation).²³ Agricultural imports from Mexico increased at an average annual rate of 8.5 percent over the same time period. In 2003, agricultural imports from Mexico accounted for about 13 percent of the

²²Export trade values are adjusted for inflation and are presented in 2003 U.S. dollars using the Bureau of Economic Analysis End Use Export Index to filter out agricultural product price fluctuation. In nominal terms (i.e., unadjusted for inflation) U.S. agricultural exports to Mexico have actually grown from \$3.6 billion in 1993 to \$7.9 billion in 2003. See appendix I for additional information on our methodology.

²³Import trade values are adjusted for inflation and are presented in 2003 U.S. dollars using the Bureau of Economic Analysis End Use Import Index to filter out agricultural product price fluctuation.

total value of U.S. agricultural imports from the rest of the world. Figure 1 shows the total value of U.S.–Mexico agricultural trade.

Figure 1: Total Value of U.S.–Mexico Agricultural Trade, 1989–2003



Source: GAO, based on USDA Foreign Agricultural Trade of the United States database.

Notwithstanding the potential effects of external factors on trade, NAFTA's impact on U.S. exports, particularly for certain key commodities, generally appears to have been positive. Earlier studies generally concluded that the agreement would increase U.S. export opportunities for grains, oilseeds,

dairy products, tree nuts, and meats.²⁴ Trends in the trade of the largest groupings of U.S. agricultural products have been generally consistent with these predictions. For example, the United States increased exports of animal products, grains and feeds, fruits and vegetables, and oilseeds to Mexico since NAFTA.²⁵ From NAFTA's implementation in 1994 until 2003, the value of exports of these key groups of products underwent average annual increases of between 3.2 percent (oilseeds) and 16 percent (grains and feeds) (see fig. 2).²⁶

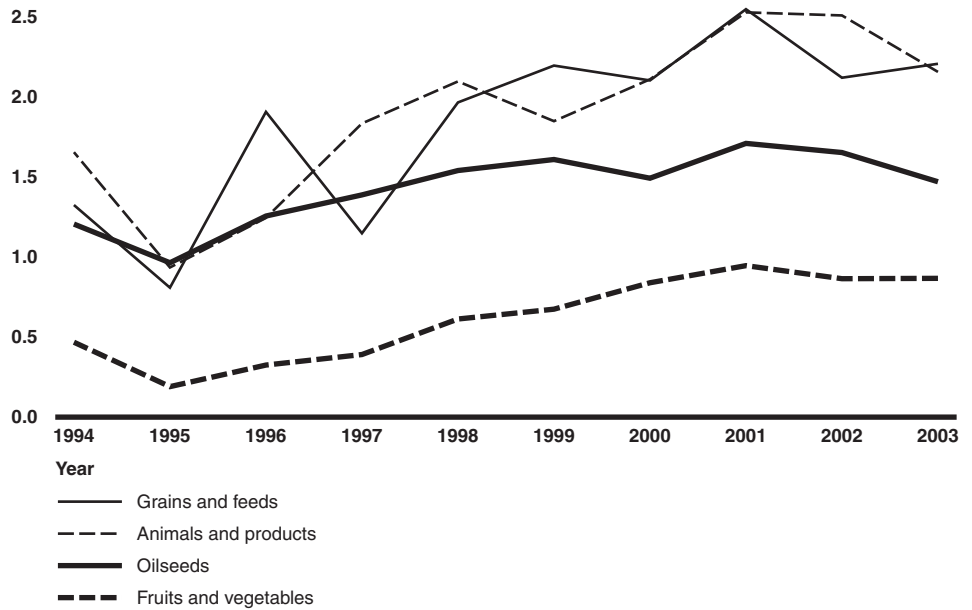
²⁴Several studies conducted prior to NAFTA concluded that market liberalization, combined with the demands of a growing population and an expanding economy in Mexico, would provide opportunities for the United States to export greater amounts of agricultural products to Mexico. Our earlier work in a series of three reports on U.S.–Mexico agricultural trade also concluded that increased liberalization of agricultural trade would generally be beneficial for the U.S. agriculture industry. See GAO, *U.S.–Mexico Trade Impact of Liberalization in the Agricultural Sector*, [GAO/NSIAD-91-155](#) (Washington, D.C.: Mar. 29, 1991); GAO, *U.S.–Mexico Trade: Extent to Which Mexican Horticultural Exports Complement U.S. Production*, [GAO/NSIAD-91-94BR](#) (Washington, D.C.: Mar. 20, 1991); and *U.S.–Mexico Trade: Trends and Impediments in Agricultural Trade*, [GAO/NSIAD-90-85BR](#) (Washington, D.C.: Jan. 12, 1990).

²⁵In 2003, exports of these products accounted for 85 percent of the total value of U.S. agricultural exports to Mexico.

²⁶Export trade values for these commodity groups are adjusted for inflation and are presented in 2003 U.S. dollars using Harmonized System Export Indexes to filter out agricultural product price fluctuation.

Figure 2: U.S. Agricultural Exports to Mexico by Largest Product Groups, 1994–2003

2003 constant dollars in billions
3.0



Source: GAO, based on USDA Foreign Agricultural Trade of the United States database.

Despite Progress, Market Access Barriers Remain

Some U.S. agricultural products continue to experience difficulties gaining access to the Mexican market due to the application of nontariff trade measures. Although Mexico removed import licensing requirements, a key nontariff trade barrier prior to NAFTA, it still applies several nontariff measures that affect imports from the United States. According to USDA, the nontariff measures that present the most significant barriers to market access for U.S. agricultural exports have been Mexico’s application of antidumping duties, SPS requirements, and safeguards. In addition to these trade measures, Mexico has put in place a product tax on all beverages containing sweeteners other than sugar, which has basically eliminated the Mexican market for high-fructose corn syrup (HFCS).²⁷ However, these

²⁷HFCS is a food sweetener derived from corn and is found in numerous foods and beverages.

impediments are not unlike market access challenges experienced by U.S. agricultural exports to other major trade partners, including Canada, Japan, and the European Union.

The following section presents information on the key nontariff barriers and examples of U.S. agricultural commodities that have encountered market access challenges in Mexico. The information is based, in part, on our analysis of market access issues related to seven selected agricultural commodities: apples, beef, corn, HFCS, pork, poultry, and rice. Our analysis of each of these commodities is presented in greater detail in appendix II.

Antidumping Actions

The use of antidumping duties continues to pose a barrier to U.S. agricultural exports to Mexico. The United States has raised complaints in the WTO regarding Mexico's application of its antidumping laws on commodities such as hogs, rice, and beef.²⁸ The United States requested a WTO panel with respect to rice and has argued that Mexico's imposition of antidumping duties is inconsistent with the WTO Antidumping Agreement. Mexican officials at the Ministry of the Economy (Secretaría de Economía) stated that Mexico's application of antidumping measures to U.S. agricultural imports was based on an objective and intensive investigation that determined harm. According to representatives from some U.S. producer groups and a former senior Mexican government official, however, there may also be other considerations that affect Mexico's antidumping decisions. For example, U.S. apple producers question the timing of Mexico's imposition of antidumping duties on apples in August 2002, only a few months before NAFTA's tariff rate quota on apples was scheduled to be lifted on January 1, 2003. Additionally, these observers told us that Mexico's antidumping actions against certain U.S. agricultural imports are, to some extent, a response to U.S. restrictions on Mexican exports to the United States.

²⁸WTO Cases DS/203 and DS/295.

Sanitary and Phytosanitary Measures

NAFTA establishes a number of general requirements to ensure that SPS measures are only used to the extent necessary to protect plant, animal, and human health and not as a means to protect domestic producers from competition.²⁹ As mentioned earlier, NAFTA calls for these measures to be science based, nondiscriminatory, and transparent and requires that the measures be applied only to the extent necessary to achieve an appropriate level of protection. Mexican officials responsible for plant and animal health protection maintain that Mexico's SPS measures are based on sound science. However, USDA officials and industry group representatives have raised concerns about the legitimacy of some SPS measures imposed by Mexico on U.S. agricultural imports as it eliminates tariffs and tariff-rate quotas. U.S. producer groups told us that they believe Mexico sometimes uses SPS measures as a means to retaliate for U.S. policies against its agricultural exports to the United States. For example, some U.S. producer groups contend that in order to protest U.S. phytosanitary controls on imports of avocados from Mexico, Mexico's agricultural authorities initiated a new policy against U.S. cherries requiring cherry exports to Mexico to undergo a much more rigorous inspection process at the border than is warranted. As a result, U.S. exports of cherries to Mexico dropped significantly because U.S. exporters wanted to avoid delays at the border that would pose risks with such a perishable commodity. Moreover, the 2004 proposed work-plan of phytosanitary measures was not signed. Table 2 illustrates examples of SPS controversies between the United States and Mexico.

²⁹The NAFTA partners also agreed to work through the NAFTA Committee on Sanitary and Phytosanitary Measures to facilitate technical cooperation in the development, application, and enforcement of SPS measures.

Table 2: Examples of SPS Controversies between the United States and Mexico

Item: Importer/Exporter	Description
Red meats Mexico/U.S.	Mexico recently changed the location of inspection of meat imports from the United States. Under the previous system, Mexican inspectors had inspected the U.S. meat loads on the U.S. side of the border. Now the loads are inspected in Mexico. Even though the loads carry a U.S. Food Safety and Inspection Service export inspection certificate, several loads, either whole or partial, have been rejected in Mexico, creating a complex problem for disposal of the meat. The loads must be re-exported to the United States or destroyed in Mexico.
Apples Mexico/U.S.	Mexico required preshipment inspection and approval of U.S. exports of apples to Mexico by Mexican inspectors in the United States. U.S. packers and exporters pay the cost. Mexico delayed withdrawing its oversight until 2004.
Dry beans Mexico/U.S.	Mexico denied entry to U.S. dry bean exports in early 2003 as a result of a new emergency standard governing the phytosanitary, quality, and labeling requirements for imported beans for human consumption.

Source: Proceedings of the Eighth Agricultural and Food Policy Systems Information Workshop, January 2004, Puerto Vallarta, Mexico. The workshop was sponsored by the Farm Foundation and organized by Texas A&M University; the University of Guelph, Ontario, Canada; and Colegio de Mexico.

U.S. officials explained that SPS measures are the most commonly used nontariff measure affecting U.S. market access and may indeed, at times, be applied to protect domestic producers. According to U.S. and Mexican officials, determining when SPS measures are justified can be difficult for several reasons, including different country standards and different conclusions based on scientific data. Officials from USDA's Animal and Plant Health Inspection Service (APHIS) and its Mexican counterpart SENASICA (Servicio Nacional de Sanidad, Inocuidad y Calidad Agroalimentaria) informed us that they are working to harmonize U.S. and Mexican SPS standards to minimize disagreements. In addition, they are collaborating to lift Mexico's ban on imports of citrus from Arizona and areas in Texas due to concerns over fruit fly infestation, as well as to design and implement a more satisfactory inspection process for U.S. apple exports to Mexico.

SPS disputes stemming from differing interpretations of scientific data or differences in regulatory standards illustrate the technical complexity of plant and animal health protection regulations and their impact on trade. U.S. officials told us that working through SPS issues with Mexican authorities under NAFTA provided lessons for later negotiations. They

explained that as developing countries liberalize their markets and begin to develop mechanisms to address health risks associated with increased agricultural trade, they often need technical assistance. Thus, the United States provided trade capacity building assistance to address SPS issues for some Central American countries and the Dominican Republic in connection with free trade agreement negotiations with those countries.³⁰ The USDA Unified Export Strategy for Mexico notes that beyond addressing individual SPS issues there must be broader cooperation with Mexico on technical issues, such as the harmonization of standards, equivalency of regulatory processes, and transparency in light of the increasing market integration of the two countries.

Safeguards

U.S. government officials and U.S. agricultural producer groups told us that Mexico's application of certain safeguards to U.S. agricultural products have been a trade nuisance. In the years following NAFTA, Mexico has applied special safeguard agricultural provisions on imports of U.S. live swine, pork, potato products, and fresh apples in the form of TRQs as provided for in NAFTA. Mexico also applied a safeguard under Chapter 8 of NAFTA on certain U.S. poultry products. Specifically, under NAFTA, Mexico's TRQ on poultry products was to be eliminated on January 1, 2003. However, in late 2002, Mexico's poultry industry petitioned the Mexican government to impose a safeguard on U.S. chicken leg quarters. The Mexican industry argued that the elimination of Mexico's TRQ would result in a surge in imports from the United States which would injure Mexican producers. USTR officials said the safeguard on poultry was a unique situation and questioned whether a similar arrangement could be achieved in other industries. For more information on U.S. poultry exports to Mexico, see appendix II.

The poultry case also highlights difficulties encountered in the implementation of a safeguard due to trade data discrepancies. The United States and Mexico did not agree on the quantity of U.S. chicken leg quarters

³⁰Trade capacity building is assistance intended to help developing countries benefit more broadly from a rules-based trading system. The Bipartisan Trade Promotion Authority Act of 2002 (Title XXI of the Trade Act of 2002, P.L. 107-210, Section 2102) declared that among the principal negotiating objectives of the United States are to strengthen the capacity of U.S. trading partners. Specific categories of trade capacity building assistance included trade facilitation; human resources and labor standards; agricultural development, such as promoting agribusiness; financial sector development; and infrastructure development. See GAO's recent report *U.S. Trade Capacity Building Extensive, but Its Effectiveness Has Yet to be Evaluated*, [GAO-05-150](#) (Washington, D.C.: Feb. 11, 2005).

that were exported to Mexico in the first half 2003. Mexican data showed a much larger surge than U.S. data. One U.S. official told us that the main reason for the large discrepancy was the way Mexico records its initial import statistics, which is based on notifications of intended imports filed by Mexican importers, rather than actual imports. After the TRQ on poultry expired on January 1, 2003, Mexican importers filed large number of entries, but some never crossed the border. In response to these difficulties, Mexican officials informed us they have taken steps to clear notices of intended imports from their database when imports do not actually occur within a specified time frame.

Tax on Sweeteners Other than Sugar

In addition to the trade measures discussed above, Mexico has imposed a tax on beverages made with sweeteners other the sugar, which has led to a strongly contested dispute between the United States and Mexico regarding market access for U.S. HFCS exports. Specifically, in January 2002, the Mexican Congress imposed a 20 percent product tax on soft drinks and other beverages that use any sweetener other than cane sugar. This action meant that Mexico taxes any beverage containing HFCS, no matter the amount of HFCS present, at a rate of 20 percent, in addition to any other taxes already imposed. U.S. importers and producers of HFCS were affected immediately as Mexican beverage manufacturers switched to the use of domestically produced sugar instead of HFCS imported primarily from the United States. Although the tax was temporarily suspended by presidential decision for a 4-month period, Mexico's Supreme Court of Justice unanimously voted to nullify this decision in July 2002. As a result, the tax was imposed once again. In December 2002, the Mexican Congress voted to extend the tax. In 2004, the United States filed a dispute case in the WTO against Mexico's product tax on HFCS.³¹ The case is still pending resolution. See appendix II for more information on the HFCS case.

³¹WTO Case DS/308.

Mexico Enacted Various Agricultural Programs in Response to Trade Liberalization, but Structural Problems Impair Growth and Challenge NAFTA Implementation

Since the early 1990s, the Mexican government has enacted several agricultural assistance programs to help farmers adjust to the changes brought by trade liberalization, including NAFTA. Rapid urbanization has also created political urgency to provide low-cost food by promoting greater efficiency in domestic food production. The three main programs had a total budget of over \$2 billion in 2003, and their objectives range from income support to improving agricultural productivity. However, deep-seated structural problems, notably tenuous land ownership and lack of rural credit, continue to hinder growth and rural development. Opponents of NAFTA have sought to link lagging rural development and rural poverty in Mexico to growing imports of U.S. agricultural products. They oppose further tariff eliminations as called for under NAFTA and demand a renegotiation of the agricultural provisions of the agreement. This opposition presents challenges to Mexico's successful transition to liberalized agricultural trade under NAFTA.

Mexico Has Implemented Several Agricultural Programs and Policies

In response to the changes that market reforms and free trade would bring to its agricultural sector, Mexico enacted various agricultural programs and policies since the early 1990s to help farmers adjust to changing economic conditions. Three of the most significant agricultural assistance programs have been (1) a major cash transfer program, PROCAMPO (Programa de Apoyos Directos al Campo); (2) an investment program, Alianza (Alianza para el Campo); and (3) a marketing support program (Programa de Apoyos Directos al Productor por Excedentes de Comercialización para Reconversión Productiva, Integración de Cadenas Agroalimentarias y Atención a Factores Críticos, formerly Programa de Apoyos a la Comercialización y Desarrollo de Mercados Regionales). Besides these three programs, there are other support programs in rural Mexico, such as Progresá, which was introduced in 1997 to alleviate poverty through monetary and in-kind benefits, as well as to invest in education, health and nutrition.

The three major agricultural assistance programs have different levels of budget and distinct objectives. Appendix III provides a detailed description of each program.

- PROCAMPO is the largest program in terms of annual budget, amounting to over \$1.2 billion in 2003. It provides direct payments to oilseeds and grains (including corn) producers on a per-hectare basis. In 2001, it supported 2.7 million producers on 13.4 million hectares. Its

objectives are to compensate farmers for expected losses under trade liberalization and the elimination of price subsidies, to make the free trade agreement acceptable to farmers, to alleviate poverty, and to reduce migration from rural areas.

- Alianza has an annual budget of around \$570 million and supports about 2 million farmers. The program provides matching grants to finance productive investments and support services. The overall objective of the program is to improve agricultural productivity by promoting a transition to higher value crops, improving livestock health, facilitating technology transfers, and attracting investment in infrastructure.
- The marketing support program had an annual budget of about \$580 million in 2003 and benefits 240,000 producers. It provides payments to producers of grains and oilseeds in certain areas, usually on a per-ton basis. The Mexican government's evaluation suggests that the program provides certainty to farmers' income and is an important factor in mitigating migration from the countryside.

Lagging Rural Development in Mexico Fuels Concerns about the Long-term Success of NAFTA

Notwithstanding various farm support programs including the ones discussed above, some researchers and Mexican and U.S. government officials noted that Mexico still needs to address structural impediments that hinder rural development. Some of these problems are related to Mexico's tenuous land ownership, known as the ejido system.³² Some economists argue that the small size of farm plots under the ejido system does not make for economically viable production units. In addition, the ejido system limits farmers' ability to obtain credit using land as collateral because the farmers do not have clear ownership of the land. Without access to credit, farmers cannot shift to new technologies and increase productivity. According to experts, the lack of rural credit has been a key impediment to Mexican agricultural development. Mexico's financial crisis

³²Ejido is a form of land tenure arrangement. It does not allow for full property rights. In the aftermath of Mexico's revolution (1910–1917), the Mexican government began to dismantle the country's large haciendas and distributed the land in ejidos and Indian communes. The reform succeeded in fragmenting Mexico's agricultural land to a very large extent. Each ejidatario or comunero was provided approximately 30 hectares to work on. In order to prevent the re-emergence of large haciendas, the Mexican Constitution prohibits individuals from owning more than 100 hectares of irrigated land. Neither ejidos nor the Indian communes allow for full property rights. Ejidos and Indian communal land cannot be used as guarantees for credit because banks are not allowed to take them over if repayments are not made.

of 1995 exacerbated the problem of rural development by severely limiting the Mexican government's budget available to carry out programs to invest in rural areas. In addition, according to USDA, other challenges identified by experts that contribute to the lack of rural development include: low education level, poor rural infrastructure, environmental problems related to land use, and low levels of technology.

While U.S. officials note that NAFTA has greatly benefited Mexican agriculture overall, they express concern about the challenges posed by lagging rural development to the long-term successful implementation of the agreement. U.S. officials caution that lagging rural development fuels the arguments made by opponents of NAFTA that cheap imports from the United States have depressed Mexican agricultural product prices, hurting small farmers and deepening rural poverty. In its fiscal year 2005 Unified Export Strategy for Mexico, USDA acknowledged the need for efforts to highlight the benefits of NAFTA for Mexico's economy while seeking ways to help Mexico address its rural development issues.

The implementation of NAFTA became a major political issue as Mexico prepared to eliminate tariffs and tariff rate quotas in January 2003. Elimination of these tariffs provided U.S. agricultural exports even greater access to the Mexican market. In order to respond to intense criticism by the opponents of NAFTA at that time, USDA officials had to engage in extensive dialogue with Mexican legislative and executive officials, and they mounted a public information drive to explain the benefits of NAFTA for Mexican agriculture. Ultimately Mexico eliminated the tariffs, but the administration of Mexican President Vicente Fox found it necessary to negotiate a national agreement on agriculture with various domestic constituencies. He intended the agreement—referred to as *Acuerdo Nacional para el Campo*—to address concerns about perceived negative effects of trade liberalization on Mexico's rural poor. As part of this agreement, the Mexican government commissioned several Mexican academic institutions to study the impacts of NAFTA on Mexican agriculture. This research generally confirmed that structural problems confronting Mexican agriculture preceded the implementation of NAFTA. However, certain Mexican producer groups continue to pressure the government, and a number of members of Mexico's Congress have strong ties to groups that oppose NAFTA.

