U.S. Farmers: Broken Promises of the NAFTA/WTO Trade Model Show Why NAFTA Expansion to Peru Should Be Rejected

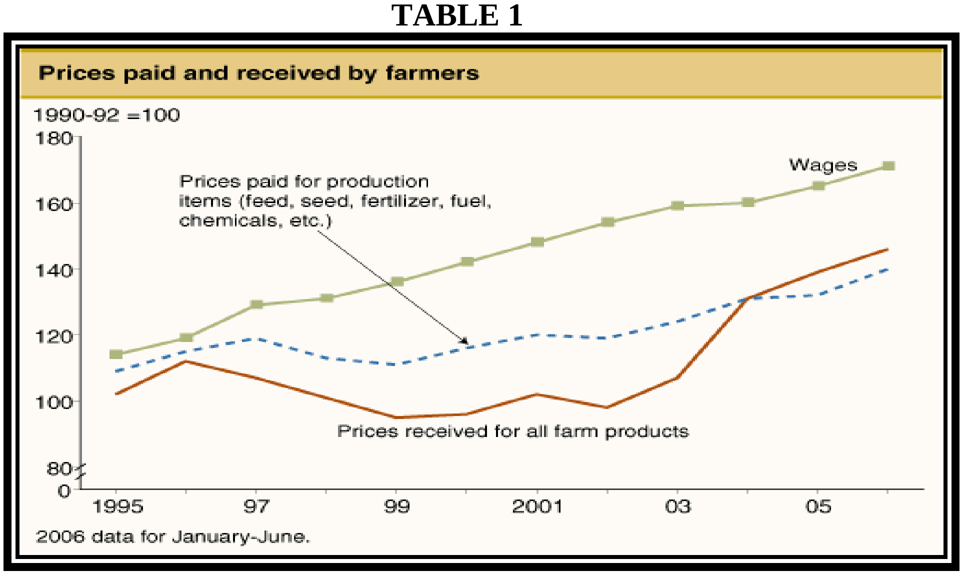
- During the debates over the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO), U.S. farmers were made grand promises by the agreements' supporters. They were told that by opening overseas markets, the pacts would cure the U.S. farm economy's woes, and that farmers would export their way to wealth. With each new trade agreement since, farmers have been promised that they are just one trade agreement away from riches thanks to trade. Many farmers believed the promises and supported NAFTA and WTO and then later pushed for the grant of Permanent Normal Trade Relations with China to facilitate the Asian country's entry into the WTO.

- The reality has sadly been the opposite: not only did U.S. agricultural producers not gain, but many suffered serious damage. Trade flows did increase, but food imports into the United States outpaced U.S. exports. Unimaginably, in 2005, **the United States became a net food importer** – with an unprecedented food trade deficit of nearly $370 million.[1]

- The WTO required all signatory nations to eliminate quotas and other supply management programs. Through a process called "tariff-ication," quotas were translated into tariffs and then reduced over phase-in periods. The WTO also required signatory nations to eliminate various support programs. The vehicle for many of these changes was the 1996 "Freedom to Farm Act," which eliminated various supply management and support programs designed to safeguard farmers against weather and market fluctuations that had been in place since the New Deal. As nations worldwide eliminated supply management, global production jumped, markets were glutted and commodity prices plummeted. While the grain trading and food processing firms who helped write the WTO agricultural rules and the 1996 Farm Bill made record profits, **U.S. farm income declined. Many farms went bankrupt**. Meanwhile, Congress' ability to return to supply management and other proven-to-work programs was foreclosed by U.S. WTO obligations.[2]

- During the NAFTA-WTO period, nearly 300,000 family farmers have gone under,[3] and the price paid for inputs has outstripped the price received by farmers for their products. During the NAFTA-WTO era, net farm income (minus government payments) declined 13 percent for family farmers.[4] As the trade agreements massively increased imports of the same commodities produced by U.S. farmers, prices declined. Even when U.S. production and export volumes increased, farm income declined.

