

# Dumping Without Borders:

## How US agricultural policies are destroying the livelihoods of Mexican corn farmers

The Mexican corn sector is in acute crisis because of the influx of cheap subsidised corn imports from the US. Poor Mexican farmers cannot compete against US producers, who receive \$10bn a year in subsidies. Action is required at the WTO Ministerial Conference in Cancun in September 2003 to end agricultural dumping, together with action by the Mexican government to control US corn imports.

*“Poor Mexico, so far from God and so close to the US!”*

Popular saying

## Executive summary

In September 2003, the world's trade ministers will descend on the Mexican tourist resort of Cancun. The aim is to advance the current negotiations at the World Trade Organization (WTO). Northern governments promised to make the latest talks a 'development round'. But if they are to translate their promises into practice, they will need to address an issue that is causing mass poverty across the developing world: agricultural dumping. Nowhere is the problem more powerfully apparent than among Mexico's corn farmers.

Mexico has been growing corn for 10,000 years. But today the corn sector is in a state of acute crisis. Household incomes are in decline, and nutrition is deteriorating. Across Mexico, millions of people are migrating in a desperate bid to escape rural poverty, many of them intent on reaching the US. In the southern state of Chiapas, where the corn crisis has interacted with a collapse in coffee prices, it is estimated that 70 per cent of the rural population now live in extreme poverty.

The slump affecting Mexico's corn farmers has multiple causes. Some of these are domestic. Successive Mexican governments have failed the rural poor, preferring to concentrate public spending on commercial enterprises. It is also the result of the strategies of big agribusiness companies which buy, trade, and process corn on both sides of the border. But the US government is also directly culpable, and it is US agricultural policy that will be under discussion in September. As we show in this paper, there is a direct link between government agricultural policies in the US and rural misery in Mexico.

Under the North American Free Trade Agreement (NAFTA), Mexico has rapidly opened its markets to imports from the US, including corn. Since the early 1990s, US corn exports to Mexico have expanded by a factor of three. These exports now account for almost one third of the domestic market.

Surging imports have been associated with a steep decline in prices. Real prices for Mexican corn have fallen more than 70 per cent since 1994. For the 15 million Mexicans who depend on the crop, declining prices translate into declining incomes and increased hardship. Many people can no longer afford basic health care. Women have suffered disproportionately. Male migration and falling incomes have increased the labor demands on them, both on household farms and in income-generating activity beyond the household.

One of the primary factors behind the advantage US corn has in the Mexican market is US government payments to the sector. The US corn sector is the largest single recipient of US government payments. In 2000, government pay-outs totaled \$10.1bn. To put this figure in context, it is some ten times greater than the total Mexican agricultural budget.

In its official reports to the WTO, the US denies using any export subsidies in the corn sector. That denial is justified in terms of the letter of WTO law, which currently defines export subsidies as a payment that bridges the gap between (higher) world prices and (lower) export prices. The problem is that the WTO regulations relating to agriculture are deeply

flawed. They fail to acknowledge that transfers to producers include a *de facto* export subsidy.

In this paper we estimate the scale of this subsidy by two methods. The first involves comparing export prices with the cost of production. The second involves converting overall payments to corn into \$/ton equivalent subsidies, and then using this to estimate total export subsidies. Both of these methods are consistent with the rules applied to dumping by the WTO in non-agricultural areas. They reveal an effective export subsidy to the Mexican market of between \$105 and \$145m annually. This export subsidy exceeds the *total household income* of the 250,000 corn farmers in the state of Chiapas.

Far from operating on a 'level playing field', small farmers in Chiapas and elsewhere in Mexico are at the wrong end of a steeply sloping playing field which runs downhill from the US Mid-West. They are competing not against US farmers, but against US taxpayers and the world's most powerful treasury. It is difficult to think of a starker illustration of unfair trade in practice.

Set against the losses suffered by Mexico's rural poor, US corn subsidies do create some winners. Agricultural corporations – such as Cargill and Archer Daniels Midland (ADM) – get access to US corn surpluses at artificially depressed prices, creating lucrative export opportunities. The same corporations are the largest corn exporters to Mexico, and benefit from export credits to Mexican importers. Some US farmers also gain. However, the lion's share of corn subsidies goes to the biggest farms. As in other sectors, US agricultural subsidies hurt the rural poor overseas and fail the rural poor at home, but they create windfall gains for big farms and corporate agribusiness interests.