U.S. and Mexican government officials and agricultural experts warned that there may be considerable opposition to the next round of tariff elimination in 2008. These officials cited the experience in the months

leading up to the latest round of agricultural tariff elimination in 2003. In addition, they note that corn, one of the three remaining commodities scheduled to have tariffs lifted in 2008, is a commodity of particular concern in Mexico. Corn cultivation has ancient roots in Mexican rural culture; is central to the Mexican diet, accounting for about one-third of total calories; and remains the principal crop of subsistence farmers. For these reasons, eliminating tariffs on corn will be a sensitive cultural issue, as well as a matter of economic concern.

Certain farm groups in Mexico have argued that allowing cheap imports of U.S. corn will drive the Mexican agriculture into ruin. Mexican politicians who oppose NAFTA note the continuing economic distress in rural areas of Mexico and insist on renegotiation of the agricultural provisions of the agreement to improve the conditions of Mexican farmers. Although the total elimination of already low Mexican tariffs on corn may not have much economic significance for U.S. producers, failure to comply with the final phase of tariff elimination may undercut support for NAFTA among U.S. producers who were in favor of the agreement with the expectation that it would lead to genuinely free trade. Additionally, U.S. trade officials have expressed serious reservations about any attempt to renegotiate the agricultural provisions of NAFTA, because it could lead to demands to renegotiate other aspects of the agreement and undermine the agreement as a model for trade liberalization throughout the Western Hemisphere.

U.S. Agencies Undertake Collaborative Agricultural Efforts, but Do Not Focus on Rural Development Challenges to Mexico's Transition to Liberalized Trade

Over the last 10 years, U.S. agencies, primarily led by USDA, have carried out numerous activities that benefit both U.S. and Mexican agricultural interests. However, these activities have not been intended to address the challenges presented by lagging rural development to Mexico's transition to liberalized trade under NAFTA. While the United States provides technical assistance to more recent free trade partners to facilitate their adjustment to trade liberalization, no such assistance was arranged for Mexico under NAFTA. Nevertheless, since 2001 the United States has supported collaborative efforts to promote economic development in the parts of Mexico where growth has lagged under the Partnership for Prosperity (P4P) initiative. Officials from both countries are working on a broader approach to Mexican rural development under the initiative, but they recognize that much still needs to be done in this area. In an effort to support rural development through P4P, the United States has provided some limited technical assistance to the Mexican government's new rural lending institution. Recognizing the importance of rural development to the successful implementation of NAFTA, State Department and USDA

strategies for Mexico call for building on collaborative activities under P4P to pursue the related goals of rural development and trade liberalization under NAFTA; however, the P4P action plans do not set forth specific strategies and activities that could be used to achieve these goals.

United States Pursues Many Collaborative Agricultural Efforts in Mexico

Historically, U.S. agencies have undertaken numerous collaborative agricultural efforts of mutual interest with their Mexican counterparts; however, the agencies have not intended those efforts to address the challenges presented by lagging rural development. USDA, in conjunction with its Mexican counterparts, has led most of these efforts as part of its traditional mission of supporting U.S. agricultural production and exports. With the exception of pest eradication efforts sponsored by the Animal and Plant Health Inspection Service (APHIS)—approximately \$280 million over the past 10 years—all USDA activities have involved modest funding of less than \$8 million combined since NAFTA was implemented.

Some U.S. agencies have been involved in collaborative efforts with Mexico in pursuit of plant, animal, and human health objectives. USDA's APHIS and Food Safety and Inspection Service and the Food and Drug Administration have implemented several programs in Mexico to protect U.S. agriculture and consumers while also facilitating the export of Mexican agricultural products. For example, APHIS programs are working with the Mexican government and growers to eradicate the Mediterranean fruit fly. Eradicating the fruit fly is of great interest for U.S. fruit farmers. However, eliminating the fly would also allow Mexican farmers to eventually export fruit crops from formerly infested areas. Over the past 10 years APHIS has used almost all of its funds in Mexico for collaborative projects to finance various pest eradication efforts.

USDA's research, data collection, and marketing agencies, such as the Economic Research Service (ERS), National Agricultural Statistics Service, and Agricultural Marketing Service, have worked with their Mexican counterparts to enhance Mexico's capacity to collect, analyze, and disseminate agricultural information. According to ERS officials, these efforts have improved and facilitated agricultural trade transactions through the Emerging Markets Program. Economic Research Service officials said that while the focus of the Emerging Markets Program is to improve Mexico's data gathering and reporting systems, USDA has also benefited from Mexico's improved capabilities because having reliable information facilitates public and private decision making for both the United States and Mexico.

The Agriculture Research Service and the International Cooperation and Development area of USDA's Foreign Agriculture Service have participated in extensive scientific and academic research to improve Mexico's agricultural production. According to the Agriculture Research Service, there are several concerns over agricultural trade, including food safety, use and consumption of transgenic products,³³ and control of plant and animal pests and diseases. For a list and description of collaborative activities with Mexico implemented by USDA agencies, see appendix IV.

NAFTA Did Not Provide Technical Assistance to Strengthen Mexico's Trade Capacity

While the United States has provided technical assistance and support to more recent free trade partners through trade capacity building (TCB), no such assistance was arranged for Mexico when NAFTA was concluded in 1994. TCB became an element of U.S. trade policy after it was introduced under the WTO Doha Development Agenda in 2001. While it was recognized that some agricultural sectors in Mexico would find it challenging to adjust to free market conditions when NAFTA was being negotiated, the agreement did not require that Mexico should receive any assistance to facilitate the transition of its farmers to a more open market.

One senior Mexican government official noted that in hindsight TCB or some type of assistance like it would have been beneficial as Mexico entered into a free trade environment with two very strong economies (the United States and Canada). However, this official stressed that Mexico has done very well under NAFTA overall, although small farmers have not typically benefited from economic opportunities provided by the agreement. Even though the United States does not have a comprehensive effort to provide TCB assistance to Mexico, some U.S. agencies have undertaken limited activities in Mexico, which they have characterized as TCB.

P4P Introduced a Broader Approach to Rural Development

In 2001, U.S. President George W. Bush and Mexican President Vicente Fox launched the P4P initiative, a new model for bilateral cooperation involving a public-private approach to collaborative development efforts. This new initiative is aimed at assisting those economically depressed regions of Mexico that are the primary sources of migration. These areas tend to be

³³Transgenic products refer to a plant or animal variety that contains genes from a different species transferred using genetic engineering techniques.

P4P Expanded Collaborative Activities to New Areas, but Many Rural Regions of Mexico Remain Untouched

rural regions in Mexico. While P4P seeks to create a new model for collaborating on economic development in Mexico, officials from both countries recognize that few activities have been implemented under P4P that directly affect poor rural areas and that much still needs to be done in the area of rural development.

P4P seeks to create a public–private alliance and develop a new model for U.S.–Mexican bilateral collaboration to promote development, particularly in regions of Mexico where economic growth has lagged and has fueled migration. No new funds were specifically allocated to P4P by either government; instead, the U.S. government sought to refocus resources already devoted to Mexico to create a more efficient collaborative network. According to State Department and USDA officials, since its establishment, P4P has become the umbrella for bilateral development collaboration and providing a broader approach to Mexico’s rural development needs that includes occupational and economic alternatives for people in the countryside.

While this broader approach to rural development has been embraced by both the United States and Mexico, few activities have been implemented under P4P that directly affect poor rural areas. At the most recent P4P conference in Guadalajara, Mexico, a high-level State Department official responsible for P4P noted that many rural areas throughout central and southern Mexico have not yet been touched by P4P. Similarly, Mexican government officials commented that even though the P4P concept holds much promise, only a few new activities have been undertaken in rural development. For example, Mexican government officials told us and U.S. government documents confirm that approximately \$10 million allocated for USAID rural development activities in Mexico under P4P have not yet been used to fund any new projects.³⁴

³⁴In recent months USAID has obligated funds for several rural development activities in Mexico. See appendix V for a description.

Nevertheless, since the initiation of P4P, there have been several first-time achievements that benefit Mexico's overall economic development. For example, under an arrangement worked out by the U.S. and Mexican government in cooperation with private sector financial institutions, the cost of remittances from the United States to Mexico has dropped by more than 50 percent over the last 3 years.³⁵ Remittances from Mexican laborers living in the United States reached a record \$16.6 billion in 2004. In addition, in 2003 a bilateral agreement was reached through P4P to allow the U.S. Overseas Private Investment Corporation (OPIC) to operate in Mexico for the first time. The agency's mission is to help U.S. businesses invest overseas to foster economic development in new and emerging markets. According to OPIC officials, for over 30 years there had been resistance by the Mexican government to allow the agency to operate in Mexico because of concerns over sovereignty. Since the bilateral agreement was signed, the OPIC has provided financing to five projects in Mexico, including one related to agriculture. For a description of this and other activities related to rural development by U.S. agencies under P4P, see appendix V.

Under P4P, the United States Supports Efforts to Facilitate Rural Access to Credit

One of the few P4P activities to target rural communities is the U.S. technical assistance provided to the Mexican government's new rural lending institution, Financiera Rural.³⁶ Financiera Rural supports agricultural and other economic activities in Mexico's rural sector with the goal of raising productivity as well as improving the standard of living of rural populations by facilitating access to credit. Through the USDA Cochran Fellowship Program, several Financiera Rural officials were trained in the United States on how to operate a rural credit program. These officials will serve as trainers for credit managers for Financiera Rural. In addition, through a USAID fellowship, USDA arranged for a U.S. expert to assist Financiera Rural in developing a strategic plan. This strategic plan calls for the development of rural financial lending intermediaries in Mexico, which will be fostered using a model that complies with Mexico's legal framework, determined by a study to be conducted jointly by the Financiera Rural and the Inter-American Development Bank. The new strategic plan also proposes that Financiera

³⁵Remittances refer to the portion of international migrant workers' earnings sent back from the country of employment to the country of origin.

³⁶Mexico established Financiera Rural in 2002, and it is still in a development stage. It replaced an earlier Mexican government agricultural lending institution, Banrural, which went bankrupt because of high operating costs.

Rural fund any productive endeavor in the countryside, not only agricultural production. Activities could include eco-tourism, rural gas stations, transportation services, and so on. According to senior Financiera Rural officials, U.S. technical assistance under P4P has been instrumental in helping them roll out their rural credit program.

Financiera Rural officials told us that while the assistance they have received under P4P has had a positive impact, it has been limited. They said that Financiera Rural faces a great challenge in efforts to address limited credit availability in the countryside, which, as noted earlier in this report, is a key factor in Mexico's lagging rural development. In order to be able to establish an effective rural lending system for small and medium size farmers in Mexico, these officials explained that they need to shift from primarily short-term to long-term credit, develop a network of regional and local intermediary lending institutions, and provide financing for alternative rural economic activities beyond direct agricultural production. Mexican and U.S. officials told us that in order to accomplish these goals Financiera Rural needs to develop expertise in a number of areas, such as risk assessment, project management, and loan evaluation. These officials stated that the expertise in the field of rural credit that exists in the United States would be helpful in ensuring that Financiera Rural is successful in providing credit to small farmers and other entrepreneurs in the Mexican countryside.

P4P Does Not Specify Activities to Promote Rural Development in Support of Mexico's Transition to Liberalized Trade under NAFTA

P4P offers an avenue for the United States to provide technical assistance and support to Mexico similar to what it has provided to more recent free trade partners through TCB, according to a senior USDA official. Similarly, Mexican officials said P4P provides the opportunity to make technical assistance available in areas such as rural development, which have not yet benefited from NAFTA. Recognizing the importance of rural development to the full and successful implementation of NAFTA, the State Department's Mission Performance Plan and USDA's Unified Export Strategy for Mexico call for building on collaborative activities under the P4P to pursue rural development and support trade liberalization. However, P4P documents generally have little to say about furthering Mexico's successful transition to liberalized agricultural trade under NAFTA, and P4P action plans do not set forth specific strategies and activities that could be used to advance rural development in support of free trade.

The lack of specific plans under P4P to pursue rural development in support of NAFTA is particularly noteworthy because USDA officials expressed concerns that Mexico's lagging rural development presents a challenge to the successful transition to liberalized trade under NAFTA, including the elimination of remaining tariffs in 2008. USDA officials noted that the underlying factors in Mexico's lagging rural development are structural and need to be addressed internally by Mexico. Nevertheless, USDA's Unified Export Strategy for Mexico calls for coordination with the U.S. Agency for International Development to pursue a rural development strategy under the rubric of the P4P initiative. This document also acknowledges the need to continue to underscore the benefits of free trade for Mexico under NAFTA while seeking ways to help Mexico address its rural development issues. USDA officials stressed that it is critical to change the debate from the need for protection from U.S. imports to promoting rural development in Mexico so that small and medium farmers can take advantage of the opportunities provided by free trade.

Conclusions

As tariffs and tariff-rate quotas have been reduced or eliminated under the provisions of NAFTA, Mexican authorities have come under pressure to put in place technical barriers to protect producers from perceived harm from growing U.S. imports. Moreover, while Mexico has taken the steps called for under NAFTA to liberalize trade, lagging rural development fuels opposition to further implementation of the agreement. Yet the full and successful implementation of NAFTA is an important factor in assuring market access for United States agricultural exports to Mexico, and it is critical to broader U.S. trade interests because NAFTA is a model for trade liberalization in the Western Hemisphere. While the strategies of U.S. agencies in Mexico see an opportunity to build on the P4P initiative to pursue the related goals of rural development and trade liberalization under NAFTA, P4P documents generally have little to say about NAFTA. More specifically the P4P action plans do not set forth specific strategies and activities that could be used to advance rural development in support of free trade. P4P offers an opportunity for the United States to design a multi-agency comprehensive strategy to address the challenges presented by lagging rural development to Mexico's transition to liberalized agricultural trade under NAFTA, rather than providing assistance through individual measures.

Mexico's experience adjusting to the challenges of trade liberalization, ranging from difficulties associated with the application of SPS measures, problems raised by trade data discrepancies with the United States, and

lagging rural development, illustrate the importance of technical assistance. While Mexico did not seek assistance under NAFTA to adjust to trade liberalization, the U.S. government has acknowledged the usefulness of technical assistance in addressing such challenges by providing TCB assistance in later trade agreements with developing countries. In Mexico, P4P offers an avenue for the United States to provide such technical assistance. A key impediment to Mexican rural development is the lack of credit in the countryside, and the United States with its significant experience in rural lending has the technical expertise Mexico seeks. Moreover, most of Mexico's structural impediments must be dealt with internally, but facilitating rural credit is one area in which the United States, through P4P, is in a position to collaborate with Mexico. Improving the rural economy through credit facilitation increases the opportunities for Mexican importers of U.S. agricultural commodities and begins to counter negative perceptions of NAFTA's impact.

Recommendation for Executive Action

To aid the full and successful implementation of NAFTA, we recommend that the Secretary of State, as the head of one of the lead agencies for the P4P initiative, work with USDA and other relevant agencies to develop an action plan under P4P laying out specific collaborative efforts on rural development that would support the successful implementation of NAFTA. Such a plan could include a comprehensive strategy that outlines specific activities that are intended to address the challenges presented by lagging rural development to Mexico's successful transition to liberalized agricultural trade under NAFTA, and sets time frames and performance measures for these activities.

To promote rural development in Mexico and enhance Mexican small farmers' ability to benefit from trade opportunities under NAFTA, which would also help shape a more positive perception of the agreement, we recommend that the Secretary of State, as the lead agency for the P4P initiative, work with USDA and other relevant agencies to expand collaborative efforts with the Mexican government to facilitate credit availability in the countryside. This would include providing Mexico with expertise in the area of rural financing, such as risk assessment, project management, and loan evaluation.

Agency Comments and Our Response

We provided a draft of this report to the Department of State, USDA, USTR, USAID, FDA and OPIC for their review. We received formal written comments from the Department of State and from USDA, which are reprinted in appendixes VI and VII, respectively, along with our responses to specific points. In its written comments, the Department of State agreed with the need to develop a P4P action plan on rural development, and noted that on February 17, 2005, the U.S. and Mexican governments agreed to create a new structure under P4P establishing seven permanent working groups, including one on rural development. Each of these working groups has been asked to develop an action plan for 2005 activities. The Department of State also emphasized that the broader goal of P4P is to spur economic growth and development in parts of Mexico that have benefited less from NAFTA (i.e., not limited to rural development) and noted that the P4P initiative must work within existing resources. The Department of State raised concerns that the report generally overstates the strength of opposition to NAFTA in Mexico. However, we do not believe we have overstated the opposition to NAFTA in Mexico. As noted in the report, U.S. and Mexican officials expressed concerns about how negative perceptions of NAFTA may impact successful implementation of the agreement. In addition, the report recalls the difficulties experienced in Mexico in anticipation of tariffs elimination under NAFTA in 2003.

In its letter, USDA expressed readiness to work with the Department of State and with other agencies, under P4P, to develop collaborative efforts to support Mexican rural development and facilitate the continued and successful implementation of NAFTA. The Department of State, USDA, USTR, OPIC, and FDA also suggested clarifications, technical corrections, and elaboration of certain points which we have incorporated into this report, as appropriate. USAID comments were incorporated in the formal letter from the Department of State.

We also obtained comments on key sections of the report from the Mexican Ministry of the Economy (SE), the Ministry of Agriculture (SAGARPA), and Mexico's rural lending institution for small and medium farmers (Financiera Rural). SE and SAGARPA submitted joint comments. While commending the overall positive portrayal of the U.S.–Mexican agricultural trade relationship, SE and SAGARPA expressed concern that the report did not sufficiently underscore the importance of the Mexican market for U.S. exports under NAFTA. They cited U.S. trade data to illustrate the dramatic growth in certain U.S. commodity exports to Mexico since NAFTA has been in effect. They noted that Mexico is the largest foreign market for U.S. beef

and rice and the second largest foreign market for U.S. corn, pork, poultry, and apples, some of the commodities our report highlights to illustrate the effects of Mexican trade measures.

Additionally, SE and SAGARPA commented that our report did not provide a sufficiently detailed objective analysis regarding the nature and validity of various Mexican trade measures. These agencies expressed concern that the report unfairly portrays various Mexican trade measures without an adequate evaluation of the facts behind Mexico's implementation of these measures, such as the scientific support for certain SPS requirements, and the legitimate findings of antidumping investigations. SE and SAGARPA also objected to the report's reliance on the testimony of parties directly impacted by these measures. Similarly, SE and SAGARPA expressed disappointment that the report does not examine U.S. trade measures that impact Mexican agricultural exports to the United States, which parallel many of the difficulties faced by U.S. agricultural exports to Mexico. Finally, SE and SAGARPA also stressed that the debate over the impact of NAFTA on the Mexican rural economy does not have any substantive implications for the implementation of Mexico's obligations under the agreement.

GAO fully recognizes, and our report documents, the vital importance of the Mexican market for U.S. agricultural exports. We note the rapid growth in the value of U.S. agricultural exports to Mexico, which grew on average 17.4 percent annually and almost doubled from 1993 to 2003. We also point out that Mexico is the third largest market for U.S. agricultural exports and that its share of the U.S. agricultural export market has risen from 8 percent in 1993 to about 13 percent in 2003.

Regarding the concerns raised by SE and SAGARPA about the nature of GAO's analysis, we believe the report presents a balanced and objective description of key Mexican trade measures that affect U.S. agricultural exports to Mexico. Consistent with GAO's overarching mission to help improve the performance and accountability of U.S. government programs and activities, our report provides recommendations to the Department of State and USDA to help ensure the successful implementation of NAFTA. Since it is outside GAO's jurisdiction to audit foreign government programs and procedures, our treatment of Mexican trade measures is descriptive not evaluative. We include testimonial, as well as other evidence, in our report in order to illustrate the positions of various parties. Throughout the report we have included the views of responsible Mexican officials and have added clarifications to the report in response to specific comments

made by these Mexican agencies. For example, we added language to the report to clarify that the existence of a case under dispute settlement proceedings does not necessarily mean a trade partner's actions violate the provisions of NAFTA or other trade agreements. Similarly, we eliminated references to difficulties related to labeling requirements and import permits, which, as USDA officials have acknowledged, have not been used frequently by Mexico. Instead we focused only on Mexico's tax on beverages containing nonsugar sweeteners. In addition, our report covered a number of areas including collaborative activities of U.S. agencies in Mexico and concerns about the long-term success of NAFTA, as well as Mexican trade measures that impact U.S. agricultural exports to Mexico. While we are aware that Mexican agricultural exports to the United States also encounter challenges meeting U.S. import requirements, these issues were outside the scope of this project. We have included language clarifying the scope of our work in this report.