TABLE 1

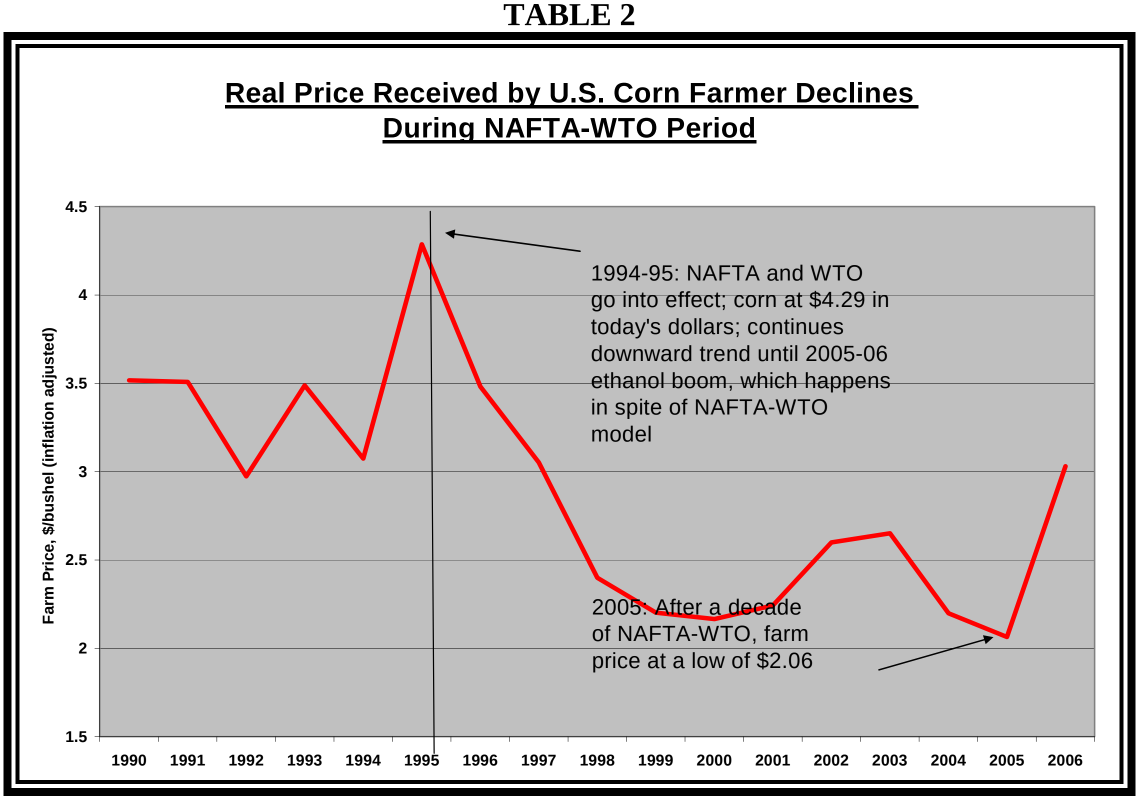


Source: U.S. Department of Agriculture's Amber Waves, September 2007.

- The experience of agricultural trade under NAFTA provides ample evidence that the NAFTA model on which the Peru FTA is premised is a loser for U.S. farmers. During the 1993 NAFTA debate, U.S. farmers were promised that the overall U.S. trade surplus with Mexico would increase under the pact,[5] that "farmers are big winners under the NAFTA"[6] and that "the most significant trade expansion from NAFTA will be with Mexico."[7] Instead, **the slight overall U.S. trade surplus with Mexico turned into an over $64 billion trade deficit**, as thousands of factories relocated to take advantage NAFTA's $6 per day wages, under the new security and privileges provided by NAFTA's investor protections. In rural communities across the Midwest, off-farm job opportunities evaporated as 3 million net manufacturing jobs were lost during the NAFTA-WTO era. Further, an analysis by the non-partisan Economic Policy Institute (EPI) found that "there has been no net change in the trade balance with Mexico in either agricultural or food products." The report also found that "U.S. benefits from growing trade with Mexico [in certain commodities] were more than offset by declining trade balances with Canada in exactly the same sectors."[8]