The crisis facing Mexican corn farmers is a microcosm of the crisis facing millions of vulnerable rural communities across the developing world. Resolution of the corn crisis will require action at the national and the global levels. The Mexican government needs as a matter of urgency to renegotiate the NAFTA agreement. It is unconscionable for Mexico's poorest rural communities to be subjected to competition from heavily subsidized imports. They have a right to more effective protection – and the Mexican government has a responsibility to provide it.

At the global level, stronger WTO rules are needed to prohibit all forms of direct and indirect export subsidies. That prohibition should extend to subsidized export credits (which are extensively used by the US in Mexico).

One of the most serious problems with current WTO rules is that they are designed to accommodate, rather than reduce, trade-distorting subsidies provided by the US and the EU. For example, up to half of total US agricultural support payments are exempt from WTO discipline, ostensibly on the grounds that they do not increase production. The distinctions drawn between Green Box (allowed) and Amber Box (prohibited) subsidies are an anachronism. They were designed by the EU and the US, largely to facilitate the repackaging of subsidies under the Uruguay Round agreement.

This paper recommends the following measures:

- 1 WTO members should agree to a timetable at Cancun for the elimination of agricultural export dumping.**
- 2 The WTO Agreement on Agriculture should guarantee the right of developing countries to protect their agricultural sector in the interests of development and food security.**
- 3 The US government must introduce fundamental changes to its agricultural support measures, to guarantee the sustainability of US family farms by providing fair prices and equal access to United States Department of Agriculture (USDA) agricultural support for small producers, minorities, and women.**
- 4 The Mexican government should push for the revision and renegotiation of NAFTA, so as to protect crops and products that it considers essential for food security and development in the country.**

## Introduction

*“Corn is the basis of our culture, our identity, adaptability and diversity. Corn created us, and we created corn.”*

Exhibition *Sin maíz, no hay país*, or *Without corn, there is no country*  
Mexico City, 2003

*“We are only able to subsidize Mexican corn with the lives of the people that produce it. The only way we can compete with North American prices is to give up the basic necessities.”*

Víctor Suárez, Executive Director of the  
National Association of Rural Producers' Enterprises (ANEC)

José Guadalupe Rodríguez is a corn producer in the Mexican state of Chiapas. Until recently, his corn crop guaranteed his family a minimum income and allowed them to store part of the harvest for the family's consumption throughout the year. They could pay for food and education, and for treatments when the children fell ill. However, in the last few years the situation has changed: *“While the price of corn has fallen, the cost of producing it has hit the roof”*, says José. *“We no longer have enough for our family.”*

José is just one of nearly three million corn producers in Mexico for whom the drop in prices since 1994 has had a devastating impact on their livelihoods, and that of their families. Corn also has huge symbolic significance in Mexico: the country was the birthplace of corn, and hundreds of varieties have been grown in Mexico for 10,000 years. The impoverishment of the Mexican countryside, and the corn crisis, have mobilized large elements of Mexican civil society. In January 2003, the protest movement 'El Campo No Aguanta Más' (literally, 'The Countryside Will Take No More') organized a march of more than 100,000 rural workers in Mexico City.

At the heart of the corn crisis is an influx of corn imports from the US at artificially low prices. The trigger for this was the North Atlantic Free Trade Agreement (NAFTA) of 1994, which opened up Mexican markets for US goods. Yet a suggestion by the Mexican government that it might reimpose tariffs on products such as corn has provoked some heavy-handed language from the US. Various members of the US congress have warned Mexico that any attempt to renegotiate NAFTA would be unacceptable.<sup>1</sup> A complaint has been brought against Mexico in the WTO for bringing anti-dumping measures in the rice and beef sectors. Such bullying makes it all the more imperative that at Cancun, the WTO agrees to multilateral trade rules which work for poor, rural producers across the world. It

should eliminate agricultural dumping and guarantee developing countries a right to protect key sectors of their economy such as agriculture.

This paper is divided into six sections. Following this introduction, Section 2 highlights the plight of corn farmers in southern Mexico who have been affected by the fall in prices. Section 3 examines US agricultural policy in the corn sector, while Section 4 describes the liberalization process under NAFTA. Section 5 demonstrates how particular groups have gained or lost from the changes in the corn sector, and in particular how large agribusiness companies have benefited from the current system. Section 6 offers some conclusions and recommendations.