Regarding the point raised by SE and SAGARPA on Mexico's determination to proceed with the implementation of NAFTA, our report does not question the commitment of Mexican authorities to fulfill their obligations under the agreement. However, both U.S. and Mexican officials have expressed concerns about how negative perceptions of NAFTA may impact successful implementation of the agreement. Some of these officials recalled the difficulties experienced at the time of the 2003 tariff eliminations, including mass demonstrations against NAFTA, calls for a moratorium on implementation of the agreement, and pressure to renegotiate the agricultural provisions of NAFTA. We believe that in accordance with U.S. government pronouncements regarding the importance of NAFTA for U.S. farm interests, it is appropriate for U.S. agencies to actively plan to support the successful implementation of the agreement.

In addition to these broader comments on the report's presentation and approach, SE and SAGARPA provided technical comments and clarifications on Mexican agricultural programs, such as clarification on PROCAMPO payments, and on the crops included under the Direct Payments for Target Income subprograms. We have made a number of changes in the report to reflect their comments. Financiera Rural had only one technical comment on our representation of that agency's strategic plan, which we have incorporated into our report.

As we agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the date of this letter. We will then send copies of this report to appropriate congressional committees and to the U.S. Trade Representative and the Secretaries of the Departments of Agriculture and State. Copies will be made available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-4347 or at yagerl@gao.gov. Other GAO contacts and staff acknowledgments are listed in appendix VIII.

Sincerely yours,

A handwritten signature in black ink that reads "Loren Yager". The signature is written in a cursive style with a large initial "L" and "Y".

Loren Yager
Director International Affairs and Trade

Objective, Scope, and Methodology

To obtain information about the progress made, as well as difficulties encountered, in gaining market access for U.S. agricultural exports to Mexico, we reviewed the commitments in the NAFTA, including the tariff elimination schedules for agricultural products. We reviewed official documents related to various phases in the implementation of NAFTA and met with USDA and USTR officials to document progress made on each phase of tariff elimination. We studied trade flows to track changes in U.S. agricultural exports to Mexico, both at the aggregate level and at the product level using USDA's Foreign Agricultural Trade of the United States database. We discussed the limitations and reliability of the trade data with USDA officials and determined the trade data reported by USDA are sufficiently reliable for the purpose of this report. We used various price indexes to adjust the trade value for inflation to convert trade values to constant 2003 dollars. We reviewed USDA publications on the Mexican market for U.S. agricultural products, and we reviewed studies by U.S. government and academic sources on the impact of NAFTA on U.S. exports to Mexico. We met with officials from USTR, USDA, and various producer groups to ascertain the progress and the difficulties in market access for U.S. agricultural exports to Mexico. We obtained from USTR a list of trade disputes with Mexico since NAFTA and reviewed WTO and NAFTA documentation on these agricultural trade dispute settlement cases. While we describe Mexico's use of trade measures, we did not evaluate the validity of their application. To illustrate the scope and type of market access issues faced by U.S. agricultural exports to Mexico, we selected seven commodities to analyze and present as case studies. Our analysis and criteria for selecting the commodities is presented in appendix II.

In order to review how Mexico has responded to the challenges and opportunities presented by free trade in agriculture and explore remaining challenges to the successful implementation of NAFTA, we reviewed relevant studies and research prepared by the Mexican Ministry of Agriculture (Secretaría de Agricultura, Ganadería, Pesca y Alimentación—SAGARPA), the World Bank, the United Nations Food and Agriculture Organization, and USDA. We conducted an extensive literature search, screening the results to identify the most appropriate research and studies. We considered various screening criteria including source, timing, and venue of publication. We cross checked key conclusions in various studies to assess their credibility. We reviewed the methodologies described for the studies we report on to determine their limitations. We also interviewed several authors of key studies we used in our report to clarify our understanding of their methodology and their conclusions. Finally, we discussed the conclusions of these studies with other experts including

agricultural researchers and U.S. and Mexican government officials with expertise in the area of Mexican agriculture.

We obtained data from SAGARPA and the Mexican National Institute of Statistics, Geography, and Information Technology (Instituto Nacional de Estadísticas, Geografía, e Informática) on agricultural production. We did not assess the reliability of the production data; however, the general trend of production is consistent with what is widely reported in other studies. We reviewed official Mexican government documents and other studies, which describe the major agricultural policies in Mexico since early 1990s. We interviewed current and past SAGARPA officials and the officials from the Ministry of the Economy (Secretaría de Economía–SE), who are familiar with current agricultural programs and the evolution of these programs under NAFTA.

We obtained information from USDA agencies (FAS, APHIS, ERS, NASS, ARS, FSIS, and AMS) and from FDA on agriculture-related collaborative activities they have undertaken in Mexico for the 10 years that NAFTA has been in effect (1994 through 2004). This information included activity descriptions and funding by agency. To assess the quality and reliability of the data submitted by each agency, we interviewed the agency officials responsible for the data and reviewed the data provided. When we noted discrepancies or gaps in the data, we discussed these with the agency officials and obtained corrections and/or clarifications. Based on our work, we determined that the data were sufficiently reliable to portray overall levels of expenditures and the nature of these activities. For USDA agencies, we compiled this data in a set of tables presented in appendix IV. These tables reflect funding for activities implemented by these agencies from 1994 through 2004; however, some of the agency activities started before 1994, while others were concluded before 2004. For FDA we present a summary description of agency activities in the same appendix.

We met with State Department officials in Washington, D.C., and U.S. embassy officials in Mexico to discuss U.S. efforts under the Partnership for Prosperity (P4P). We reviewed documents from the Department of State on P4P including the 2002 and 2003 P4P reports to Presidents Bush and Fox, the P4P Action Plan, testimonies by State officials, and press releases on P4P activities. In order to report on P4P activities related to agriculture or rural development, we discussed agency plans and ongoing activities with USDA, U.S. Agency for International Development, and Overseas Private Investment Corporation officials. We also discussed the impact of P4P with Mexican government officials from SAGARPA, the

Appendix I
Objective, Scope, and Methodology

Mexican Ministry of the Economy (SE), the Mexican Ministry of Foreign Affairs (Secretaría de Relaciones Exteriores), and Mexico's rural lending institution for small and medium size farmers (Financiera Rural).

We conducted our review from February 2004 through February 2005 in accordance with generally accepted government auditing standards.

Case Studies of Selected U.S. Agricultural Exports to Mexico

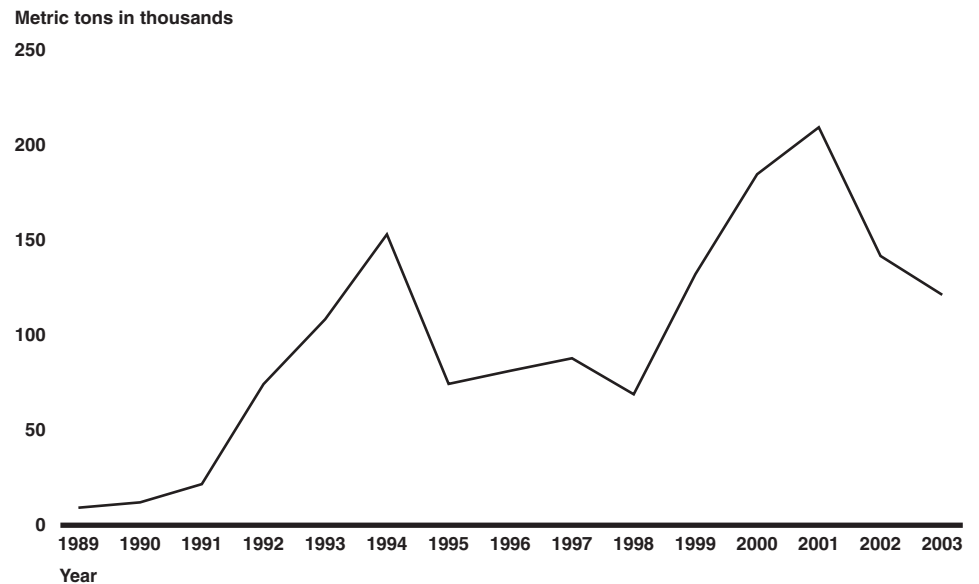
To illustrate the range of market access barriers faced by certain U.S. agricultural exports to Mexico, we selected seven products to analyze and present as case studies: apples, beef, corn, high-fructose corn syrup (HFCS), pork, poultry, and rice. Each of the case studies includes a brief background and history of the exported product's experience accessing the Mexican market, a description of the types of market access barriers each product faces, and a summary of the current status of market access issues. We selected commodities as representative of (1) products at various stages of the tariff elimination schedule; (2) different agricultural sectors—for example, grains (rice), horticultural products (apples), and meat (pork); (3) products that face varying types of tariff and nontariff barriers; (4) the range of mechanisms used in attempting to settle market access disputes; and (5) varying levels of export volume and value. Information presented in the case studies is based on our analysis of trade data, review of U.S., Mexican, WTO, and NAFTA official documents, and interviews with U.S. and Mexican government officials and various private sector representatives.

Apples

Background and Trade Data

Prior to NAFTA, Mexico restricted access to its fresh apple market through import licensing requirements and the application of a 20 percent tariff. In 1991, Mexico eliminated the licensing requirements. As part of its NAFTA commitments, Mexico established TRQs on apples, which were to be phased out over a 9-year period and result in duty-free access for U.S. apple imports by 2003. USDA reports that U.S. apple exports to Mexico have exceeded these specified TRQ amounts in each of the years following NAFTA's implementation. The United States is the world's leading apple producer, and apples comprised the largest portion of fruit exports to Mexico in 2003. U.S. apple exports to Mexico accounted for nearly 23 percent of U.S. worldwide apple exports. Between 1994 and 2003, the total quantity of fresh apple exports to Mexico increased by an average of 4.7 percent annually, and the value of exports totaled nearly \$71 million in 2003 (see fig. 3).

Figure 3: Total Volume of U.S. Fresh Apple Exports to Mexico, 1989–2003



Source: GAO, based on USDA Foreign Agricultural Trade of the United States database.

Key Market Access Issues

A key market access issue for U.S. apple exporters is the way Mexico has sought to exercise oversight for the application of its phytosanitary requirements. Mexico requires phytosanitary certificates for U.S. apples due to concerns about apple maggots in shipments. According to the USDA's Economic Research Service, most countries accept U.S. systems approaches for pest management as adequate protection against the threat of apple maggot. Mexico, however, requires that apples undergo a process called "cold treatment" before U.S. apple shipments can be imported into Mexico. Additionally, Mexico required that the Mexican government inspect and certify U.S. storage and treatment facilities. The treatment and inspection process increased U.S. producers' cost of exporting apples to Mexico. In 1998, Mexico turned over supervision of the inspection program to USDA. Nevertheless, according to the U.S. Apple Association, some apple-producing states have been effectively shut out of the Mexican apple market because of the prohibitive treatment and certification costs. For example, the association representative noted that producing states like Pennsylvania, the fourth largest apple-producing state in the country, cannot recoup the "hundreds of thousands of dollars" of costs incurred through these inspections.

In addition to Mexico's phytosanitary treatment and certification requirements, Mexico initiated an antidumping investigation against U.S. apples in 1997 and imposed a preliminary import duty of more than 100 percent on Red and Golden Delicious apples. In 1998, the U.S. apple industry and the Mexican government signed an agreement suspending this duty, and the U.S. industry agreed to comply with a minimum-price scheme.¹ U.S. apple exports to Mexico declined in 1998 (when the antidumping duty was in place) but experienced large, successive increases in 1999, 2000, and 2001 under the price agreement. However, in August 2002, the minimum price scheme was dropped at the request of Mexican growers, and Mexico resumed the dumping case and imposed antidumping duties of more than 45 percent on U.S. apples. As a result, U.S. exports decreased in 2002 and 2003. According to the U.S. Apple Association, the timing of the Mexican imposition of the dumping duty was notable, since NAFTA's tariff rate quota and duty on apples were to be lifted on January 1, 2003. For this reason, the association noted that many U.S. apple exporters question the merits of the dumping allegations and maintain that Mexico is inappropriately restricting market access in order to protect its domestic industry.

Current Status and Future Challenges

U.S. apple industry representatives note that Mexico's policies restrict U.S. producers' access to Mexico's market. The U.S. apple industry notes that the treatment certification process takes several years and can be prohibitively costly in U.S. states where there are fewer producers to share costs. Furthermore, the U.S. apple industry is very fragmented, which is a significant challenge in dealing with market access problems in Mexico. For example, even though producers find the certification process burdensome, the industry does not have a joint strategy on how to address this problem.

Beef

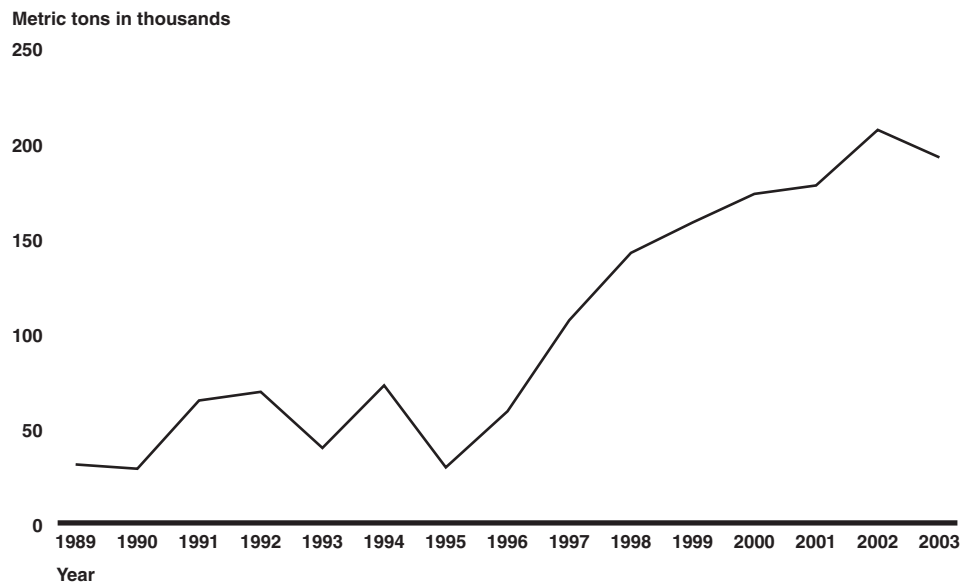
Background and Trade Data

In 1992, 2 years prior to NAFTA's implementation, Mexico raised tariffs on imported beef from zero to 20 percent. Per NAFTA, Mexico immediately eliminated these tariffs on imports of most U.S. beef products, and U.S.

¹Minimum pricing is also referred to as reference pricing.

beef exports to Mexico increased.² The recession that followed the 1994 peso crisis caused U.S. beef exports to Mexico to drop sharply by 1995, and exports did not recover fully until 1997. U.S. beef exports have grown steadily since 1995, and USDA notes that this increase is linked partially to the continuing improvements in the Mexican economy. Between 1994 and 2003, the volume of U.S. beef exports to Mexico increased by an average of 21 percent annually, and beef exports to Mexico accounted for 22.4 percent of the volume of U.S. beef exports worldwide (see fig. 4). The value of exports to Mexico in 2003 totaled \$604 million.

Figure 4: Total Volume of U.S. Beef Exports to Mexico, 1989–2003



Source: GAO, based on USDA Foreign Agricultural Trade of the United States database.

Key Market Access Issues

Although the volume of U.S. exports to Mexico has been increasing steadily over the past 10 years, market access for U.S. producers has been affected by antidumping actions and a ban on U.S. beef following the discovery in the United States of one cow (originally imported from Canada) with bovine spongiform encephalopathy (BSE) or “mad cow disease.” First, in 1994, the Mexican National Livestock Association initiated an antidumping

²Under NAFTA, Mexico also agreed to phase out a 20 percent tariff on U.S. beef offal over a 9-year period that ended on January 1, 2003.

case against certain types of beef imports by claiming discriminatory pricing on the part of U.S. exporters. Following industry-to-industry negotiations, the U.S. National Cattlemen's Beef Association and the Mexican National Livestock Association signed a memorandum of understanding that formalized an agreement to (1) share U.S. technologies with Mexican producers and (2) coordinate both groups' efforts to promote beef consumption in Mexico. As a result, the Mexican National Livestock Association dropped the dumping petition.

However, in 1998 charges were made once again that the United States was dumping beef in Mexico. On August 1, 1999, Mexico announced antidumping tariffs that varied by company. Individual U.S. beef exporters appealed these tariffs, and on October 10, 2000, Mexico published a set of revised antidumping tariffs for certain beef exporters. These duties range from zero to 80 cents per kilogram, depending on the company and the type of beef. On June 16, 2003, the United States requested WTO consultations on Mexico's antidumping measures on rice and beef, as well as certain provisions of Mexico's Foreign Trade Act and its Federal Code of Civil Procedure.³ In addition, a NAFTA Chapter 19 panel is expected to rule shortly on whether these duties were applied in accordance with Mexican law.

According to the National Cattlemen's Beef Association, the root of the beef trade dispute in Mexico lies in the lack of differentiation between the values for various cuts of meat. In Mexico, the different cuts of beef generally all have the same value, whereas in the United States different cuts of beef have different values. These different values have led to antidumping cases against the United States because any commodity that sells for less than the value of the product in the home country is considered dumping. According to the National Cattlemen's Beef Association representative, demand for variety meats (such as tripe and liver) is significantly higher in Mexico than it is in the United States. Because of these demand conditions, U.S. exporters can sell variety meats at a lower price, which leads Mexico's industry to believe the United States is dumping these products on the Mexican market.

In addition to facing dumping duties, the detection of one case of BSE in the United States in December 2003 led Mexico to impose a ban on all U.S. beef products. In March 2004, Mexico was the first country to reopen its

³WTO Case DS/295.

market to certain types of U.S. beef products (U.S. boxed beef under 30 months of age), expanding the list of allowable beef products in April 2004, and USTR reports that the U.S. government is working to re-open the remainder of the market as soon as possible.

Current Status and Future Challenges

According to producer group officials, market access for U.S. beef exports to Mexico has generally been very good, as evidenced by overall increases in trade. Both U.S. and Mexican industries plan to continue working together to resolve any potential trade disputes through industry negotiations. USTR notes that U.S. and Mexican beef and cattle industries are increasingly integrated, with benefits to producers, processors, and consumers in both countries.

Corn

Background and Trade Data

Corn is an important commodity in Mexico; in addition to being a dietary staple, white corn is the principal crop for many Mexican small farmers, and historically corn production is a fundamental feature of Mexican rural culture. Consequently, NAFTA negotiations regarding the phase-out of import barriers for corn were particularly sensitive. Prior to NAFTA, Mexico restricted access to its corn market through import licensing requirements, and there was no guaranteed level of access for U.S. imports. During NAFTA negotiations, it was widely believed in Mexico that immediate increases in imports of U.S. corn would displace Mexican corn producers. As a result, NAFTA negotiators agreed to allow Mexico to replace its import licensing requirements with transitional TRQs that will be phased out over a 14-year period—the longest transition period set forth in the agreement.

The United States has been one of the major foreign suppliers of yellow (feed) corn to Mexico, and U.S. exports to Mexico comprised 13 percent of all U.S. corn exports worldwide in 2003. Between 1994 and 2003, the volume of U.S. corn exports to Mexico increased by an average of 18.5 percent annually (see fig. 5). The value of exports to Mexico in 2003 totaled \$651 million.

Figure 5: Total Volume of U.S. Corn Exports to Mexico, 1989–2003



Source: GAO, based on USDA Foreign Agricultural Trade of the United States database.

Key Market Access Issues

Although Mexico's removal of restrictive import licensing requirements did away with a significant barrier to U.S. access to Mexico's corn market, a number of other factors have affected U.S. exports before and after NAFTA's implementation. For example, in the early 1990's, Mexico lifted a ban on using corn to feed livestock, which immediately increased demand for imports of yellow corn from the United States, which had been declining for several years. In 2003, yellow feed corn exports comprised more than 80 percent of U.S. corn exports to Mexico. Additionally, in the years following NAFTA, Mexico has usually allowed higher levels of imports than are required under the NAFTA TRQs in order to ensure that domestic demand for corn is fully met. Thus, Mexico has generally applied much lower tariffs on these additional quantities than those set forth under the agreement.⁴ These more liberal market access policies for yellow (feed) corn imports are driven in part by a need to provide feed for Mexico's expanding livestock industries. Notwithstanding these policies toward feed corn imports, a USDA analysis of Mexico's corn market notes that imports

⁴For example, in 2003, Mexico's applied tariff rate on imports of U.S. yellow corn that exceeded the NAFTA TRQ levels was less than 2 percent, while the out-of-quota tariff rate specified under NAFTA was more than 70 percent.

of white corn (i.e., corn generally used directly for human consumption) from the United States have declined since 2000, partly because the Mexican government has provided marketing funds to domestic producers of white corn. Additionally, USDA reports that in a significant departure from past practice, Mexico levied the NAFTA-specified above quota tariff rate of 72.6 percent on white corn in 2004. Mexico's tax on beverages sweetened with HFCS has also contributed to the decline in U.S. corn exports to Mexico. The tax has depressed Mexican production of HFCS, which is made from imported corn.