- In certain commodities, the damage to farmers was particularly serious. While the volume of corn and soybean exported increased as predicted by NAFTA's proponents, **the prices received by American farmers declined to the lowest levels in recent memory**, as shown in Tables 2 and 3. In inflation-adjusted dollars, farmers received $4.29 a bushel for corn in 1995, the year the WTO went into effect and a year after NAFTA went into effect. But a decade later in 2005, the bushel price was at a low of $2.06, and only started increasing with the recent ethanol boom[9] – a development that is threatened with derailment as Brazil and other agricultural exporters plot WTO challenges against U.S. corn ethanol subsidies.[10] Meanwhile, the Central America Free Trade Agreement (CAFTA) provides special access for ethanol produced in CAFTA countries, including El Salvador, where Cargill has invested in a refinery to make ethanol from Brazilian sugar stock.[11]

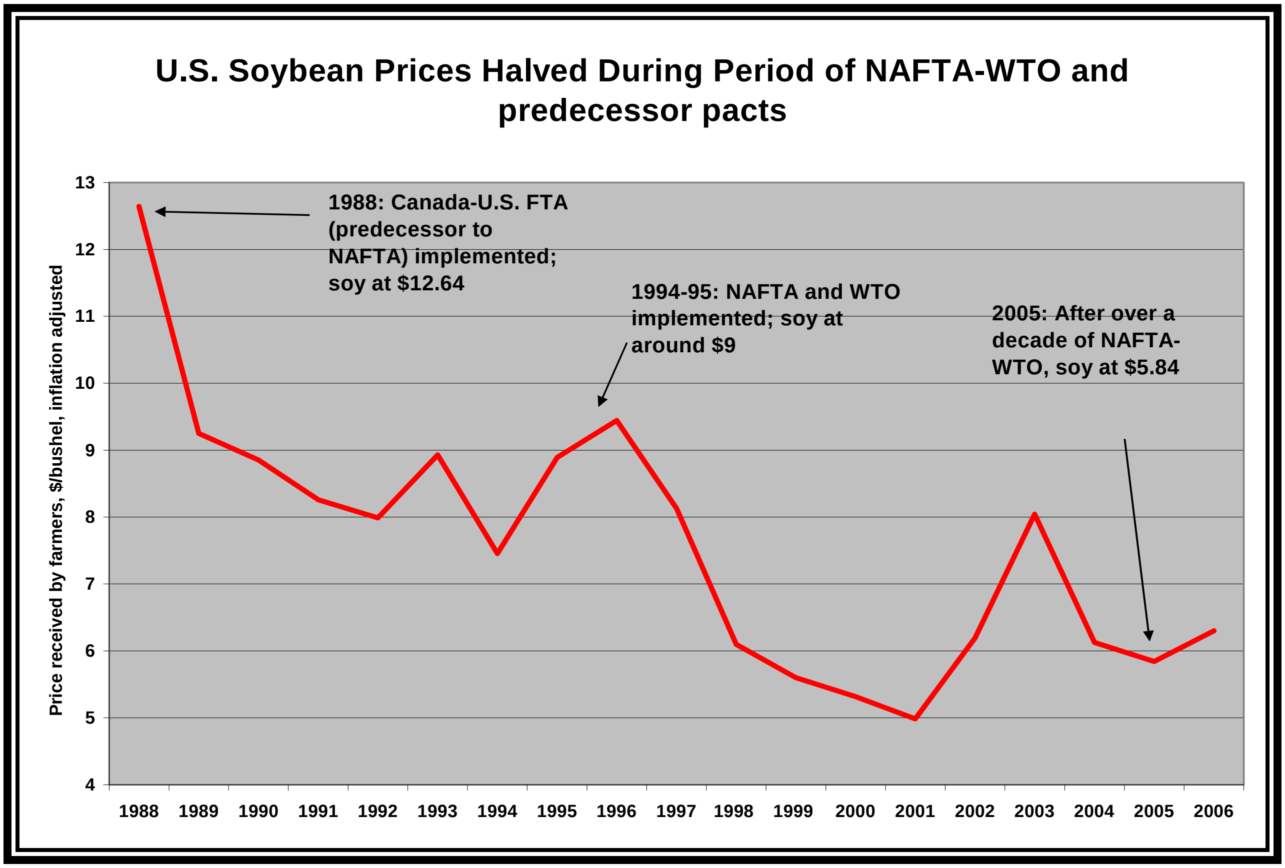
TABLE 2



Source: USDA's Economic Research Service and authors' calculations.

And, while American farmers received $12.64 per bushel of soybeans (in inflation-adjusted terms) when the NAFTA predecessor Canada FTA went into place in 1988, that price halved to $6.30 by 2006.

TABLE 3



Source: USDA's Economic Research Service and authors' calculations.

- The volume of corn exports increased to Mexico under NAFTA, but as shown above, the price paid to U.S. farmers for corn was plummeting. Thus, while export volumes increased, farm income declined. Meanwhile, dumped U.S. corn displaced 1.3 million *campesino* farmers,[12] increasing annual immigration to the United States 60 percent in NAFTA's first six years,[13] while the percentage of Mexico's rural population that earned less than the minimum needed for food shot up 50 percent.[14] And while the price paid Mexican farmers for corn was halved, tortilla prices for consumers doubled, coinciding with a decline in real wages for almost all income groups and industries![15] **Farmers on both sides of the border lost out while large agribusinesses' profits skyrocketed.**

- **Now farmers are hearing the same old song about the Peru FTA NAFTA expansion**. Proponents of the Peru FTA cite a U.S. International Trade Commission (ITC) report to note that export *volumes* in certain U.S. commodities may increase. But there are reasons to be skeptical of these claims. First, as U.S. farmers learned during NAFTA, increased volume does not necessarily translate into increased income. Second, the same study shows an increase in certain agricultural imports, and a worsening of the United States' overall trade deficit.