## 2. The impact of dumping on Mexican farmers<sup>2</sup>

*“Until we are offered a price which we can live off, people will continue going to the US. It is not possible to live in the countryside without decent prices for our produce.”*

Ignacio Grandes, President of the producers’ association of Sabino Cepeda (Puebla)

The village of Comalapas, in the southern Mexican state of Chiapas, is one of the poorest in the country. Over the last few years, travel agencies have sprung up on its main street, offering just one destination: northern states such as Tijuana, which borders the US. Such ‘agencies’ offer a range of services, from a bus ticket to the border to a plane ticket with a job in the US thrown in.

Comalapas exemplifies a shocking national reality: at least 300,000 Mexican workers are forced to immigrate to the US every year.<sup>3</sup> Many of them come from the rural sector, where recent trade policies have devastated rural livelihoods. One in two Mexicans in rural areas lives in extreme poverty. In the southern states - Chiapas, Oaxaca, and Guerrero, where many families depend on corn - 70 per cent live in extreme poverty (Wodon, López-Acevedo, and Siaens, 2003).

### Failing poor communities in the south

The falling income of Mexican corn producers in the 1990s has undermined the food security of the rural population and their access to basic social services such as healthcare and education. Despite the fact that most rural families eat mainly corn and black beans, the fall in prices is forcing them to sell all their corn harvest,

whereas they would usually keep some back for their own consumption. Eating meat and fish is exceptional. Occasionally some families supplement their diet with home-reared chicken and vegetables that they grow themselves.

The collapse in prices has affected the diet of poor communities in another way: women now have to work outside the home to top up their family's income, which means that they cannot grind home-grown corn to make tortillas (the staple element of the local diet) in the way they used to. As a result, many families eat tortillas made from corn flour sold by large companies, which is often made from imported grain. The flour is widely available, but of poor quality. A typical complaint is that *"this corn....doesn't fill me up. Even a kilo of tortillas for lunch isn't enough"* (Alfonso, a laborer from Guadalupe Victoria (Puebla)).

The crisis in the corn sector has pushed health care further out of reach for many poor families. Simply treating a child with bronchitis can cost one third of a family's annual earnings from the sale of corn. As public health centers are scarce and badly equipped, many producers turn to private treatment, even though it is more expensive.<sup>4</sup>

Although education is free, most families cannot meet the cost of basic equipment such as stationery and uniforms, and children, especially girls, therefore leave after completing primary school to work

#### **Box 1: Women in Chiapas struggle to survive**

Women and girls in the far south of Mexico face a life of double work. Not only do they look after their families, their children and the elderly, but the decline in corn prices has meant they are increasingly forced out of the home to work. Paquita, now aged 23, had to work on her father's corn plot in Salto de Agua, a community near San Cristóbal: *"Unless I was ill, I would be working....I got up at 3am to make tortillas and left the house at 6 to work on the plot until 3-4pm. When I returned home I washed and continued with my work grinding [corn] and preparing tortillas – there is no rest."*

The collapse of coffee prices in the region has meant that more and more families in Paquita's region have to sell corn when, previously, they would keep the corn crop for the family, to make into tortillas. Flor, aged 24, recalls: *"Before, coffee helped our families...the price was good and we could buy the things we wanted. We invested in livestock, some people even had cars and went away to study. Then coffee prices fell to 3 pesos per kilo in 1998, from 22 pesos in 1992. Families despaired...they started to plant more corn or beans. This was the only way to survive, even though the price of corn and beans is so low."* Families are even selling their own corn to buy commercial corn flour to make tortillas. However, the women prefer home-grown corn and claim that bought corn does not give them the energy to work in the fields.

Women have suffered disproportionately from the decline in household incomes: many have little education, and rarely have access to land or

credit. When they do go out to work, they are paid less than their male counterparts. They tend to suffer from malnutrition far more commonly than men, as they eat less to leave more for their families. Says Paquita, 23: *"We only eat beans with a little salt, if we have 200 pesos, we will use it to go to the doctor."* In addition, the extra burden of responsibility upon women causes many to suffer from depression. Flor: *"The woman is responsible for feeding the family. When there is a lack of food, the woman feels guilty and sad."*

As a result of these social pressures, many choose to leave their villages, and often their families, in search of work in other parts of Mexico, or in the US. One of the effects in the communities they leave behind is that land is becoming increasingly concentrated in the hands of a few owners. The municipality of Nueva Linda, in Chiapas, divided up its 300 hectares among its members, following land reform in 1992. Today, 90 per cent of its members, many forced to immigrate, have sold their lands to the local political bosses.