Current Status and Future Challenges

U.S. exports of corn to Mexico are expected to increase significantly as Mexico eliminates the transitional TRQs in 2008. However, some industry groups noted concern about Mexico taking other steps to protect its sensitive domestic corn market. For example, one U.S. industry representative noted that it will be important for the U.S. government to ensure that Mexico does not use SPS requirements as a barrier to U.S. imports. On the other hand, other observers note that an expanding economy in Mexico will increase consumer demand for meat and, in turn, continue to increase demand for U.S. corn imports as feed for Mexican livestock production.

Additionally, certain farm groups in Mexico have argued that allowing duty-free imports of U.S. corn will lead to a total collapse of Mexican agriculture, and they have vowed to mount an unprecedented campaign to stop the last round of tariff eliminations. Mexican politicians who oppose NAFTA note the continuing economic distress in rural areas of Mexico and insist on renegotiating the agricultural provisions of the agreement to improve the conditions of Mexican farmers. Although the total elimination of already low Mexican tariffs on corn may not have much economic significance for U.S. producers, failure to comply with the final phase of tariff elimination may undercut support for NAFTA among U.S. producers who were in favor of the agreement with the expectation that it would lead to genuinely free trade. Furthermore, U.S. trade officials have expressed serious reservations about any attempt to renegotiate the agricultural provisions of NAFTA because it could lead to demands to renegotiate other aspects of the agreement and undermine the agreement as a model for trade liberalization throughout the Western Hemisphere.

High-Fructose Corn Syrup

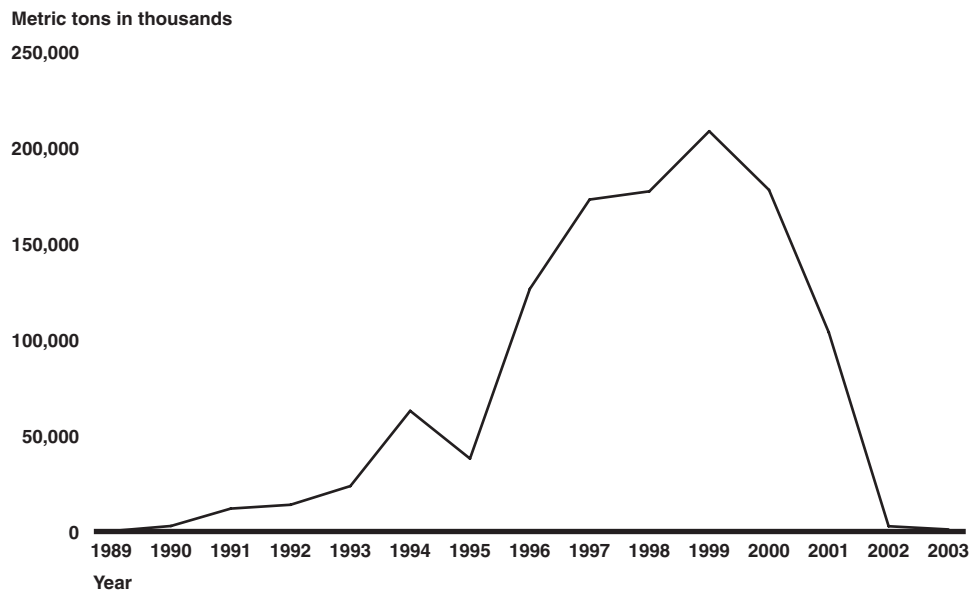
Background and Trade Data

Impediments confronted by U.S. HFCS exports to Mexico are related to difficulties encountered by Mexican cane sugar exports to the United States. Trade friction between the United States and Mexico over HFCS came to a head in 1997, when Mexico initiated an antidumping investigation of U.S. exports of this product. Based on the results of this investigation, Mexico imposed antidumping duties beginning in 1998. This triggered a lengthy WTO dispute settlement proceeding, in which the United States eventually prevailed in 2001. Thereafter, Mexico eliminated its antidumping duties but imposed a tax on beverages made with any sweetener other than cane sugar, including HFCS. The United States has challenged Mexico's beverage tax in the WTO, and that dispute is still pending.⁵ Mexico defends its beverage tax, noting that the United States has not complied with its market access commitments with respect to Mexican cane sugar. However, the U.S. government has rejected Mexico's arguments linking these two issues.

As shown in figure 6, U.S. exports of HFCS began to decline in 1999 after Mexico imposed the antidumping duties, and dropped to nearly zero after Mexico imposed the beverage tax in 2002.

⁵WTO Case DS/308.

Figure 6: Total Volume of U.S. Fructose Syrup Exports to Mexico, 1989–2003



Source: GAO, based on the U.S. International Trade Commission DataWeb.

Note: This graph is for syrup containing more than 50 percent by weight of fructose (HS 1702600050).

Key Market Access Issues

Market access issues began in 1997 when Mexico imposed preliminary antidumping duties on U.S. exports of HFCS. In 1997, Mexico's National Chamber of Sugar and Alcohol Industries, the association of Mexico's sugar producers, filed a petition in which it claimed that U.S. HFCS was being sold in Mexico at less than fair value and that these imports constituted a threat of material injury to Mexico's sugar industry. As a result of these claims, the Mexican Ministry of the Economy responded by imposing antidumping duties on U.S. HFCS. In 1998, USTR invoked a WTO dispute proceeding to challenge Mexico's action, and in 2000, a WTO panel ruled that Mexico's imposition of antidumping duties on U.S. imports of HFCS was inconsistent with the requirements of the WTO Antidumping Agreement.⁶ At that time, Mexico agreed to implement the panel recommendation by September 22, 2000. However, on September 20, 2000, Mexico issued a new determination and concluded that there was a threat of material injury to the Mexican sugar industry and that it would maintain the antidumping duties.

⁶WTO Cases DS/101 and DS/132.

The United States maintained that Mexico's new determination did not conform to the WTO panel's recommendations and challenged this new determination before a WTO compliance panel. The WTO compliance panel agreed with the U.S. position. Mexico appealed this ruling. The WTO Appellate Body agreed with the compliance panel's conclusions and recommended that Mexico comply with its obligations under the WTO Antidumping Agreement. While Mexico revoked its antidumping duties on HFCS in April 2002, in January of that year the Mexican Congress imposed a 20 percent tax on soft drinks and other beverages that use any sweetener other than cane sugar, which effectively shut out U.S. HFCS from the Mexican market.

The Fox administration acted to suspend the beverage tax from March 6 through September 2002. Mexico's Supreme Court, however, ruled the suspension to be unconstitutional and reinstated the tax effective July 16, 2002. The United States argues the HFCS beverage tax is inconsistent with Mexico's obligations under the WTO, which calls for treating imported products no less favorably than comparable domestic products. The United States considers that the beverage tax is inconsistent because it applies to beverages sweetened with imported HFCS, but not to products sweetened with Mexican cane sugar. In June 2004, the United States challenged Mexico's beverage tax in the WTO.

Current Status and Future Challenges

The dispute over Mexico's beverage tax is pending before a WTO panel. The sugar industry would like to negotiate a resolution to the sweetener dispute. At this time, private meetings have taken place between sugar producer groups in the United States and Mexico, and the industries are working to reach a resolution before 2008.

Pork

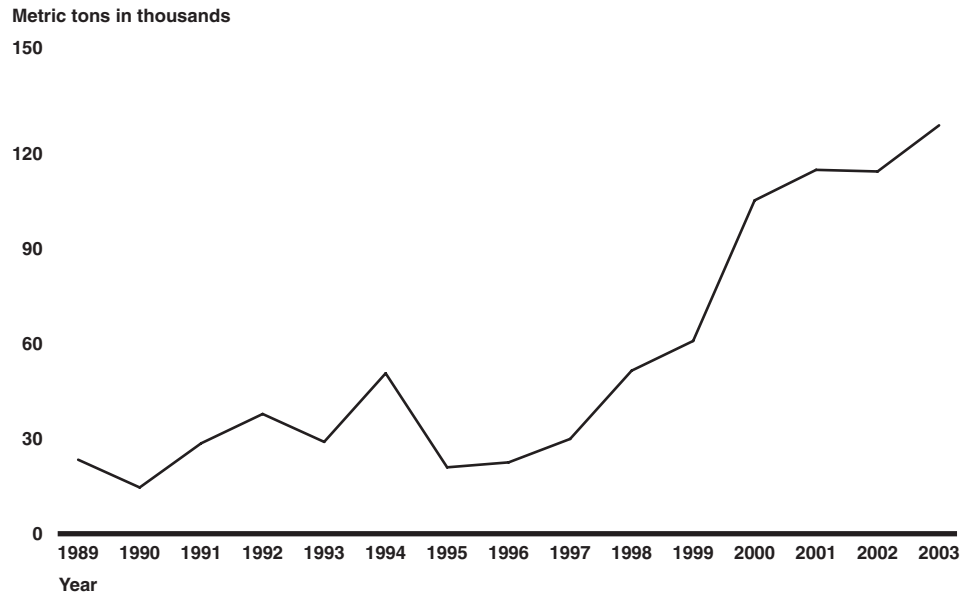
Background and Trade Data

Prior to 1994, Mexico levied a duty of 20 percent on U.S. pork, but under NAFTA, Mexico agreed to establish TRQs to be phased out over a 9-year period that ended on January 1, 2003. For several categories of pork products, U.S. pork exports to Mexico greatly exceed the quantitative limits of the TRQs, and Mexico generally allowed the additional product to

enter without applying the over-quota tariff.⁷ Additionally, NAFTA permitted Mexico to establish a special agricultural safeguard tariff rate quota for certain cuts of pork, under which Mexico can apply higher tariffs if imports of that product exceed specified levels.⁸ If imports rise above that level, the duty reverts to the lower of the current Most Favored Nation or pre-NAFTA levels. The safeguard levels expanded 3 percent each year until the provision expired on January 1, 2003.

U.S. pork exports to Mexico have increased significantly since NAFTA, with the total volume of U.S. exports rising by an average of 18.5 percent annually between 1994 and 2003 (see fig. 7). Exports to Mexico accounted for 22.3 of U.S. pork exports worldwide, and U.S. exports to Mexico totaled about \$217 million in 2003.

Figure 7: Total Volume of U.S. Pork Exports to Mexico, 1989–2003



Source: GAO, based on USDA Foreign Agricultural Trade of the United States database.

⁷Under NAFTA, over-quota trade of pork faced a tariff of 10 to 20 percent in 2002.

⁸Safeguard was placed on fresh/chilled/frozen pork and hams.

Key Market Access Issues

In November 2002, Mexican producers submitted a dumping complaint to the Mexican government, alleging that U.S. exporters were engaging in price discrimination by selling pork to Mexican buyers at lower prices than they would sell to buyers in other countries. On January 7, 2003, Mexico initiated the antidumping investigation against U.S. pork. According to U.S. pork producers, the Mexican association that requested the investigation does not represent the Mexican pork industry, and, therefore, did not have a legal right to make the request. The producers of pork in Mexico—the slaughterhouses and the packers—stated that they do not want the investigation to proceed and asked that it be terminated. On May 28, 2004, the Mexican government terminated the January 2003 investigation and initiated a more limited antidumping investigation on hams only.

Even after the antidumping case was filed against U.S. pork, Mexico continued to be the second major market for U.S. pork exports. Furthermore, USDA officials stated that any decreases in pork exports due to the case were more than offset by the increase in demand for pork following Mexico's ban on U.S. beef products after a case of BSE was discovered in the United States. In addition, USDA noted that demand for U.S. pork exports to Mexico correlates closely to income growth in that country (i.e., the rise of the middle class). Thus, while Mexico's tariff reductions have been an important contributing factor to the growth of U.S. pork exports to Mexico, the far more significant drivers of export growth have been the rapid recovery of the Mexican economy following its recession in 1995 and continuing income and economic growth since then.

Current Status and Future
Challenges

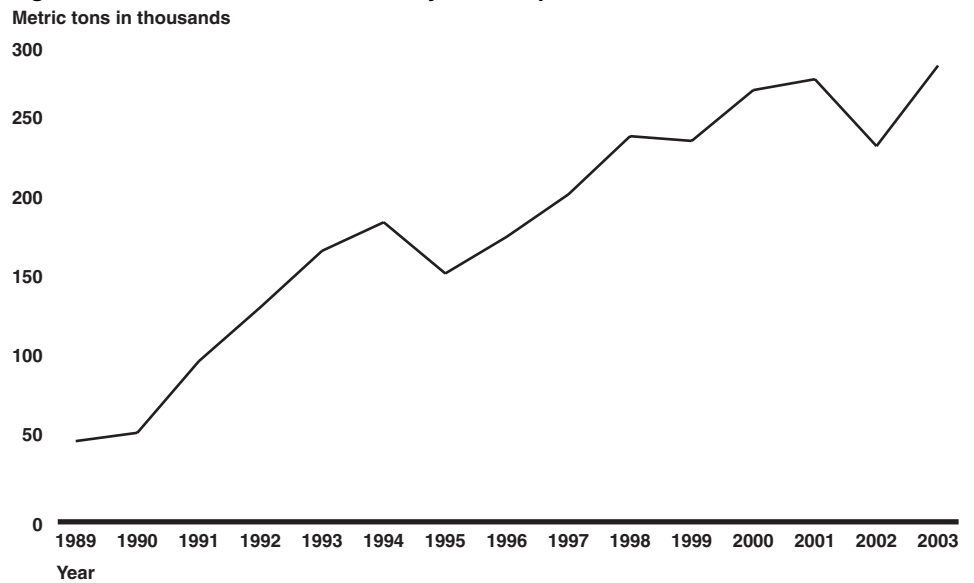
The U.S. government has questioned the basis of the May 2004 ham antidumping investigation. Furthermore, USTR asserts that the United States is actively working to prevent potential actions that Mexico may take on exports of U.S. pork. USTR officials believe that Mexico's January 2003 initiation of a pork dumping investigation and a May 2004 initiation of a ham dumping investigation may violate WTO rules and questions the statistics being used by the Mexican government to determine the level of imports. USTR has engaged the Mexican government to terminate the ham-dumping investigation, to resolve differences on trade statistics, and to seek alternatives to trade restrictive measures. Despite the antidumping dispute, Mexico and the United States have pledged to build on their long history of cooperation regarding swine and pork bilateral trade on the basis of equal and mutual benefit.

Poultry

Background and Trade Data

Prior to NAFTA, Mexico restricted access to its poultry market through import licensing requirements and 10 percent tariffs on imports. As with other products subject to import licensing, Mexico replaced these barriers with TRQs as part of its NAFTA commitments. NAFTA called for the TRQs to be phased out over a 9-year period, with duty-free access for U.S. poultry by 2003. Per NAFTA, the larger portion of the tariff cuts was to be implemented in the latter half of the phase-out period—a process referred to as “backloading.” Mechanically deboned meat, which is used by Mexican sausage manufacturers, comprises the most significant portion of U.S. poultry exports to Mexico. Since NAFTA, the Mexican government has chosen not to impose the above-quota tariff on this commodity due to the Mexican sausage industry’s high demand for the product, and, as a result, U.S. exports have routinely exceeded the TRQ levels set forth in the agreement. Between 1994 and 2003, imports of U.S. dark meat chicken parts have also generally exceeded the transitional TRQ levels. The United States is the major foreign poultry supplier to Mexico’s market, and Mexico is typically among the top three markets worldwide for U.S. poultry exports. From 1994 to 2003, the volume of U.S. poultry meat exports to Mexico increased by an average of 5.7 percent annually (see fig. 8). U.S. exports to Mexico accounted for 11.4 percent of U.S. poultry meat exports worldwide, and the value of U.S. poultry exports to Mexico totaled about \$260 million in 2003.

Figure 8: Total Volume of U.S. Poultry Meat Exports to Mexico, 1989–2003



Source: GAO, based on USDA Foreign Agricultural Trade of the United States database.

Key Market Access Issues

Demand for certain U.S. poultry products in Mexico was driven, in part, by insufficient domestic poultry production in Mexico. Additionally, because U.S. domestic demand for dark meat is low relative to Mexico's consumer demand, U.S. producers have been able to keep dark poultry meat prices relatively low and thus attractive to Mexican buyers. Over the years since NAFTA's implementation, Mexico's domestic poultry industry has expanded, and concern about U.S. competition among Mexican producers has increased commensurately.

As the end of Mexico's transitional TRQ on poultry products drew near in 2002, the Mexican poultry industry petitioned the Mexican government to apply a safeguard on imports of U.S. chicken leg quarters. The petitioners argued that the end of the TRQ would result in an import surge from the United States and injury to Mexico's domestic industry. Article 703 of NAFTA would have permitted Mexico to impose duties of up to 240 percent on U.S. poultry imports, if NAFTA's conditions for a safeguard were met. Rather than face such potentially high tariffs and a disruption to U.S. exports, U.S. producers, in industry-to-industry negotiations with the Mexican petitioners, agreed to a more favorable regime.

In July 2003, Mexico issued a final safeguard determination that imposed a TRQ which allows the quota to expand each calendar year through 2007, at which point the duties will be eliminated. The within-quota duty is zero, and the initial over-quota duty was 98.8 percent, which declines each year until reaching zero on January 1, 2008. The U.S. and Mexican governments agreed on a package of compensation measures in response to the safeguard. In particular, Mexico agreed not to impose any other restrictions on U.S. poultry products and to eliminate certain SPS restrictions. The U.S. government also agreed, following consultations with U.S. industry, to consent to Mexico's application of the safeguard past the expiration of the transition period.

Some poultry industry representatives noted that settlement of the poultry safeguard issue brought some initial criticism from other U.S. producer groups, who maintained that the settlement set a precedent for Mexico to force renegotiation of its NAFTA commitments. However, USTR officials stated that the United States will not consider any renegotiation or rescission of Mexico's NAFTA commitments and views the poultry settlement as a unique workable solution that forestalled possible significant disruption to U.S. exports. They doubted a similar outcome could be achieved in other industries.

Current Status and Future Challenges

USDA reports that domestic poultry production in Mexico continues to expand. USDA and industry representatives said that the additional protection for Mexican producers established under the safeguard settlement will provide Mexican producers additional time to prepare for free trade. USDA also notes that demand for poultry, combined with an expanding Mexican economy and a removal of the ban on some U.S. poultry exports, will continue to increase demand for U.S. poultry products. Nevertheless, some U.S. industry representatives remain concerned and noted that once the TRQ expires, Mexican authorities may employ other measures, such as sanitary restrictions, as a means to constrain U.S. access to Mexico's market.

Rice

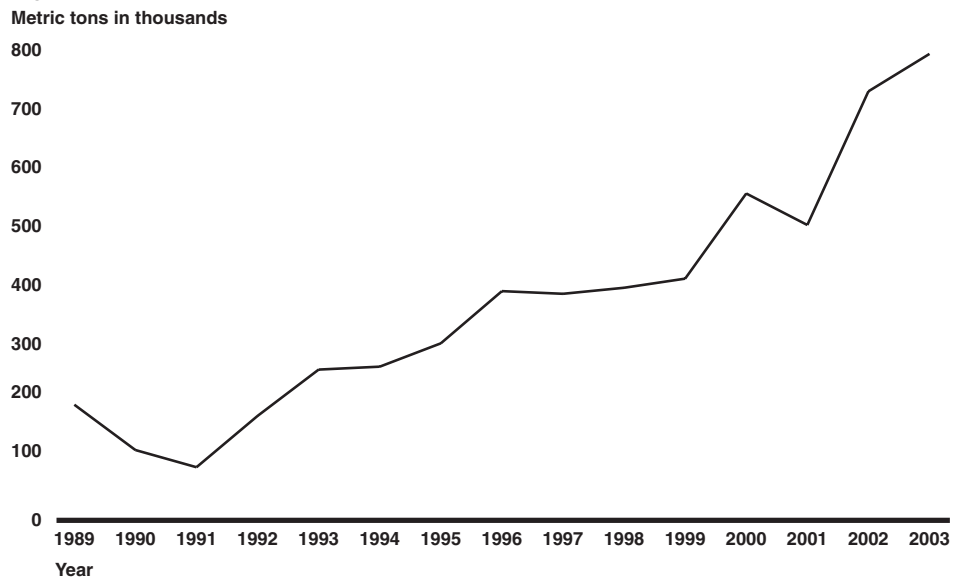
Background and Trade Data

The United States is the primary supplier of rice to Mexico, mostly due to the fact that Mexico has banned or placed strict phytosanitary standards on

Appendix II
Case Studies of Selected U.S. Agricultural
Exports to Mexico

imports of rice from Asian countries since the early 1990s.⁹ The United States exports both rough (i.e., unprocessed) rice and milled (i.e., processed) rice to Mexico, although demand for rough rice is much higher. As a result of the lack of supply from Asian producers and the high demand for rough rice, rough rice accounted for about 90 percent of the total volume of U.S. rice exports to Mexico in 2003. Prior to NAFTA's implementation, Mexico levied duties of 20 percent on brown and milled (i.e., processed) rice and 10 percent on rough (unprocessed) rice. Under NAFTA, Mexico agreed to phase out rice tariffs over a 9-year period, with all tariffs to be eliminated by 2003. With the phasing out of tariffs on rice, the volume of U.S. exports has increased by an average of 14.4 percent annually from 1994 to 2003 (see fig. 9). U.S. rice exports to Mexico accounted for 17.7 percent of U.S. rice exports worldwide, and exports to Mexico totaled about \$140 million in 2003.