[16] Third, the proponents fail to take into account a **preexisting FTA between Peru and major agro-exporters Argentina and Brazil.** The Peru-MERCOSUR pact (signed in 2003) extends any tariff cuts offered to third parties (such as the United States) to all the neighboring Southern Common Market (MERCOSUR) countries. That means that the vaunted tariff cuts in pork, soybeans and more provided in the Peru FTA will also be granted to large South

American agriculture exporter nations. Corn is excepted from this provision, but many other commodities are not.[17] Thus, if the Peru FTA is ratified and implemented, lower cost (and more geographically proximate) agricultural powerhouses Argentina and Brazil could claim the "new" U.S. market in Peru just as it is created.

- **Whether the new imports come from MERCOSUR or U.S. farmers, many Peruvian *campesinos* would be displaced if the FTA is implemented.[18]** Peru is a country of small and medium-scale farmers, thanks to an effective land reform program in the 1960s and 1970s. Over 95 percent of farmers produce on 20 hectares or less, and 80 percent produce on 5 hectares or less (1 hectare = 2.47 acres). Nearly half of the population lives in poverty, and about three-quarters of the poor live in rural areas. Agriculture is the main source of income in rural areas and employs 3 million people, or a third of all employment nationally. The vast majority of land under cultivation nationally, about 90 percent, is for the domestic market; only about 3 percent is dedicated to non-traditional agricultural exports and the rest is in coffee. Of the products produced for the domestic market, those considered sensitive to MERCOSUR or U.S. imports are: rice, wheat, yellow corn, barley, cotton, oil seeds (oil palm), dairy, meats, potatoes. According to a Colombian government study about identical provisions in the FTA with that country, **displaced farmers in the region who will no longer be able to earn a living will have but three alternatives:** "***migration to the cities or other countries (especially the United States), working in drug cultivation zones, or affiliating with illegal armed groups."***[19] The Peru FTA thus could undermine years of US foreign policy and drug eradication efforts. In Peru's mountainous jungle, the country's coca-growing region, there are 278,000 hectares of rice, yellow corn and oil palm under cultivation, compared with 38,000 hectares of coca. But if farmers are no longer able to make ends meet by growing rice and corn, they may find coca to be their only viable alternative to make ends meet. Meanwhile, **the benefits in terms of increased agricultural export volumes would not even accrue to U.S. producers.**

- Plus, the Peru FTA replicates the NAFTA-CAFTA-style investor-state rules that allow foreign agribusiness to attack U.S. laws, newly empowering over 2,000 food exporters currently registered in Peru to pursue challenges directly against U.S. food safety laws if they believe such laws undermine their FTA-granted foreign investor rights. Already under NAFTA, Canadian cattle producers have used such foreign investor private enforcement rights to demand $235 million in compensation from the U.S. government over the U.S. temporary ban on Canadian beef imports, which went into effect when several Canadian cattle were found to be infected with mad cow disease.[20] **The Peru NAFTA expansion's limits on food safety put U.S. farmers at a double disadvantage, as unsafe imports produced under cheap if dangerous conditions cannot be kept out.**

- Moreover, there are **specific U.S. commodities that stand to lose out big under Bush's NAFTA expansion to Peru.** As Food & Water Watch (FWW) documented in recent series of briefs, U.S. farmers that grow asparagus, onions and green peas have already been slammed by the six-fold increase in these and other fresh and processed vegetable imports from Peru over the last decade. Multinational food processing companies like Green Giant and Del Monte have already offshored processing facilities to Peru, and are pushing hard for FTA passage so as to lock-in a steady and growing flow of cheap Peruvian imports. U.S. asparagus, onion and pea farmers have already seen their acreage cut dramatically and farms go under thanks to rising Peruvian imports. Now, as FWW argues, **these farmers could become "the canaries in the coal mine of Peruvian vegetable trade,"[21] affecting thousands of farming families** in California's Central Valley, Oregon, Eastern Washington, Western Michigan, Minnesota, Wisconsin, Southern New Jersey, Delaware, Southern Texas, Upstate and Southern New York, Colorado, Eastern Georgia, Idaho, Utah, and New Mexico.[22]

CONCLUSION:

The NAFTA-WTO trade rules empowered increasingly concentrated agribusiness trading companies to game the system, playing farmers off of each other with ever declining prices caused in part by flooding markets with imports to keep down prices. And agribusiness concentration in grain and seed trading escalated in part thanks to WTO and NAFTA service sector rules that allowed mergers and acquisitions without regard to competitive/anti trust consideration – creating enormous market distortions that benefited a few, but hurt most farmers.

ENDNOTES

[1] The U. S. Department of Agriculture's Foreign Agriculture Service offers aggregations of commodity groups. The United States ran a nearly $370 million food deficit in 2005 for the sum of the following aggregations: dairy products, fruits & preparations, grains & feeds, livestock & meats, oilseeds & products, other horticultural products, planting seeds, poultry & products, sugar & tropical products, tree nuts & preparations, and vegetables & preparations. The United States then ran a slight food trade surplus the following year that was half the 1989-2003 average. In recent years, the United States has been on the verge of having an annual agriculture trade deficit, which refers to a wider category that includes farm machinery and other non-food items.

[2] Daryll E. Ray, Daniel G. De La Torre Ugarte, and Kelly J. Tiller, "Rethinking U.S. Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide," Agricultural Policy Analysis Center at the University of Tennessee, 2003.

[3] Exact number is 288,000 and is for limited resource and farmer occupation farms, 1993 and 2005, Economic Research Service, U.S. Department of Agriculture.