Figure 9: Total Volume of U.S. Rice Exports to Mexico, 1989–2003



Source: GAO, based on USDA Foreign Agricultural Trade of the United States database.

⁹Due to an infestation believed to have originated from Asian rice shipments, Mexico banned all rice imports from Asian countries in 1993. Mexico removed the ban in 1996, but still subjects Asian rice to strict phytosanitary requirements. Additionally, no major Asian rice producer allows exports of rough, unmilled rice because rice milling is a value-added process and source of employment in those countries.

Key Market Access Issues

In December 2000, Mexico initiated an antidumping investigation on imports of long-grain milled rice from the United States. Mexican rice millers (who process rice that competes with U.S. milled rice imports) alleged that U.S. milled rice is being sold in Mexico at a price less than its fair market value. The Mexican government subsequently levied antidumping duties in April 2000 and June 2002 on specific U.S. rice imports. A U.S. rice industry representative told us that the U.S. rice industry attempted to resolve the issue through the industry-to-industry negotiations but that the negotiations were unsuccessful. Following the industry negotiations, the United States formally requested WTO consultations with Mexico in June 2003. These consultations were held from July 31 through August 1, 2003, on the basis of concerns regarding Mexico's methodology for determining injury to the domestic market and for calculating dumping margins. WTO consultations failed to resolve the issue, and in February 2004 a WTO dispute panel was formed to resolve the case.¹⁰ The U.S. rice industry representative said that several other U.S. commodity groups were supporting this case in the WTO because the case deals with broad issues related to Mexico's application of the antidumping law that could affect their exports as well.

Current Status and Future Challenges

A ruling on the WTO dispute is expected in April 2005. Notwithstanding the outcome of the case, U.S. rice exporters generally benefit from preferential access under NAFTA and Asian exporters' restricted access to the Mexican market. USDA reports indicate that U.S. exporters could face increased competition in the milled rice market in Mexico should Asian exporters satisfactorily meet Mexico's phytosanitary concerns.

¹⁰WTO Case DS/295.

Three Major Mexican Agricultural Programs

Recognizing the challenges and anticipating the opportunities that market reforms and free trade posed for its farm sector, the Mexican government has implemented several programs to help its farmers adjust to changing economic conditions. The three main support programs implemented since the early 1990s are PROCAMPO, marketing support, and Alianza.

PROCAMPO (Programa de Apoyos Directos al Campo)

- Date initiated: 1994
- Budget: PROCAMPO is the largest agricultural support program, accounting for 35 percent of Mexico's Agriculture Ministry's (SAGARPA) budget in 2003, around \$1.27 billion.
- Goal: PROCAMPO is a 15-year program that provides transitional income support to Mexican agriculture as it undergoes structural changes in response to market conditions and the phasing out of trade barriers under NAFTA. The political objective is to manage the acceptability of the free trade agreement among farmers and to prevent extensive levels of poverty and out-migration.
- How it operates: The program makes payments on a per-hectare basis to any producer who cultivates a licit crop on eligible land or utilizes that land for livestock or forestry production or some ecological project. Eligible land is defined as that which has been cultivated with corn, sorghum, beans, wheat, barley, cotton, safflower, soybeans, or rice in any of the three agricultural cycles before August 1993. There are three types of PROCAMPO payments: preferential, traditional, and capitalized. Preferential payment is for producers with fewer than 5 hectares in nonirrigated lands who only produce in the spring-summer cycle. For the spring-summer 2003 agricultural cycle, the payment levels equaled 1,050 Mexican pesos (\$100) per hectare. The traditional payment is for the rest of the producers. It was 905 pesos (\$86) per hectare in 2003. The capitalized payment is made under certain conditions to producers who request the sum of their future PROCAMPO payments.
- Beneficiaries: During 2001, 2.7 million producers with a total of 13.4 million hectares received PROCAMPO payments. Around 75 percent of farmers in the PROCAMPO database have less than 5 hectares of land.

- **Changes in the program:** There was a proposal in November 2002, as part of a broader Mexican government initiative for rural support, to update the payments according to yields. However, this action was never put into practice. Another program will be created for producers who are not currently registered in PROCAMPO, who also may be considered for assistance to smooth out income fluctuations. Also, the National Agreement's emergency spending proposal contains 650 million pesos (\$62 million) for the inclusion of additional land on the PROCAMPO roster.¹ According to Mexican officials, even where there are new producers enrolling, the total benefiting area has not changed because those new producers are filling the place left by former producers whose lands are no longer eligible to receive support.
- **Impact:** PROCAMPO has become an important source of some rural households' income, and it may have income multiplier effects when recipients put the money they receive to work to generate further income. The Mexican government reported that between 1989 and 2002 incomes from agricultural businesses have lost importance, while other sources, such as government support programs, remittances, salaries, and wages, have increased their share in rural households' income. Scholars have found payment from PROCAMPO has forestalled the income decline of subsistence farmers. In addition, scholars found that payment from PROCAMPO generated an income multiplier effect, which meant that the PROCAMPO payment was used productively and generated additional income for rural households. However, scholars believe that the level of payment from PROCAMPO was not large enough to offset the risks of switching to more profitable crops, which is part of the goals of the marketing support program (discussed below).

Marketing Support and Regional Market Development Program (Programa de Apoyos Directos al Productor por Excedentes de Comercialización para Reconversión Productiva, Integración de Cadenas Agroalimentarias y Atención a Factores Críticos, formerly Programa de Apoyos a la Comercialización y Desarrollo de Mercados Regionales)

¹The Mexican government invited producer groups and other rural organizations to participate in nearly 4 months of public hearings and negotiations. The government and many of the participating organizations signed the National Agreement for the Countryside (Acuerdo Nacional para el Campo) in 2003. The document includes a plan to reallocate more than 18.8 billion pesos (\$1.8 billion) in government funds to a variety of emergency activities.

- Date Initiated: 1991
- Budget: The marketing support program is the second largest agricultural program. Marketing Support and Regional Market Development Program accounts for about 16 percent of SAGARPA's budget. For 2003, the budget was around \$580 million.
- Goal: The program supports various aspects of agro-marketing and commerce. The Agricultural Marketing Board (ASERCA) was created to substitute the traditional direct intervention that the government formerly made through a parastatal state trading enterprise for sorghum and wheat.
- How it operates: The program has seven subprograms: (1) direct payment to producers, (2) price supports, (3) collateral loans, (4) crop conversion, (5) other types of support, (6) slaughter house certification, and (7) special support for corn. The major subprogram is the direct payment to producers. This program provides payments to producers of rice, corn, wheat, sorghum, barley, canola, copra, peanuts, cotton, and safflower in certain areas, usually on a per-ton basis.
- Beneficiaries: Beneficiaries of the marketing support program on average have more land than PROCAMPO payment recipients. According to Mexican government documents, around 22 percent of the respondents to its annual survey of the marketing support program have fewer than 5 hectares, while almost half have more than 15 hectares. In 2004, the program supported 240,000 producers.
- Changes in the program: In 2003, Mexican farmers asked for support that would "mirror" what was provided U.S. farmers under the U.S. Farm Bill, which led the Mexican government to establish "target income" support. The new program has seven subprograms including direct payments for (1) target income, (2) slaughtering in certified slaughter houses, (3) accessing domestic forages, (4) crop conversion, (5) price hedging, (6) pledging, and (7) other specified activities. Additionally, barley, copra, and peanuts are no longer on support list. For a period of 5 years, the government plans to guarantee a target income, expressed per ton, for producers of certain grains and oilseeds. Nearly 17 billion Mexican pesos (\$1.6 billion) have been designated for this program. In determining whether a producer has reached the target income, the government evaluates a producer's income from selling on the market, and if the income from selling on the market falls short of

the target income, the government will provide additional support to ensure that farmers' incomes reach the set target. Under the former program, just a few states were able to request support, while the new program makes payments to producers with commercial surpluses in all states.

- **Impact:** The program has had an impact on crop patterns and migration. The "target price" program has led to concentration in basic crop production instead of crop diversification. Mexican officials hope the new "target income" approach will help farmers to be more responsive to the market conditions. A Mexican official document points out that the program is an important factor in mitigating migration from the countryside, but the document also recognizes that the program did not succeed in integrating farmers into the marketing chain. Thirty percent of the respondents to the program annual survey said they would have sought employment somewhere else if they had not received this assistance. A USDA study of grain production finds that the marketing supports, along with the constitutional reforms that allow the rental of ejidal lands, have facilitated the emergence of large-scale farms of corn and dried beans.

Alianza (Alianza para el Campo)

- **Date initiated:** 1996
- **Budget:** Alianza accounts for about 15 percent of SAGARPA's budget, about \$570 million in 2003.
- **Goal:** The goals of the programs are to boost agricultural productivity and promote the transition to higher value crops. The objectives include increasing producer income, improving the balance of trade, achieving an agricultural production growth rate higher than the population growth rate, and supporting the overall development of rural communities.
- **How it operates:** The programs were grouped under four categories: agriculture, livestock, phytosanitary, and technology transfers. Activities include better use of water and fertilizer, adoption of improved seeds, better disease and pest control practices, improved genetic quality of crops and livestock, improved cattle stocks, better health and sanitation practices, and pasture development and related infrastructure development for increased production. These programs are

decentralized and are financed jointly by federal and state governments and producers.

- **Beneficiaries:** The evaluation done by the United Nations Food and Agriculture Organization (FAO) found that the program serves farmers with various socio-economic backgrounds, educational levels, ages, farm size, and income levels. The FAO evaluation also found that medium size producers have benefited the most from the agriculture program, and 24 percent of small farmers have benefited.
- **Changes:** In 2002, for the first time, general objectives were established for all the sub programs. These objectives are to (1) increase income, (2) diversify employment options, (3) increase investment in rural development, (4) strengthen producer group organizations, and (5) advance sanitary standards. To achieve these objectives, strategies were established to integrate standards, bring together regional producer groups, and discuss important issues such as land and water use. Also in 2002, there was recognition by the government of a need to transfer technology and investment to the rural sector.
- **Impact:** The FAO evaluation pointed out some benefits from Alianza. For example, technology helped certain areas get access to water. Alianza also created a forum to consolidate processes of participation and implementation of different policies for the agricultural sector, allowing the participation of the state and producers in the conversation. The same evaluation pointed out that the additional employment generated from the program was modest.

U.S.–Mexico Collaborative Activities Benefit Agricultural Trade (1994–2004)

While U.S. development assistance to Mexico has been limited, U.S. agencies have undertaken numerous collaborative efforts that benefit both U.S. and Mexican agricultural interests. Most of these efforts have been led by the United States Department of Agriculture (USDA), in conjunction with its Mexican counterparts, in support of overall agricultural production and trade objectives. USDA's Foreign Agricultural Service officials noted that historically USDA has had a very strong collaborative relationship with Mexico's Ministry of Agriculture. USDA's Animal and Plant Health Inspection Service (APHIS) has invested more funds in collaborative efforts with Mexico than of any USDA agency, about \$280 million, since NAFTA was implemented. Besides APHIS's collaborative activities, six other USDA agencies—the Economic Research Service (ERS), the Agricultural Research Service (ARS), the Foreign Agricultural Service/International Cooperation and Development (FAS/ICD), the Agricultural Marketing Service (AMS), the Food Safety and Inspection Service (FSIS) and the National Agricultural Statistics Service (NASS)—have participated in agricultural collaborative projects in Mexico. However, funding for collaborative activities in Mexico from these agencies has been very modest, about \$7.5 million combined over the past 10 years. In addition to collaborative efforts implemented by USDA agencies, the Food and Drug Administration (FDA) has also had a role in activities that benefit Mexican agriculture.

Animal and Plant Health Inspection Service (APHIS)

In the course of fulfilling its responsibilities of protecting and promoting U.S. agricultural health, APHIS has collaborated with Mexico for over 50 years (see table 3). APHIS has also implemented programs that facilitate agricultural trade from Mexico, such as its preclearance programs. Furthermore, APHIS has been by far the U.S. agency that has invested the most money in agricultural collaborative efforts with Mexico, the bulk of it on its Medfly and Screwworm eradication programs. APHIS reported spending a total of about \$286 million on its plant and animal health activities in Mexico since the implementation of NAFTA.

Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)

Table 3: Animal and Plant Health Inspection Service (APHIS) Assistance and/or Collaborative Activities in Mexico, 1994–2004

Activity/Program type	Description of activity	Time frame	Budget 1994–2004
Plant health	Medfly: A cooperative program between the USDA and the governments of Mexico, Guatemala, and Belize on the Medfly (Moscamed in Spanish) program to eradicate and control the Mediterranean fly, which would cause \$2 billion in losses if established in the United States. Moscamed's current top priorities are to eradicate the Medfly from Chiapas, Mexico, and move the barrier south into Guatemala in an effort to eradicate the Medfly from Central America and establish a sustainable Medfly barrier at the Darien Gap in Panama, thus providing more secure prevention against a Medfly infestation of the United States. To achieve this goal Moscamed is using a two-stage strategy. First, Moscamed sprays Spinosid, a newly developed organic bait spray. The second phase is the sterile insect technique in which flies are produced at a facility and then sterilized. Male flies are then released and compete with wild male flies. Because the sterilized flies are unable to reproduce, the population drops dramatically without continuous pesticide use.	Program began in Mexico in 1977	\$113 million (estimate)
Plant health	Mexfly: This program maintains Mexican fruit fly detection programs in northern Mexico and Baja California, controls outbreaks along the border in coordination with Mexico's Plant Health agency (Sanidad Vegetal) and provides year-round aerial releases of sterile flies. A new center is planned to coordinate sterile fly releases in northern Tamaulipas along the border U.S.–Mexican border.	1969	\$8.1 million (estimate)
Plant health	Pink Bollworm/Boll Weevil: The goal of this program is eradication of the boll weevil and pink boll worm from the northern, cotton-producing areas of Mexico and maintenance of an effective detection and control program in the Juarez Valley, the Ascension area, and Meoqui Chihuahua.	1986	\$1.6 million (estimate)
Plant health	Hydrilla: This program works to progressively eradicate the noxious weed Hydrilla from irrigation systems in the Mexicali Valley using mechanical extraction and sterile triploid grass carp.	1985	\$593,000 (estimate)
Plant health	Mexican Mango Preclearance Program: APHIS requires that Mexican mangoes be treated before entering the United States. APHIS personnel in Mexico supervise each treatment. Approximately 38 million boxes of Mexican mangoes were exported to the United States last season.	1973	Mexican producers pay APHIS for these services.
Plant health	Mexican Avocado Program: APHIS personnel inspect Mexican avocados before they enter the United States. Last season, exports totaled approximately \$95 million. A recently approved APHIS rule (effective January 31, 2005) is expected to increase Mexico's avocado exports, bringing revenues up to \$300 million.	1997	
Plant health	Mexican Citrus: APHIS personnel treat Mexican citrus before entering the United States. Last season a total of 600,171 boxes were exported to the United States with a commercial value of \$3.9 million.	1960s	

**Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)**

(Continued From Previous Page)

Activity/Program type	Description of activity	Time frame	Budget 1994–2004
Animal health	Screwworm: The screwworm program is an eradication program which consists of cooperative programs with Mexico, countries of Central America, and Panama. The program has eradicated the pest up to the narrowest point in Panama. The screwworm production facility in Tuxtla–Gutierrez, Mexico operated in conjunction with the Mexican government remains the supplier of sterile flies, while APHIS, in cooperation with the Government of Panama completes construction of a state-of-the-art sterile fly-rearing facility in Panama, which will provide flies to maintain the barrier. The Screwworm Eradication Program uses a highly sophisticated technique to sterilize adult flies. The program disperses sterile flies where screwworm flies are indigenous. The sterile males mate with fertile wild females which results in nonviable egg masses and interrupts the insect's life cycle. Additionally surveillance and cooperative agreements maintain constant field surveillance.	Program began in Mexico in 1972	\$157 million (estimate)
Animal health	Exotic Animal Disease Commission (EADC): This Mexico–U.S. Commission was organized to eradicate and control foot and mouth disease (FMD). Freedom from FMD has made it possible for Mexico to trade cattle, other ruminants, and their products. Mexico exports more than one million head of cattle to the United States annually. The commission expanded its operation to other economically important animal and poultry diseases like avian influenza, exotic Newcastle disease, and, more recently, bovine spongiform encephalopathy (mad cow disease). Through the EADC, Mexican farmers have an avenue to trade with the United States once diseases are eradicated and prevented from entering Mexico.	1947	\$5.61 million (estimate)
Animal health	Tuberculosis and brucellosis: It is a requirement that these diseases be excluded from animals imported by the United States. Mexican animals often have these diseases. Through APHIS programs in cooperation with Mexico's Ministry of Agriculture, Mexico regionalizes the diseases in order to be able to export animals to the United States. APHIS also conducts training programs for Mexican veterinarians in the diagnosis and epidemiology of tuberculosis and brucellosis.	N/A	\$200,000
Animal health	Rabies: Mexican farmers lose money in animal deaths and are themselves also at risk because of this disease. APHIS funding supports training at the U.S. Centers for Disease Control, salaries, travel, and office expenses. Since rabies is not specifically screened by U.S. import requirements, this program will decrease risk of rabid bovines being exported from Mexico to the United States. Wildlife along the Mexico–U.S. border is also a known reservoir for this disease. This situation prevents total eradication of rabies in the United States.	2004	Spending in Mexico \$90,000
Total			\$286,183,000

Source: GAO, based on APHIS data.

Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)

Economic Research Service (ERS) Since 1996, ERS has spent \$2.5 million in funding to implement the Emerging Markets Program to enhance Mexico’s capacity to collect, analyze, and disseminate agricultural information.¹ ERS officials said that Mexico’s enhanced data-gathering and reporting capability also benefits the USDA because reliable information allows the agency to make better informed decisions on bilateral agricultural trade. For a full list and descriptions ERS activities, see table 4.

Table 4: USDA Economic Research Service (ERS), Collaborative Activities with Mexico, 1994–2004

Activity/Program type	Description of activity	Time frame	Budget from 1994–2004
Emerging Markets Project	Mexico’s annual agricultural outlook forum: USDA assisted in the initiation of Mexico’s first outlook forum in 2001. It organized the first plenary session, showcasing ERS’s short- and long-term commodity projections and U.S. farm policy analysis. It organized similar sessions for annual forums in the ensuing 3 years, 2002–2004.	2001–2004	\$2.5 million
Emerging Markets Project	ERS poultry team works on follow-up analysis: In February 2003, an ERS poultry team visited Monterrey, Guadalajara, and Mexico City to gather price and other information and interview government and private sector officials involved at different levels of Mexico’s poultry meat marketing system. The objectives were to analyze the current broiler meat market conditions/structure in Mexico, including analysis of costs of production and the shift in demand toward parts versus whole birds; to develop a flow chart describing chicken meat marketing channels; and to analyze the future prospects of Mexico’s poultry sector, including production, consumption, and trade.	2003	
Emerging Markets Project	Mexico’s first regional food outlook forum: In November 2002, ERS analysts participated in Mexico’s first regional agricultural outlook forum in Mazatlan, Sinaloa. The ERS panel covered the long-term outlook for global food and agricultural markets, provisions of the new U.S. farm bill and its impact on Mexico, and the expected impacts of the removal of tariffs on most food and agricultural products in 2003 under NAFTA.	2002–2003	
Emerging Markets Project	Joint pork and poultry analysis: In August 2002, ERS and the Mexican Ministry of Agriculture (SAGARPA) presented the findings of a joint ERS–SAGARPA research project about economic challenges facing the Mexican pork and poultry industries. This briefing was part of a high-level meeting between Mexican and U.S. delegations headed by Under Secretaries Mayorga and Penn. The USDA and SAGARPA research teams submitted individual reports and agreed to an executive summary containing findings and policy options from the two reports.	2002	

¹The Emerging Markets Program is an FAS program, but various USDA agencies implement activities under this program, which are listed in tables corresponding to the agencies discussed below.

Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)

(Continued From Previous Page)

Activity/Program type	Description of activity	Time frame	Budget from 1994–2004
Emerging Markets Project	Transportation initiative: The project sponsored a workshop in Laredo, Texas, in January 2001. According to information presented at the workshop, while incremental measures such as streamlining and automating customs clearance, expanding border facilities, and improving infrastructure will continue to reduce the effects of transportation bottlenecks, two key issues will affect the next generation of growth in U.S.–Mexican food and agricultural trade: 1) the development of Mexico's rail system, spurred on by the privatization in the second half of the 1990s and greater integration with the U.S. and Canadian rail systems, and 2) the liberalization of truck access.	2001	
Emerging Markets Project	Analysis of NAFTA integration: The project provided major support for the U.S.–Mexico–Canada conference entitled, “North American Integration and Its Impact on the Food and Fiber System” held November 2000 in Washington, D.C. This activity focused on NAFTA impacts on the rural United States, Mexico, and Canada—including price convergence, food quality standards harmonization—and measurement and analysis of the ways in which the NAFTA partners are becoming more integrated. In September 2003, ERS published a synthesis report that identifies obstacles that continue to constrain markets in North America from functioning in unison, gauges the progress in uniting those markets, and identifies challenges and opportunities that could deepen market integration in North American agriculture. The Emerging Markets Office-funded workshop and the synthesis report were the catalysts for the establishment of the tricountry North American Agrifood Market Integration Consortium and its first forum in May 2004 in Cancun, Mexico.	2000–2004	
Emerging Markets Project	Commodity analysis: To enhance SAGARPA's ability to produce reports for a wide audience in the United States and Mexico, ERS initiated and collaborated in updating a report series for 11 commodities (corn, wheat, sorghum, poultry, dry beans, pork, beef, dairy, eggs, apples, and honey) starting in 1997. The dissemination of these reports grew to about 800 copies per report, with broader dissemination via the Internet and through events like the annual Outlook Forum. SAGARPA released updated reports on corn, sorghum, and horticultural products at the 2004 forum.	1997–2004	
Emerging Markets Project	Data sharing: Under the Emerging Markets Project, file transfer protocol was set up to share information on agricultural production in Mexico and on U.S. trade. ERS has access to SAGARPA's Agricultural Information System (SIACON). This system covers production data for livestock products and crops and farm level prices. The data are available by state, irrigated and nonirrigated area, and different seasons and agricultural year from 1980 through 1998. ERS now has access to the Bank of Mexico's National Economic Structure Information System (SINIIE), with over 23,000 data series, including producer and consumer prices for many agricultural and food products.	1997–2004	

Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)

(Continued From Previous Page)

Activity/Program type	Description of activity	Time frame	Budget from 1994–2004
Emerging Markets Project	Effects of food quality management systems on U.S.–Mexico trade: The project evaluated the trade impacts on food sector businesses in the United States and Mexico of implementing quality management systems, both mandatory and voluntary. Information was collected via a survey of the costs and benefits of these quality management systems. About 300 businesses in the United States were surveyed. The project also compiled a list of Mexican firms with assistance from the U.S. embassy in Mexico City.	2002	
Emerging Markets Project	Transformation of the Mexican produce distribution system: The Mexican produce distribution system is in the midst of major structural change. Small, specialized produce shops or stalls still account for the bulk of consumer produce purchases, but supermarket chains are rapidly gaining market share. A similar transformation occurred in U.S. produce markets from 1946 through 1965. The shift in food demand toward greater diversity and the upgrading of diets will likely create new opportunities for exporters in supplying a variety of niche markets and may require dealing with a different group of importing entities than U.S. exporters have historically targeted. The AMS report entitled <i>Mexico's Changing Marketing System for Fresh Produce. Emerging Markets, Practices, Trends, and Issues</i> , which was published in October 2002, highlights these findings.	2002	
Emerging Markets Project	A comparison of food assistance programs in Mexico and the United States: U.S. food assistance programs tend to be counter-cyclical (as the economy expands, food assistance expenditures decline and vice versa). Mexican food assistance programs appear to be neither counter- nor pro-cyclical. Food assistance programs have less impact on the extent of poverty in Mexico than in the United States, primarily because the level of benefits as a percentage of income is much lower in Mexico and because a much higher percentage of eligible households in the United States receive benefits from food assistance programs. These findings were published in the ERS report <i>A Comparison of Food Assistance Programs in Mexico and the United States</i> , which was published in July 2000.	2000	
Emerging Markets Project	Food safety and trade—the impact of the cyclospora problem in Guatemala on the raspberry industry in Mexico and the United States: The project examined the impact of a food safety problem in Guatemala on the international raspberry market. Mexico, Guatemala, and Chile are the major raspberry exporters to the United States. Even though the United States, Mexico, and Chile did not themselves have food safety problems with raspberries, the cyclospora problem in Guatemala had a significant and sustained impact on their industries and on trade patterns. These findings were presented as a case study at the International Agricultural Trade Research Consortium meetings in Montreal in June 2000.	2000	

Source: GAO, based on ERS data.

Agricultural Research Service (ARS)

In June 1998, ARS and Mexico's Agriculture Research Institute, Instituto Nacional de Investigaciones Forestales, Agrícolas y Pecuarias (INIFAP), signed a Letter of Intent to promote U.S.–Mexico collaboration in

**Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)**

agricultural research programs. Since then, ARS has spent about \$2.3 million on several collaborative projects involving ARS and Mexican scientists. According to ARS officials, it is important for the United States that scientists in Mexico have academic backgrounds similar to their American counterparts' in order to reach common solutions to problems that impact agriculture in both countries. For a full list and descriptions ARS activities, see table 5.

Table 5: USDA Agricultural Research Service, Collaborative Activities with Mexico, 1994–2004

Activity/Program type	Description of activity	Time frame	Budget from 1994–2004
Biotechnology	Preserving corn germplasm: The North Central Plant Introduction Station has a long-standing collaboration with the International Maize and Wheat Improvement Center (CIMMYT), based near Mexico City, to exchange germplasm genetic resources. There is mutual regeneration and seed exchange on a periodic basis. ARS provides long-term storage and preservation of germplasm accessions (ongoing).	2001–2006	\$2 million
	Molecular/biotechnology corn research: ARS, Raleigh, North Carolina, collaborates with the University of Guadalajara on scoring Mexican corn populations for desirable traits, developing molecular markers and on teosinte (a close relative of corn) diversity. ARS, Columbia, Missouri, trained a CIMMYT scientist on molecular marker techniques and genome database research. ARS is cosupporting CIMMYT efforts to mirror the U.S. corn genome database (MaizeDB) and to integrate CIMMYT's available crop and molecular information. ARS, Ames, Iowa, is collaborating with CIMMYT on improving corn's nutritional quality. ARS, Tifton, Georgia, is cooperating with the University at Irapuato to quantify aflatoxin in feed corn (ongoing).	2003–2008	
	Management of <i>Bacillus thuringiensis</i> (Bt) Resistance to Bt along the U.S.–Mexico border is extremely important since both spray applications and transgenic crops are in heavy use. ARS, Weslaco, Texas, and Manhattan, Kansas, are working with the Universidad Autónoma de Nuevo Leon, in Monterrey, Mexico, to study, at a molecular level, mechanisms of Bt resistance in Lepidoptera (butterflies and moths) (ongoing).	2001–2006	
	Wheat and barley disease research: The USA Wheat and Barley Scab Initiative, managed by ARS, supports collaborative germplasm research with the CIMMYT Bread Wheat Program. CIMMYT scientists evaluate wheat and barley lines for natural resistance to scab, providing CIMMYT/Mexican scientists access to cutting-edge U.S. biotechnology research. ARS, Aberdeen, Idaho, and ARS, Manhattan, Kansas, support an agreement with CIMMYT to evaluate Karnal bunt (a fungal disease) resistance in wheat accessions. ARS and land-grant university wheat researchers visited CIMMYT and other Mexican research locations in April 2002 to develop further U.S.–Mexican collaboration on cereal disease research and extension (ongoing).	2000–2008	

Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)

(Continued From Previous Page)

Activity/Program type	Description of activity	Time frame	Budget from 1994–2004
	Sorghum disease research: ARS, College Station, Texas, has an agreement with FUMIAF (INIFAP), Mexico, to control sorghum ergot (a disease that affects cereals) in northern Mexico and the United States. Research monitors the spread of sorghum ergot and screens sorghum accessions for ergot resistance at Rio Bravo, Tampico, Celaya, and Ocotlan, Mexico. This includes collaboration on assessing sorghum germplasm diversity using DNA markers with the ARS sorghum germplasm curator in Mayaguez, Puerto Rico (ongoing).	2003–2008	
	The winter cotton nursery: In conjunction with maintaining a cotton germplasm collection of 7,000 cultivated and noncultivated cottons and closely related species at College Station, Texas, ARS manages a winter nursery at Tecoman, Colima, Mexico, in cooperation with INIFAP under a memorandum of understanding. The nursery increases seed availability, especially from non cultivated plants that flower only in the short days of winter, when U.S. weather is too cold for cotton. Mexican scientists also have access to the materials for research if the cotton lines are not restricted by intellectual property protection (ongoing).	2000–2005	
	Monarch butterfly: ARS led a consortium of midwestern research institutions in a coordinated evaluation of the effect of Bt maize on monarch butterfly larvae in the field. The studies documented that Bt corn pollen is only a very small risk factor to the butterfly in real-world conditions. This finding is important to Mexico, the destination for butterfly migration in winter. The butterfly is considered a national treasure.	2003–2005	
	Preventing production of transgenic corn pollen: ARS research has developed technology to place transgenes very precisely in the genome so that their expression can be more predictable. In a research program that is in its initial phase, this technology will be combined with other ARS-developed innovations to prevent the production of transgenic corn pollen. If successful, this research would allow transgenic and indigenous corn to be grown side by side without any movement of transgenes.	2002–2006	
Water research collaboration	Aquatic weeds: Since 2000, ARS scientists have collaborated with Mexican researchers in an effort to curb the spread of water hyacinth (<i>Eichhornia crassipes</i>) in Mexico's dikes, reservoirs, and canals. Cooperators have introduced weevils and moths as biological control agents that have proven to be successful in reducing water hyacinth densities in the United States. Assessment tools: ARS scientists at the Grassland Soil and Water Research Laboratory in Temple, Texas, in cooperation with scientists from Texas A&M, are working in Mexico to train INIFAP scientists on the use of ARS water resource and erosion models. The U.S. and Mexico team is currently using the ARS Soil and Water Assessment Tool (SWAT) to estimate impacts of different irrigation practices on water supplies affecting the Rio Grande River.	2002–2007	Unfunded cooperation/in-kind resources only

Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)

(Continued From Previous Page)

Activity/Program type	Description of activity	Time frame	Budget from 1994–2004
Conservation tillage cooperative research projects	<p>Corn residues: Mexican scientists are conducting a study at many locations scattered about central Mexico to determine the effect of tillage and fertility practices and corn residue removal on crop yield and erosion control. The study sites included a wide range of soil and climatic conditions in order to determine soil carbon sequestration. Results are preliminary; however, there appears to be a fairly strong relationship between the fraction of residue removed and increased soil carbon with no-till farming methods at mean annual temperatures below 20 C.</p>	2001–2006	Unfunded cooperation/in-kind resources only
	<p>No-till: A study with the INIFAP group at Celaya. Long-term records indicate that organic carbon in certain soils of the state of Guanajuato, Mexico, has been reduced by agricultural practices from around 3 percent to 1.8 percent. A study has been conducted to develop data that supports the use of no-till farming for wheat-corn cropping systems, evaluate no-till for wheat and bean cropping systems, and assess the potential for rebuilding soil organic carbon in these soils.</p>		
Natural resources management	<p>Grazing management: At Tucson, Arizona, the research focus is on developing planning and evaluation methodologies for grazing management in northern Mexico and the southwestern United States. In 2003, ARS hired two graduate students to prepare data and adapt a hydrologic simulation model for application to rangelands in Mexico.</p>	2001–2005	\$25,000
	<p>Rangeland management: At Las Cruces, New Mexico, ARS scientists have been developing a rangeland monitoring manual in both Spanish and English. With INIFAP they cohosted workshops on monitoring technologies in both Mexico and the United States. Research collaborations continue in the development of indicators for rangeland monitoring that will be incorporated into the manual and future workshops to train and inform for ranchers and land management personnel.</p>	2002–2007	

Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)

(Continued From Previous Page)

Activity/Program type	Description of activity	Time frame	Budget from 1994–2004
Animal health	Screwworm eradication: In 2000, an ARS scientist was colocated with APHIS and a large Mexican government staff at the screwworm rearing facility in Tuxtla Gutierrez, Mexico, to provide technical assistance and research support for eradication program in Central America. At the request of the U.S.–Mexico Screwworm Commission, ARS is assisting Mexican officials in developing viable options for alternative use of the sterile screwworm plant at Tuxtla Gutierrez, Chiapas. After a new facility is constructed in Panama, the Chiapas plant is scheduled to close.	2002–2004	\$50,000
	Cattle ticks: Since 2001, Scientists from ARS, Kerrville, Texas, and INIFAP, Cuernavaca, Morelos, are studying the southern cattle tick and horn fly to determine the nature and scope of pyrethroid and organophosphate pesticide resistance and develop practical guidelines to manage this resistance to protect livestock. A major goal is determining the mechanisms involved in resistance and develop an analysis to monitor resistance.	2001–2004	
	Africanized honeybees: ARS scientists at Weslaco, Texas, are working closely with their Mexican counterparts to assess the impact of Africanized honeybees on the pollination of vegetables and fruits. They will also investigate the impact on honeybees of hard and soft chemicals used in crop pest control.	2003–2008	
	Vesicular stomatitis virus occurrence in areas of Mexico where it is endemic: Since 2002, ARS scientists from Laramie, Wyoming, have been working with their Exotic Animal Disease Commission counterparts to generate basic epidemiological information about Vesicular stomatitis virus (VSV) occurrence in endemic areas in southern Mexico and establish the necessary conditions for field validation of VSV rapid diagnostic tests in well-documented infected and noninfected cattle herds.	2002–2005	
Plant health	Planning meetings: In November 2000, ARS–Southern Plains Area (SPA) scientists met with INIFAP scientists to discuss research areas for future collaboration. There were approximately 40 scientists at the meeting, and research areas for potential collaboration included water management, plant and animal health, range management, and biotechnology. As a follow-up to the November meeting, ARS-SPA and INIFAP entomologists met in January 2002 to discuss potential research collaboration. There were approximately 20 scientists at the meeting, and potential collaborative research efforts included boll weevil, brown citrus aphid, and fruit flies. In February 2002, ARS and INIFAP scientists met to discuss the brown citrus aphid.	2000	\$185,000
	Late blight: Breeding for durable resistance to late blight. Late blight (<i>Phytophthora infestans</i>) is the most important potato disease worldwide, costing the United States about \$200 million annually for control. ARS scientists are working with Mexican counterparts in the Toluca Valley, where late blight originated and all known strains occur, providing heavy disease pressure all season every year.	2003–2006	
	Expanding the pollinator base for Southern California avocados: ARS–Northern Plains Area scientists were working with a scientist from la Universidad de las Americas in collecting insects to link pollinators to pollination success. Pollination efficiency studies were conducted through the use of bagged and unbagged flowers.	2003–2004	

**Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)**

(Continued From Previous Page)

Activity/Program type	Description of activity	Time frame	Budget from 1994–2004
Food safety	Extend the shelf life of regional cheese: ARS scientists at the Eastern Regional Research Center, Wyndmoor, Pennsylvania, in collaboration with Mexican researchers from CIAD (Centro de Investigacion en Alimentacion y Desarrollo), Cuauhtemoc, Chihuahua, Mexico, have characterized the chemical, textural, sensory, and microbiological properties of fresh Chihuahua cheeses and other cheeses from the region. The purpose of the project is to extend the shelf life of regional cheeses.	2002–2004	\$15,000
	Pathogen control in poultry: The development of nonantibiotic alternatives for food-borne pathogen control in poultry. ARS in Fayetteville, Arkansas, and the Autonomous University of Mexico started a formal cooperation after September 2001 to evaluate the microflora populations in the gastrointestinal tract of poultry, including the niche environments of food-borne pathogens.	2001–2006	Unfunded cooperation/in-kind resources only
	Planning meeting: On October 1, 2002, INIFAP and ARS cohosted a meeting with the main Mexican agricultural research and academic institutions and Consejo Nacional de Ciencia y Tecnologia (CONACyT), Mexico’s National Council of Science and Technology. Representatives agreed to refocus efforts in agricultural research, education, and exchanges to address specific agricultural problems of mutual concern through joint research and cooperation in capacity-building.	2002	Unfunded cooperation/in-kind resources only for the planning meeting and the collaborative research
	Collaborative research workshops: In 2003, five workshops were organized by the ARS and its Mexican counterpart, the National Institute for Forestry and Agricultural Research (INIFAP). The scientists who participated at the workshops developed 106 potential collaborative research projects of mutual interest and benefit for both countries. Mexican scientists and their ARS counterparts then developed 22 research proposals to be presented to the Mexican National Council for Science and Technology (CONACyT) for funding at its sectorial fund CONACyT–SAGARPA opening on September 2003. From these proposals, eight were approved for funding starting in 2004.	2003	workshops. In the case of Bt resistance monitoring, the budget dedicated was \$8,000.
	Bt resistance monitoring: ARS and INIFAP sponsored a workshop in April 2004 to adopt common protocols for and to coordinate U.S.–Mexican Bt resistance monitoring. INIFAP and ARS have been cooperating in resistance monitoring on a small scale in Mexico. ARS and INIFAP agreed that enhanced scientific cooperation in this area would be of mutual benefit to Mexican and U.S. cotton growers and regulatory agencies and arranged a workshop to start expanding collaborative research in this subject.	2004–2005	
Total			\$2,284,412

Source: GAO, based on ARS data.

Foreign Agricultural Service (FAS), International Cooperation and Development

Over the past 10 years, FAS/ICD has spent a total of \$1.8 million on its Scientific Cooperation Research Program (SCRP) and Cochran Fellowship Program (CFP). Under SCRП, U.S. and Mexican scientists have conducted joint research and scientific exchanges for over 20 years to help solve mutual food, agricultural, and environmental problems. Since NAFTA was enacted, SCRП has sponsored 32 joint agricultural research projects among

**Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)**

U.S. and Mexican universities and other research institutions, of which about half have been related to trade. In addition, FAS administers CFP, which provides U.S.-based agricultural training opportunities for senior and midlevel specialists and administrators from the Mexican public and private sectors who are concerned with agricultural trade, agribusiness development, management, policy, and marketing. For a full list and descriptions of FAS/ICD activities, see table 6.