[4] This figure is the sum of the average net cash income for both limited resources and farming occupation farms, minus government payments, and is inflation adjusted, for years 1996 and 2005, the most recent comparable data. For 1996, the average inflation-adjusted net cash income for limited resource, low- and high- sales farming occupation farms were -$3,721, -$979, and $35,947, respectively; while the comparable 2005 numbers were -$4,245, $1,538, and $29,354, respectively. Economic Research Service, U.S. Department of Agriculture.

[5] Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment*, (Washington, D.C.: Institute for International Economics, 1993), at 14.

[6] "The North American Free Trade Agreement: Benefits for U.S. Agriculture," U.S. Department of Agriculture Fact Sheet, 1993, released under Freedom of Information Act, cited by Robert E. Scott, "Will CAFTA Be A Boon to Farmers and the Food Industry?" Economic Policy Institute Issue Brief #120, June 2, 2005.

[7] "The North American Free Trade Agreement benefits for U.S. agriculture," U.S. Department of Agriculture Fact Sheet 2, 1993. Available at: http://findarticles.com/p/articles/mi_m3723/is_n11_v5/ai_14697324/print.

[8] Robert E. Scott, "Will CAFTA Be a Boon to Farmers and the Food Industry?" Economic Policy Institute Issue Brief #120, June 2, 2005.

[9] U.S. Department of Agriculture Feed Grains Database, accessed Sept. 26, 2007.

[10] Christopher Leonard, "Ethanol boom divides farm lobby," *Associated Press,* Sept. 13, 2007.

[11] Rachel Gantz, "Cargill Leaves RFA over CBI Controversy, Sources Confirm," *Renewable Fuel News*, Jan. 17, 2005; "Cargill takes heat over ethanol import plan," *Associated Press*, July 2, 2004.

[12] John Audley, Sandra Polaski, Demetrios G. Papademetriou, and Scott Vaughan, "NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere," Carnegie Endowment for International Peace Report, Nov. 19, 2003.

[13] Jeffrey S. Passel and Roberto Suro, "Rise, Peak and Decline: Trends in U.S. Immigration 1992 – 2004," Sept. 27, 2005, Pew Hispanic Center, at 39.

[14] Colombia and Mexico Country Management Unit, Latin America and the Caribbean Region, Poverty Reduction and Economic Management Division, "Poverty in Mexico: An Assessment of Conditions, Trends and Government Strategy," World Bank Report No. 28612-ME, June 2004, at 57.

[15] Alejandro Nadal, "The Environmental & Social Impacts of Economic Liberalization on Corn Production in Mexico," Study Commissioned by Oxfam Great Britain and World Wildlife Fund International, September 2000, at 28 and 38; John Ward Anderson, "Tortilla Price Hike Hits Mexico's Poorest," *Washington Post*, Jan. 12, 1999; and Carlos Salas, "Revisiting NAFTA," Economic Policy Institute Report, September 2006.

[16] U.S. International Trade Commission, "U.S.-Peru Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects," Investigation Number TA-2104-20, USITC Publication 3855, June 2006.

[17] See Peruvian government information on this deal at, http://www.mincetur.gob.pe/COMERCIO/OTROS/mercosur/01_TEXTO_%20ACUERDO.pdf, and http://www.mincetur.gob.pe/COMERCIO/OTROS/mercosur/02_ANEXO_%20I_ARTCULO_3.pdf. The relevant provisions can be found at Title II, Article 3, and the annex.

[18] Information in this paragraph not otherwise cited is taken from Stephanie Burgos, private memorandum, Sept. 26, 2007.

[19] "Colombian Agriculture Before the Free Trade Agreement with the U.S," Min. of Agriculture and Rural Development, July 2004.

[20] Mary Bottari, "Trade Deficit in Food Safety," Public Citizen's Global Trade Watch, July 2007.

[21] Food & Water Watch Briefs, release October 2007.

[22] National Agricultural Statistics Service, 2002 Census of Agriculture, County level data.