Table 6: USDA Foreign Agricultural Service, International Cooperation and Development (ICD), Collaborative Activities with Mexico, 1994–2004

Activity/Program type	Description of activity	Time frame	Budget
Emerging Markets Program	Mexican congressional delegation on biotechnology: Thirteen members of the Mexican Congress traveled to Washington, D.C., to obtain information and make decisions on labeling of biotechnology foods. Mexico is a \$3.1 billion market for U.S. processed foods. Several of the congressional members commented to the Agriculture Attaché that what they learned in the United States on biotechnology from Food and Drug Administration (FDA) and the American Medical Association had convinced them that there was no need for labeling of biotechnology foods.	2001	\$463,500
Emerging Markets Program	Mexico Food Safety Workshop: The Trade and Investment Program, the USDA Biotechnology Group, and FAS/Mexico City coordinated a Mexico Food Safety Workshop, which was held in Mexico City from June 16–18, 2004. The workshop involved approximately 20 participants from the Mexican Ministries of Health, Agriculture, Economics, and Education, as well as the Mexican Center for Research on Food and Development. Seven participants from FDA, Environmental Protection Agency, and USDA, as well as two representatives from the Novel Foods Division of Health Canada also attended. The purpose of the workshop and related meetings was to address issues related to regulatory requirements and safety assessments related to biotechnology in North America.	2004	
Emerging Markets Program	Agricultural biotechnology workshop for Latin American farmers: In August 2004, FAS/ICD sponsored a workshop for farmers and farm leaders at Zamorano University in Honduras on agricultural biotechnology. The workshop provided farmers from 17 Latin American countries (including Mexico) with information to increase farmers' awareness of challenges and benefits of agricultural biotechnology. The workshop was organized in collaboration with Zamorano University, Cornell University, and REDBIOA, a network of strategies and policies for assistance to national biotechnological research programs in Latin America and the Caribbean.	2004	

Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)

(Continued From Previous Page)

Activity/Program type	Description of activity	Time frame	Budget
Emerging Markets Program	Mexico agricultural trade missions: Under the U.S.–Mexico Partnership for Prosperity, FAS/ICD, Mexico’s Ministry of Agriculture and the Food Marketing Institute conducted trade missions to Mexico in March 2003 and March 2004. The purpose was to identify trade and investment opportunities between Mexican horticultural producers and U.S. supermarkets. Thirty-one U.S. representatives from 16 companies established long-term business contacts and/or initiated produce-sourcing arrangements. Participants visited 10 farms in Jalisco, Sinaloa, Sonora, and Guanajuato that produce tomatoes, bell peppers, cucumbers, eggplant, and onions. U.S. companies that participated in the 2003 mission expected to purchase approximately \$104 million worth of produce from Mexican growers as a result of the activity.	2003–2004	
Emerging Markets Program	Trade show seminars: FAS/ICD/Food Industries Division/Trade and Investment Program conducted seminars on food safety, U.S. wines and cheeses, seafood handling, and produce marketing, and promoted the Export Credits Facilities Credit Guarantee program and Supplier Credit Guarantee program in tandem with the annual ANTAD (2001), ABASTUR (2001), and EXPHOTEL (2000, 2002, 2003, and 2004) trade shows. These programs were coordinated with the Agricultural Trade Office in Mexico City.	2001–2004	
Emerging Markets Program/Cochran Fellowship Program	Biotechnology short course: The Trade and Investment Program and the Cochran Fellowship Program worked in partnership with Michigan State University to design and implement six short courses on agricultural biotechnology. Twenty-five participants from 13 countries in Latin America and the Caribbean (including six participants from Mexico) were selected from local and national level government bodies, private industry, nongovernmental organizations, and universities. This course prepared participants to play an informed, guiding role in the public debate and discussions on biotechnology in their home countries. Participants engaged in sessions on the science of biotechnology, but the primary focus of the course was on biotechnology’s relationship to market access and the trade of agricultural products. The 2-week course covered such topics as research and development, biotech regulations, international organizations, global economy, marketing and consumers, food security, and technical assistance. The course included activities in Washington, D.C., at Michigan State University, and at Texas A&M University.	2004	
Emerging Markets Program	Cold chain field assessment: USDA conducted a cold chain field assessment of cold-storage facilities in Laredo, Texas; Mexican trucking companies and supermarkets; and central markets in Monterrey and Mexico City. Over 100 perishable food producers, importers, distributors, and transportation and refrigeration providers attended a seminar on “Maintaining the Cold-Chain from Port to Consumer.”	2000	

Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)

(Continued From Previous Page)

Activity/Program type	Description of activity	Time frame	Budget
Emerging Markets Program	Cold chain technical assistance: USDA provided two weeks of technical assistance on produce marketing, cold storage logistics, and the Hazard Analysis and Critical Control Point to Mexican companies, including a wholesaler from Mexico City's Central Market, a fruit grower/importer/distributor, a meat importer/processor, and a refrigeration company. In September 2003 those companies were visited again to monitor the success of earlier assistance and to give additional advice. One Mexican company and a major U.S. cold-storage company were constructing a new meat processing and distribution facility. Another company was able to double and triple fresh fruit imports from Washington state and northern California, respectively, by air conditioning an adjacent storage space. It also reduced shrinkage through better temperature monitoring and improved trucking services.	2002	
Emerging Markets Program	Cold chain: In the fall of 2004 two participants attended a program providing understanding of proper management of refrigerated and frozen foods. The program began with training covering topics such as: an overview of the entire cold-chain process, from producer to consumer; quality maintenance from producer to wholesaler to retailer; characteristics of cold-storage rooms; transportation and distribution systems for refrigerated and perishable products; receiving and managing perishable products at the port and in the store; packaging and merchandising perishable products; waste management; and methods for extending shelf life.	2004	

Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)

(Continued From Previous Page)

Activity/Program type	Description of activity	Time frame	Budget
Cochran Fellowship Program	Five-a-Day promotion program: The training provided officials from the newly formed “Fundacion Campo y Salud” with important information regarding Five-a-Day program development, establishment, and operation. The training took place in Washington, D.C., and Wilmington, Delaware, and included meetings with officials from USDA, the National Cancer Institute, and the Produce for Better Health Foundation. In April and May 2003, four participants attended training.	2003	\$183,225
Cochran Fellowship Program	Meat and poultry inspection: FSIS conducted seminars from 1999-2004 providing in-depth knowledge regarding U.S. inspection procedures and regulations used to ensure that meat, poultry, and egg products are safe, wholesome, and properly labeled. Emphasis was placed on Hazard Analysis and Critical Control Point and pathogen reduction initiatives. A few seminars were given in Spanish, and in some participants took field trips during the training to farms, slaughterhouses, processors, and port facilities. A total of 29 people participated from 1999 to 2004.	1999–2004	
Cochran Fellowship Program	Veterinary epidemiology: In 2001, a participant attended a seminar focusing on training veterinary epidemiologists regarding U.S. standards and techniques to identify, control, and eradicate animal diseases such as foot and mouth, screwworm, swine fever, etc. The purpose of the training was to provide other governments pursuing these diseases a means by which to be proactive in excluding diseases from the United States.	2001	
Cochran Fellowship Program	Veterinary biologics: In 2003, one participant attended a seminar providing the participants with in-depth training regarding the scientific principle of vaccines and vaccination and of the USDA regulatory process for assuring the purity, safety, potency, and efficacy of veterinary biologics. Topics included Immunology and Principles of Vaccination, Procedures for Ensuring Vaccine Safety and Efficacy, Potency and Safety Testing, and Diagnostic Test Kit Evaluation.	2003	
Cochran Fellowship Program	Veterinary medicine: A total of eight participants from Mexico attended the Southwestern Veterinary Symposium, which included presentations on food animal disease diagnosis and treatment, public health, and epidemiology and addressed U.S. import requirements, identification and quarantine of diseased livestock, and disease control and eradication issues in Mexico.	2001	
Cochran Fellowship Program	Foreign animal disease: In 2002, one participant from Mexico attended a course providing an overview of Foreign Animal Diseases, including epidemiological animal surveillance, diagnosis of foreign animal diseases, and controlling methods.	2002	
Cochran Fellowship Program	Risk management: In 2001, one participant from Mexico attended a seminar to increasing knowledge of risk management in terms of agricultural insurance for crops, livestock and farms, machinery, and farm buildings. Topics included banks and financial markets; assessing risk; determining premiums; new technology to evaluate risk, inspect damage, and adjust loss; sources of financial data; index-based insurance; catastrophic bonds; needs of agribusinesses; and new tendencies in risk management theories.	2001	

Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)

(Continued From Previous Page)

Activity/Program type	Description of activity	Time frame	Budget
Cochran Fellowship Program	Animal health policy: In 2000, one participant from Mexico attended training providing in-depth understanding of how animal health policy evolves and is implemented at state, national, and international levels. Topics included animal health policy evaluation, leadership methods, food safety, how to influence policy makers, strategic planning, inter governmental relations and regionalization, the role of special interest groups and the media, and legislative perspectives.	2000	
Cochran Fellowship Program	Grain handling: In 2000, one participant from Mexico attended training providing in-depth knowledge regarding US grain quality and handling procedures. Topics included grain storage procedures, drying and handling equipment, grain grading and inspection procedures, handling/loading for transportation, land vs. ocean transportation, preservatives and their applications, factors affecting grain quality in handling, and export programs.	2000	
Cochran Fellowship Program	Food safety/hazard analysis and critical control point (HACCP): In 1999, nine participants from Mexico attended a course designed to prepare officials to review a plant's HACCP plan, determine if the plan was properly implemented and maintained, and react to minor or major discrepancies in an appropriate and effective manner. Topics included an overview of FSIS food safety goals and strategies, HACCP overview and principles, steps in the development of the HACCP system and relationship of Hazard Analysis and Critical Control Point/Good Manufacturing Practices/Sanitation Standard Operating Procedures, microbiological testing, E. coli and salmonella, the revised Performance-Based Inspection System, basic compliance/noncompliance of plans, and consumer protection.	1999	
Cochran Fellowship Program	Rural finance: In 2004, six participants from Mexico attended a program that trained them in the areas of credit administration, credit compliance, risk management, and greenhouse project assessment.	2004	
Scientific Cooperation Research Program	Research project: The University of Florida in collaboration with Alimentos Del Fuerte, Los Mochis, Sinaloa, worked on a project titled "Characterization of strains of Xanthomonas campestris pv. Vesicatoria in Mexico and the impact of resistant genotypes and bactericides."	1991–1994	\$1.2 million
Scientific Cooperation Research Program	Research project: USDA/Forest Service worked in cooperation with Centro de Genetica Forestal, A.C. on a project titled "Cooperative program for the conservation of biodiversity."	1992–1995	
Scientific Cooperation Research Program	Research project: The University of Idaho collaborated with Centro Internacional de Mejoramiento de Maiz y Trigo (CIMMYT) on a project titled "Identification of novel or under utilized sources of nuclear and cytoplasmic germplasm in wheat."	1993–1995	
Scientific Cooperation Research Program	Research project: USDA/ARS, Gainesville, Florida, worked with Instituto de Ecologia, Xalapa, Veracruz on a project titled "Host-finding by parasitoids of species of anastrepha and the importation of Caribbean fruit fly natural enemies."	1993–1996	
Scientific Cooperation Research Program	Research project: USDA/ARS, Tucson, Arizona, worked with Instituto Nacional de Investigaciones Forestales, Agrícolas y Pecuarias (INIFAP) on a project titled "Comparative research on integrated watershed management at Walnut Gulch, Arizona and Rio Matape, Sonora, Mexico."	1993–1996	

**Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)**

(Continued From Previous Page)

Activity/Program type	Description of activity	Time frame	Budget
Scientific Cooperation Research Program	Research project: Colorado State University collaborated with the University of Baja California School of Veterinary Medicine on a project titled “Bovine tuberculosis in Baja California, Mexico: A prototype program for surveillance and control.”	1993–1996	
Scientific Cooperation Research Program	Research project: USDA/ARS, Maryland, collaborated with Centro Internacional de Mejoramiento de Maiz y Trigo (CIMMYT) on a project titled “Correlation between PCR-based seed assay and development of Karnal bunt in the field.”	1995–1998	
Scientific Cooperation Research Program	Research project: The University of Missouri collaborated with Instituto Nacional de Investigaciones Forestales, Agrícolas y Pecuarias (INIFAP) on a project titled “Epidemiology of bovine hemoparasitic diseases in selected areas of Central America and Mexico.”	1995–1998	
Scientific Cooperation Research Program	Research project: The University of Wisconsin collaborated with Guadalajara University on a project titled “Pulp and paper from agricultural materials via environmentally benign processes.”	1995–1998	
Scientific Cooperation Research Program	Research project: The University of California collaborated with the University of Baja California on a project titled “Brucellosis in goats in the Mexicali Valley: Risk factors for herd infection and health risks of REV-1 vaccination.”	1996–1999	
Scientific Cooperation Research Program	Research project: The University of Arizona collaborated with Universidad de Sonora on a project titled “Categorization of isolates of the root rot fungus, phymatotrichum and its fungal antagonists for the development of biological control strategies in the U.S.”	1997–2000	
Scientific Cooperation Research Program	Research project: The University of Massachusetts collaborated with the University of Nuevo Leon on a project titled “Presence and enterotoxigenicity of Clostridium perfringens in U.S. and Mexican foods.”	1997–2000	
Scientific Cooperation Research Program	Research project: USDA/ARS, Texas, collaborated with the Center for Genetics and Advanced Studies on a project titled “Improvement of fruit storage-life and quality in muskmelon by genetic transformation.”	1998–2001	
Scientific Cooperation Research Program	Research project: USDA/ARS, Arizona, cooperated with the Instituto Nacional de Investigaciones Forestales, Agrícolas y Pecuarias (INIFAP) on a project titled “Extension of the rangeland health concept and associated classification schemes into Mexico.”	1998–2001	
Scientific Cooperation Research Program	Research project: The University of Missouri collaborated with the Instituto Nacional de Investigaciones Forestales, Agrícolas y Pecuarias (INIFAP) on a project titled “Vaccine control of bovine babesiosis/prevention in U.S. and Mexico.”	1998–2001	
Scientific Cooperation Research Program	Research project: USDA/ARS, Hawaii, and the USDA/APHIS collaborated with the Colegio de la Frontera Sur on a project titled “Strain development and field evaluation of biosteres arisanus for control of fruit flies in Hawaii, Mexico, and Guatemala.”	1998–2001	
Scientific Cooperation Research Program	Research project: New Mexico State University collaborated with the Universidad Autonoma de Chiapas on a project titled “The density and diversity of parasitic hymenoptera as bio-indicators of habitat disturbance in a cotton producing region of tropical Mexico.”	1999–2002	

**Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)**

(Continued From Previous Page)

Activity/Program type	Description of activity	Time frame	Budget
Scientific Cooperation Research Program	Research project: North Dakota State University collaborated with the Institucion de Ensenanza e Investigacion En Ciencias Agricolas on a project titled "Comparison of the calcium, iron, zinc, and magnesium, contents of bean seed of Mexican and American origin."	1999–2001	
Scientific Cooperation Research Program	Research project: Northern Arizona University collaborated with Instituto Nacional de Investigaciones Forestales, Agrícolas y Pecuarias (INIFAP) on a project titled "Managing fragmented Douglas-fir ecosystems in Southwestern North America for long term sustainability."	1999–2002	
Scientific Cooperation Research Program	Research project: The University of California collaborated with the Universidad Autonoma del Estado de Mexico on a project titled "Population genetic characterization of naturally sympatric and allopatric populations of teosinite with maize in Mexico: Implications."	1999–2002	
Scientific Cooperation Research Program	Research project: The University of Florida functionally collaborated with Monterrey Institute of Technology on a project titled "Properties of improved natural pigments (antimicrobial compounds)."	2001–2004	
Scientific Cooperation Research Program	Research project: USDA/ARS, Pennsylvania, collaborated with Centro de Investigacion en Alimentacion y Dessarollo, Chihuahua, on a project titled "Modification of cheese-making parameters to extend the shelf-life of Hispanic-style fresh cheeses."	2001–2004	
Scientific Cooperation Research Program	Research project: Yale School of Forestry/Environmental Sciences collaborated with Centro de Investigaciones Avanzadas Unidad Merida on a project titled "Implications for agrarian change and the status of crop genetic resources in Yucatan, Mexico."	2001–2004	
Scientific Cooperation Research Program	Research project: USDA/APHIS, Hawaii, collaborated with ECOSUR (a research institute devoted to ecological studies in southern Mexico) on a project titled "Controlling the Mediterranean fruit fly: Improving the sterile insect technique via nutritional and olfactory manipulation."	2001–2004	
Scientific Cooperation Research Program	Research project: The University of Arkansas "Solutions to food safety and security problems for Mexico and the United States (U.S.): Development of non-antibiotic and alternative controls."	2002–2005	
Scientific Cooperation Research Program	Research project: The University of California Riverside collaborated with la Universidad Autonoma Chapingo on a project titled "Conservation and restoration of wild avocado (<i>Persea</i> spp.) in Mexico."	2002–2005	
Scientific Cooperation Research Program	Research project: The USDA/ARS, Maryland, cooperated with the International Cooperative Potato Late Blight Program on a project titled "Cooperative testing of late blight resistance."	2003–2006	
Scientific Cooperation Research Program	Research project: USDA/ARS, Washington, collaborated with Instituto Nacional de Investigaciones Forestales, Agrícolas y Pecuarias (INIFAP) on a project titled "Enhancing resistance in Mexican pinto bean cultivars to common bacterial blight."	2003–2006	
Scientific Cooperation Research Program	Research project: The University of Wisconsin initiated a project with Instituto Tecnológico de Veracruz titled "Identifying potential cancer chemopreventive agents in maize."	2004–2007	

**Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)**

(Continued From Previous Page)

Activity/Program type	Description of activity	Time frame	Budget
Scientific Cooperation Research Program	Research project: Cornell University, in collaboration with the Monterrey Institute of Technology (ITESM), initiated a project titled “Effects of tortilla processing on the fate and bioavailability of phytochemicals in high carotenoid and pigmented corns.”	2004–2007	
Scientific Cooperation Research Program	Research project: The University of New Mexico, in collaboration with El Centro de Desarrollo Humano hacia la Comunidad, Cuernavaca, Morelos initiated a project titled “Nutritional & medicinal agricultural product sharing between underserved communities in Mexico and the United States.”	2004–2007	
Scientific Cooperation Research Program	Research project: The Southwestern Indian Polytechnic Institute, in collaboration with the State Government of Chihuahua, initiated a project titled “Application of hydroponic forage production in arid lands.”	2004–2007	
Total			\$1,836,855

Source: GAO, based on FAS/ICD data.

**Agricultural Marketing Service
AMS**

AMS has spent about \$548,200 since 1994 in collaborative activities with Mexico. Most of AMS activities consist of providing training to Mexican fresh fruit and vegetable inspectors to help them meet U.S. inspection standards. For a full list and descriptions of AMS agricultural collaborative activities, see table 7.

Table 7: USDA Agricultural Marketing Service (AMS), Collaborative Activities with Mexico, 1994–2004

Activity/Program type	Description of activity	Time frame	Budget
Emerging Markets Program	Inspection training/ destination market inspection: With support from the Emerging Market Program, AMS is providing training in the United States to Mexican fresh fruit and vegetable inspectors. Objectives of this project include helping SAGARPA develop a professional inspection service and establish a codified fruit and vegetable grading and standards system, bringing Mexico’s marketing system for fruits and vegetables closer to that of the United States and Canada.	1999 and 2002	\$491,200
Emerging Markets Program	Dispute resolution corporation: The objective is to efficiently resolve disputes between exporters and importers, assisting Mexico’s agricultural commodity markets to operate similar to those in Canada and the United States and increase U.S. exports to Mexico.	2004	
Fruit and vegetable standards	Market information organization of the Americas: The objective was to enhance the dissemination of market information in domestic to producers, importers, and shippers.	1999 (ongoing)	\$27,000
Fruit and vegetable standards	Research and promotion: The objective was to facilitate Mexico understudying of AMS research and promotion activities.	2002 and 2004	

Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)

(Continued From Previous Page)

Activity/Program Type	Description of activity	Time frame	Budget
Research publications	Research projects: The objective was to provide information to U.S. exporters on the transportation and logistical infrastructure, facilities, and services used to support U.S. exports to Mexico. Publications include (1) <i>Mexico's Agricultural Trade Infrastructure for Apples and Pears</i> , by Juan Batista and John W. Hagen, Center for Agricultural Business, California State University, Fresno, 1994, CATI Publication #940201; (2) "Logistics and Perishables Trade Between the United States and Mexico," Richard Beilock, Roger Clemens, James Dunn, and Barry Prentice, University of Florida, Gainesville, May 1995, <i>Economics Report</i> ER 95-1; 12-25-A-3381; and (3) "Shipping U.S. Grain to Mexico," by Keith A. Klindworth and Arne J. Martinsen, Marketing and Transportation Analysis, <i>Transportation and Marketing</i> , September 1995, USDA AMS Marketing Research Report Number 630.	1994–1995	\$30,000
Total			\$548,200

Source: GAO, based on AMS data.

National Agricultural Statistics Service (NASS)

NASS has been involved in a few collaborative activities in Mexico since 1997. Using the Emerging Markets Program, NASS has spent \$361,000 to help improve the agricultural statistics system and methodology in Mexico. As part of this assistance, NASS provided training to analysts from Mexico's agricultural statistics service, Servicio de Información y Estadística Agroalimentaria y Pesquera (SIAP). This training focused on methodology for preparing official agricultural statistics. For a full list and descriptions of NASS activities, see table 8.

Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)

Table 8: USDA National Agricultural Statistics Service (NASS), Collaborative Activities with Mexico, 1994–2004

Activity/Program type	Description of activity	Time frame	Budget
Emerging Markets Project	Training for SIAP (Mexico’s Agricultural Statistics Service): NASS conducted training and implementation of objective yield measurement surveys for crops important to U.S.–Mexico trade (corn, soybeans, sorghum, and avocados). These surveys provide an accurate indication of the yield and available production of these crops.	1997–2002	\$67,000
Emerging Markets Project	Training for SIAP: Mexican analysts from SIAP attended seminars and training on the methodology used in NASS to prepare official agricultural statistics and the responsibilities shared between the federal- and state-level organizations. These activities have included both visits from NASS personnel to Mexico and Mexican analysts’ visits to NASS headquarters and field office locations.	2003–2004	\$294,000
Emerging Markets Project	Training for SIAP: Mexican analysts from SIAP attended seminars and training on the use of NASS’s area frame, multiple frame, and remote sensing techniques in the preparation of agricultural statistics. These seminars have included training in sophisticated sampling techniques to improve the efficiency of the agricultural surveys conducted. SIAP analysts are currently producing their first general-purpose area frame for use in several statistical surveys.		
Total			\$361,000

Source: GAO, based on NASS data.

Food Safety and Inspection Service (FSIS)

Since 2001, FSIS has implemented a small number of activities valued at \$298,412 under the Emerging Markets Program in Mexico. Most of these activities consist of providing training and technical assistance to Mexican meat and poultry exporters to help them meet U.S. import regulations. For a full list and descriptions of FSIS activities, see table 9.

Appendix IV
U.S.–Mexico Collaborative Activities Benefit
Agricultural Trade (1994–2004)

Table 9: USDA Food Safety and Inspection Service (FSIS), Collaborative Activities with Mexico, 1994–2004

Activity/Program type	Description of activity	Time frame	Budget
Emerging Markets Program	Pathogen reduction: Using Emerging Markets Program funding, FSIS has provided pathogen reduction training to Mexican meat and poultry inspection officials in order to assist SAGARPA in implementing the standards necessary for Mexican plants to export meat and poultry products to the United States. This consisted of activities for improving knowledge of HACCP principles and for improving knowledge of FSIS microbiology testing methods.	2001	\$98,458
Emerging Markets Program	Technical assistance activity: This activity consisted of providing technical assistance to assure the continuation of safe and wholesome meat and poultry exports from Mexico to the United States. Mexican government officials (from headquarters to inspection officials located at exporting Mexican establishments) obtained technical assistance on meeting equivalent requirements of the U.S. meat and processed poultry inspection system.	2003	\$73,434
Emerging Markets Program	Technical assistance activity: Mexican officials obtained inspection requirements training and technical assistance for fresh-slaughtered poultry and egg products to help the officials meet equivalent requirements of the U.S. slaughter poultry and egg products inspection system.	2004	\$15,000
Emerging Markets Program–U.S. Codex Office	Support for Western Hemisphere countries' WTO participation: Working with the Inter-American Institute for Cooperation on Agriculture (IICA), FAS supports attendance at WTO/SPS committee meetings by select representatives of trade and regulatory agencies of the 34 IICA member countries (including Mexico). FAS's Emerging Markets Program funded this project, which helps countries in the hemisphere implement international trade agreements. All 34 IICA member countries sent representatives to WTO/SPS meetings held in Geneva in November 2002; FAS also supported their participation in WTO meetings in April and June 2003. For 2004, Mexico has become a member of the Steering Committee for this program and, therefore, no longer receives funding to attend the meetings.	2002	\$10,000
Emerging Markets Program–U.S. Codex Office	Regional Codex Workshop: FAS/ICD, in cooperation with the U.S. Codex Office, organized a technical workshop in Mexico City, Mexico, in May 2004 for 31 Codex contact points and policymakers from 22 Latin American and the Caribbean nations, including Mexico. The workshop addressed food safety guidelines and avoidance of potential barriers to sanitary-phytosanitary protocols. Presenters from USDA/FSIS, USDA/FAS, FDA, and the countries' Codex offices addressed topics that included the following: key issues of the Codex Alimentarius Commission, Codex National Committees; CCLAC Strategic Plan; SPS, TBT and TRIPS agreements, equivalence and Codex guidelines; product trace back; risk analyses; and biotechnology labeling.	2004	\$101,520
Total			\$298,412

Source: GAO, based on FSIS data.

Other U.S. Agencies

In its efforts to protect U.S. consumers, FDA has also undertaken activities that benefit Mexican agricultural producers. FDA's approach has been to work with Mexican government agencies to help them establish effective food safety regulatory, inspection, and enforcement infrastructure,

focusing particularly on microbiological hazards. For example, if a food-borne disease outbreak resulting from a Mexican import occurs, FDA determines the cause and works with the Mexican government to try and resolve the problem and develop a system to prevent future outbreaks. FDA officials explained that in 1997 their agency launched its Food Safety Initiative (FSI) to improve the safety of the U.S. food supply, which includes imported foods. Because Mexico exports around \$3 billion in fruits and vegetables to the United States each year, an important FSI component has been to help Mexican commodity exporters become more familiar with FDA regulatory requirements and to improve their ability to comply with U.S. food safety regulations. FDA activities under FSI have basically involved a series of training programs since 2002 for Mexican fruit and vegetable exporters, academics, and government officials. In addition to activities under FSI, FDA established the Southwest Import District Office in 1999 to enhance food inspection activities along the Mexican border. The Southwest Import District inspects imported goods entering the United States through the Mexican Border from Brownsville, Texas, to San Diego, California. During the last 4 years, FDA's Center for Veterinary Medicine has also participated in training and assisted in the establishment of a program in four agricultural states of Mexico to monitor pathogens that are transmitted via contaminated food. FDA reported it has spent about \$1.8 million for its activities related to agricultural production in Mexico since NAFTA went into effect.

Recent U.S.–Mexico Collaborative Agricultural Activities under Partnership for Prosperity

The Partnership for Prosperity (P4P) initiative has a few collaborative programs that are oriented towards agriculture. On the U.S. side, USDA's FAS, OPIC, and USAID have played key roles in implementing the programs.¹ Overall, P4P seeks to create a public-private alliance and develop a new model for U.S.–Mexican bilateral collaboration to promote development, particularly in regions of Mexico where economic growth has lagged and is fueling migration. No new funds were specifically allocated to P4P by either government since the program's inception; instead, the U.S. government has sought to refocus resources already devoted to Mexico to create a more efficient collaborative network. According to State Department and USDA officials, since its establishment, P4P has become the “umbrella” under which development collaboration between the United States and Mexico takes place.

USDA's FAS has worked closely with several Mexican government agencies, including Mexico's new rural lending institution, Financiera Rural, to incorporate P4P's broader approach to rural development and assistance to small farmers. For example, FAS arranged for USAID to use its U.S. fellowship program to place one of its participants at Financiera Rural. Through this fellowship, Financiera Rural hosted a professor from the University of Minnesota who assisted the agency in developing a strategic plan to incorporate the new paradigm for rural development proposed in the P4P conferences, acknowledging that Financiera Rural is better suited to operate as a second-tier lender. This strategic plan calls for the development of rural financial lending intermediaries in Mexico, which will be fostered using a model that complies with Mexico's legal framework, determined by a study to be conducted jointly by the Financiera Rural and the International Development Bank. The new strategic plan also calls for the agency to fund any productive endeavor in the countryside, not only agricultural production. Activities could include such things as eco-tourism, rural gas stations, and transportation services. According to Financiera Rural officials, the guidance provided by the USAID fellow has positively contributed to Financiera Rural operations because funding and access to these types of resources and knowledge are not otherwise available in Mexico. Furthermore, the fellowship has provided support in trying to resolve the issue of limited credit availability—one of Mexico's most significant structural problems.

¹On the U.S. side, P4P is co-led by the Departments of State, Commerce, and Treasury. On the Mexican side, P4P is co-led on the Mexican side by the Office of the President and the Ministries of Economy, Foreign Relations, and Finance.

According to U.S. Embassy officials in Mexico, one of the most significant accomplishments under P4P has been the bilateral agreement to allow the Overseas Private Investment Corporation (OPIC) to operate and provide financing in Mexico. OPIC's mission is to help U.S. businesses invest overseas, to foster economic development in new and emerging markets, and to complement the private sector in managing the risks associated with foreign direct investment. According to OPIC officials, for over 30 years there had been resistance by the Mexican government to allow the agency to operate in Mexico because of concerns over sovereignty. Mexico did not want a U.S. government agency to provide loans in Mexico because that would mean that the agency could ask for collateral and possibly own Mexican property in the case of default on a loan. However, in 2003, an agreement was reached through P4P to allow OPIC to operate in Mexico.

Since the bilateral agreement was signed, OPIC has begun to provide financing for five projects in Mexico, including one related to agriculture. For the agriculture-related project, OPIC approved a \$3.3 million loan to Southern Valley Fruit and Vegetable, Inc., of Georgia to develop a new farming project in Mexico that will serve as a winter division of the company that will grow, package, and ship cucumbers, squash, eggplant, and zucchini. The project will employ approximately 300 laborers and professionals in an area of high unemployment. Southern Valley has committed over \$2.2 million in equity to the project. OPIC officials indicated that they expect their lending portfolio to grow in Mexico.

USAID plans to expand its activities in Mexico to support rural development. USAID officials explained that, overall, USAID has not had a large presence in Mexico, and historically funding for activities in Mexico has been limited. Furthermore, USAID activities in Mexico have typically been in the areas of population, democracy, governance, health, and micro-financing, instead of agriculture. However, in 2004 USAID received an added \$10.2 million specifically for rural development in Mexico, which brought its budget to \$32 million. USAID is now working with other U.S. and Mexican agencies to develop projects to assist rural areas of Mexico. In recent months USAID has initiated several activities targeting rural development including:

- **Small Farmer Support/Rural Business Development:** Through this activity, USAID award h is providing targeted business development and marketing services to agricultural producer organizations and cooperatives in the southern rural states of Oaxaca and Chiapas.

Appendix V
Recent U.S.–Mexico Collaborative
Agricultural Activities under Partnership for
Prosperity

- **Connecting Small Producers with Market Opportunities:** In partnership with Michigan State University and USDA, USAID launched this activity in late 2004 designed to allow small and medium producers to better compete for opportunities in the mushrooming domestic market for food and produce.
- **Rural Finance:** In late 2004, USAID expanded what had been an urban-focused micro-enterprise finance program to include rural finance as a priority activity.
- **University Partnerships:** In 2004, USAID focused the ongoing Training, Internships, Exchanges, and Scholarships annual partnership competition on proposals that would spur agribusiness and other issues tied to rural economic growth. In August 2004, USAID awarded five new partnerships directly related to rural development.

Comments from the U.S. Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States Department of State

Assistant Secretary and Chief Financial Officer

Washington, D.C. 20520

MAR 16 2005

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "INTERNATIONAL TRADE: U.S. Agencies Need Greater Focus to Assist Mexico's Successful Implementation of NAFTA Agriculture Provisions," GAO Job Code 320246.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Sigrid Emrich, Economic Officer, Bureau of Western Hemisphere Affairs, Mexico desk, at (202) 647-8112

Sincerely,

Christopher B. Burnham

cc: GAO – Juan Gobel
WHA – Linda Jewel
State/OIG – Mark Duda

Department of State Comments on GAO Draft Report
International Trade: U.S. Agencies Need Greater Focus to Assist Mexico's
Successful Implementation of NAFTA Agriculture Provisions,
(GAO-05-272, GAO Code 320246)

The State Department commends the Government Accountability Office for its report on Mexico's implementation of NAFTA agriculture provisions. Given that 22 percent of Mexico's population lives in rural areas, we concur with the GAO's emphasis on the importance of accelerating rural development to achieve broad-based economic prosperity for the country.

We note that the title of the report suggests Mexico has failed to implement its NAFTA agricultural provisions. The text of the report, however, shows that implementation has been successful and that bilateral agricultural trade has expanded significantly. We would recommend that the GAO revise the title to recognize Mexico's successful implementation of NAFTA while pointing out that other market access issues involving non-tariff barriers still impede market access for some U.S. agricultural exports. The title on page 11 "U.S. Agricultural Exports Have Gained Greater Access to Mexico under NAFTA, but some Market Access Barriers Remain" may more adequately reflect the findings in the document.

See comment 1.

The GAO suggests that lagging rural development in Mexico could affect the successful implementation of the remaining NAFTA agricultural provisions on January 1, 2008. The report generally overstates the breadth and strength of opposition to NAFTA in Mexico. Anti-NAFTA and anti-free trade groups have operated in Canada, Mexico and the United States since NAFTA was signed over ten years ago. While rhetoric about the impact on Mexico's farmers heated up in 2002, the Mexican government nevertheless successfully implemented its commitments including the eliminations of most tariffs on agricultural products on January 1, 2003. We have no reason to believe that the existence of groups that oppose further tariff elimination will lead the Mexican government to renege on its NAFTA obligations. In fact, the Mexicans continue to publicly and privately tout the benefits of the free trade agreement.

See comment 2.

The GAO report contains statements on pages 29 and 34 that imply that the USG commits to providing technical assistance in post-NAFTA free

See comment 3.

trade agreements. In fact, we commit to discuss trade capacity building issues, but do not commit to providing any assistance.

See comment 4.

We appreciate the GAO mentioning the rural development activities that we are conducting under the Partnership for Prosperity (P4P), but would like to point out that P4P has a much broader focus than mentioned in the report. P4P is a public-private sector alliance to spur economic growth, bring development to parts of Mexico that have benefited less from NAFTA, and address some of the root causes of migration by creating new economic opportunities. P4P has worked successfully to reduce the cost of remittances, find innovative means to finance infrastructure projects, enhance cooperation on housing finance and construction, and to promote small business development.

See comment 5.

The GAO report incorrectly lists State as the U.S. lead agency for P4P on page 34. P4P is co-led on the U.S. side by the Departments of State, Commerce, and Treasury. P4P is co-led on the Mexican side by the Office of the President and the Ministries of Economy, Foreign Relations, and Finance.

See comment 6.

The GAO correctly notes that P4P has not developed a specific strategy document for rural development. However, as described further below, in Spring 2004 USAID/Mexico, in coordination with the Government of Mexico and other Mexican stakeholders, carried out an assessment of the challenges to and opportunities for rural development in Mexico and subsequently refocused a significant portion of USAID funding and assistance mechanisms to begin addressing those challenges and opportunities. Further, on February 17, 2005, the U.S. and Mexican government leads agreed to create a new structure for P4P which creates seven permanent working groups: Competitiveness, Financial Issues, Rural Development, Housing (finance and construction), Infrastructure, Small Business and Human Capital Development. Each of the working groups has been asked to identify private sector co-leads and to develop an action plan for 2005 activities. The rural development working group is co-led by USDA, USAID and the Mexican Ministry of Agriculture.

See comment 7.

In FY 2004, USAID obligated \$10.2 million of Development Assistance funds (nearly one-third of its annual budget) for rural development, which includes the following primary activities:

Small Farmer Support/Rural Business Development: USAID awarded a new USAID Rural Prosperity three-year contract in September 2004. The contract team is based in Oaxaca and is providing targeted business development and marketing services to producer organizations and cooperatives in the southern rural states of Oaxaca and Chiapas. Also as part of this focus, USAID entered into a new public-private partnership with Starbucks Coffee and Conservation International designed to help Chiapas coffee growers generate sustainable sources of income by improving the quality of its shade-grown coffee. USAID is now looking at forming other similar private alliances to allow small farmers to better take advantages of opportunities in cacao and other possible niche markets.

Connecting Small Producers with Market Opportunities: The USAID rural assessment underscored the fast-growing importance of domestic markets (supermarkets) vis-à-vis export potential. Supermarkets represent 40 percent of the overall market for produce in Mexico. In partnership with Michigan State University and USDA, USAID launched in late 2004 an activity designed to allow small and medium producers to better compete for opportunities in the mushrooming domestic market for food and produce.

Rural Finance: USAID has expanded what had been an urban-focused microenterprise finance program to include rural finance as a priority activity. In late 2004, USAID launched a new five-year, \$10 million program designed to expand access to finance for Mexicans – including for the first time an explicit emphasis to provide technical assistance to rural financial institutions. This assistance will help rural financial institutions develop new products, better reaching and ultimately better serving small farmers and rural entrepreneurs with sustainable sources of financing. This will build and significantly expand upon the report’s mention of rural finance cooperation established via the USDA Cochran fellow activity cited in the report.

University Partnerships: A centerpiece of the Partnership for Prosperity launched in 2001 has been USAID’s Training, Internships, Exchanges, and Scholarships (TIES) program designed to promote close cooperation between U.S. and Mexican universities on joint research, exchanges, and projects that further NAFTA and other common development objectives. Thirty-seven partnerships have been

awarded, in which U.S. Government funding has been matched on a 1:1 basis by private contributions. Tracking the increased focus by the U.S. on rural development, USAID in 2004 focused the TIES' annual new partnership competition on proposals that would spur agribusiness and other issues tied to rural economic growth. In August following an evaluation, USAID awarded five new partnerships directly related to rural development.

Finally, regarding the report's discussion of increasing U.S. and Mexican policy attention on rural development, it should be pointed out that at the June 2004 P4P annual conference in Guadalajara, Mexico, attended by over 650 senior U.S. and Mexican private sector and government representatives, that U.S. and Mexico developed a specific workshop on rural development. Key concepts from the USAID rural sector assessment, such as how to link small/medium producers to opportunities presented by the explosion of supermarkets, were highlighted at this roundtable discussion. The P4P roundtable was followed by a discussion on rural development between senior USDA, USAID, and Government of Mexico representatives at the cabinet-level U.S. Mexico Binational Commission (BNC) in Mexico City, November 2004.

The GAO report recommends that the State Department work with other government agencies to develop an action plan under P4P laying out specific collaborative efforts and to set timeframes and performance measures for these activities. As the GAO report rightly points out, P4P uses existing resources to implement programs and conduct events. Collaborative efforts on rural development, as in all P4P working groups, are constrained by the availability of funding. As a public-private sector alliance, any P4P action plans must be coordinated with U.S. and Mexican government officials as well as private sector representatives of each working group.

The following are GAO's comments on the State Department's letter dated March 16, 2005.

GAO Comments

1. We revised title to make clear that we are not suggesting that Mexico has failed to implement its obligations under NAFTA's agricultural provisions.
2. We do not believe that we overstate the opposition to NAFTA in Mexico. As noted in the report, U.S. and Mexican officials have expressed concerns about how negative perceptions of NAFTA may impact successful implementation of the agreement. In addition, the report recalls the difficulties experienced in Mexico at the time of tariffs elimination under NAFTA in 2003.
3. We changed language in the two locations of the report cited by the State Department to clarify that as a matter of course the United States has not committed to providing technical assistance to its post-NAFTA free trade partners. The report now states simply that the United States has recently provided such assistance.
4. The points about the P4P Initiative noted by the State Department are also mentioned in our report. We did not consider it necessary to make revisions to address these points.
5. In our recommendations we identify the Secretary of State as the head of **one** of the agencies taking the lead on P4P activities. We have added a footnote in appendix V on P4P activities to clarify the roles of the Departments of Commerce and Treasury. While these departments also have a leading role in P4P activities, they are not directly involved in activities related to rural development or the agricultural sector, and therefore our recommendation is not addressed to these agencies.
6. Our review was concluded by the time the Partnership for Prosperity working groups cited by the State Department had taken place. These developments may represent the first steps in addressing our recommendation.
7. We revised appendix V of the report to include key elements of the information provided on recent USAID activities.

Comments from the U.S. Department of Agriculture



United States
Department of
Agriculture

Farm and
Foreign
Agricultural
Services

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MAR 14 2005

Mr. Loren Yager
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Yager:

Thank you for the opportunity to review and comment on the Government Accountability Office's (GAO) draft report entitled "International Trade: U.S. Agencies Need Greater Focus to Assist Mexico's Successful Implementation of NAFTA Agricultural Provisions" (GAO-05-272). I would like to offer the following brief comments for your consideration.

The report offers a thoughtful analysis of the complex agricultural trading relationship between the United States and Mexico, highlighting the tremendous gains in agricultural trade made during the implementation of NAFTA, as well as identifying some of the hurdles that have been and remain to be overcome.

The report also highlights the wide range of activities undertaken by the U.S. Department of Agriculture (USDA) in its effort to strengthen the overall agricultural relationship between the United States and Mexico. USDA, through its individual mission areas, has engaged its Mexican counterparts through numerous targeted programs. While these activities have led to important progress in the development of Mexico's agricultural and rural sectors, GAO accurately points to the need to ensure that these programs work in a coordinated fashion to achieve our overall goal of the successful and complete implementation of NAFTA.

USDA stands ready to work with the U.S. Department of State and other agencies, under the Partnership for Prosperity Initiative, to develop collaborative efforts on rural development that would support and facilitate the continued successful implementation of NAFTA.

However, as the report rightly recognizes, the complexity of rural development in Mexico is such that ultimate success will require far more than assistance from USDA and other U.S. government agencies. The Government of Mexico must assume a sustained leadership role in the pursuit of the growth of its rural sector. Among the critical steps needed, reform must be undertaken in Mexico's policies governing land tenure, investment, infrastructure, education, security and agricultural support.

We have also enclosed additional comments of a more technical nature for your consideration.


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Appendix VII
Comments from the U.S. Department of
Agriculture

Mr. Loren Yager
Page 2

In closing, I again want to thank you for allowing us to comment on this draft report.
Please let us know if you would like to discuss our comments further.

Sincerely,



A. Ellen Terpstra
Administrator

Enclosure

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