Ironically, landowners may find themselves working as laborers on their own land. Those who rent land face an even harder time, because with no title to land they cannot access state-funded support programs. Alfonso Garcia, from Canuitas (Puebla), has to pay nearly one third of his income in rent. As well as growing corn, he has two temporary jobs in order to support his family of two children. But he knows it is impossible to carry on in this way: *"When my children are ill, I have to work like crazy. If I don't even have enough money to look after them, how can I buy chemicals to improve my land? I can barely grow anything on it any more....I know that soon I will have to go, and it saddens me to leave my family behind".*

## The environmental impact

The pressure on producers to compete with subsidized corn imports, and the increased penetration of large companies in the Mexican corn sector, has also had serious environmental consequences. Farmers have traditionally used locally adapted strains of corn seed, or 'criolla' seeds, bred over generations, to ensure that the plant is well suited to native growing conditions. However, the Mexican government has supported companies such as Monsanto to distribute 'hybrid' seeds, which they claim give higher yields. The government-sponsored 'kilo for kilo' program encouraged corn producers to trade in a kilo of their criolla seeds for a kilo of hybrid seeds. But the benefits are largely illusory: farmers must purchase hybrid seeds every planting season, as the seeds are much less productive after the first year, unlike criolla seeds, which can be saved and used from year to year. In addition, hybrid seeds require more fertilizers and other chemicals. In Chiapas, the intensive use of insecticides without training, instructions, or protective clothing has

led to severe health problems. According to Nino, a member of the Carranza group of producers in southern Chiapas, *“Before, there weren’t even any pests. Now people are ill the whole time due to these liquids.”* Often the seeds are provided mixed in with a powdered insecticide which it is difficult to wash off, and which then contaminates the farmer’s food.

### **3. US corn policy: distorting the competition**

*“This Farm Bill is important legislation. It will promote farmer independence and preserve the farm way of life. It helps America’s farmers and therefore it helps America.”*

President George W. Bush, at the signing of the 2002 Farm Bill  
(May 2002)

*“The bottom line is we produce more than we can consume in this country and so we need access to foreign markets if our farm families are to earn a decent living.”*

Senator Norman Coleman, in a letter complaining about recent anti-dumping actions taken by the Mexican government

The US is the largest exporter of corn both globally and to Mexico. For most Mexican producers, it is an uphill battle to compete with the influx of cheap corn from their powerful neighbor. Such producers are pitted against a sector which receives huge payments from the US government, and is controlled by just a handful of agribusiness companies.

Corn is the US’s leading crop, both in terms of the area that is planted and the value of production.<sup>5</sup> Production has risen steadily over the past 30 years, aided by an array of factors including scientific and technological innovations. However, the sector is distinctive in that it is the largest single recipient of US government payments,<sup>6</sup> and is heavily dominated by a few agribusiness giants, such as Cargill and Archer Daniels Midland (ADM). While government support measures are not the only influence on corn production and prices, this issue is most pertinent in the international arena, where reductions in government payments to agriculture are up for discussion at the World Trade Organization (WTO).

US agricultural policy has been deliberately tailored over the last twenty years to generate a surplus for export, and to provide adequate incomes for US farmers. However, the export of corn at artificially low prices is destroying the livelihoods of small farmers in

developing countries. Meanwhile, the benefits of the US subsidies system go disproportionately to very large farmers, while small US farmers lose out.

## The structure of US government support

In 2000, US corn producers received government payments totaling US\$10.1bn.<sup>7</sup> To put the figure in context, payments to the US corn sector in this year equaled ten times the Mexican government's entire budget for agriculture.<sup>8</sup>

US government support involves the use of a wide range of policy instruments. Support to the corn sector has shifted away from maintaining minimum prices to a system of direct payments to farmers. These payments are linked to land area and past output, rather than current output. For this reason, they are deemed by the US government and the WTO to be unrelated to production levels. In technical terms, they are 'decoupled'.

The Farm Act, signed into law in May 2002, establishes a stronger link between government payments and production. Firstly, it introduces so-called counter-cyclical payments, which cushion producers against fluctuations in market prices. Secondly, the Farm Act allows producers to update data held by the USDA about their acreages and yields.<sup>9</sup> This may encourage them to produce more in future in the expectation that they will be able to submit new data the next time around. Even though both measures may encourage production and depress domestic and export prices, they are not considered 'trade-distorting' at the WTO. Exacerbating this, the 2002 Act made no attempt to reintroduce requirements (abolished in 1996) that farmers set aside areas of land.

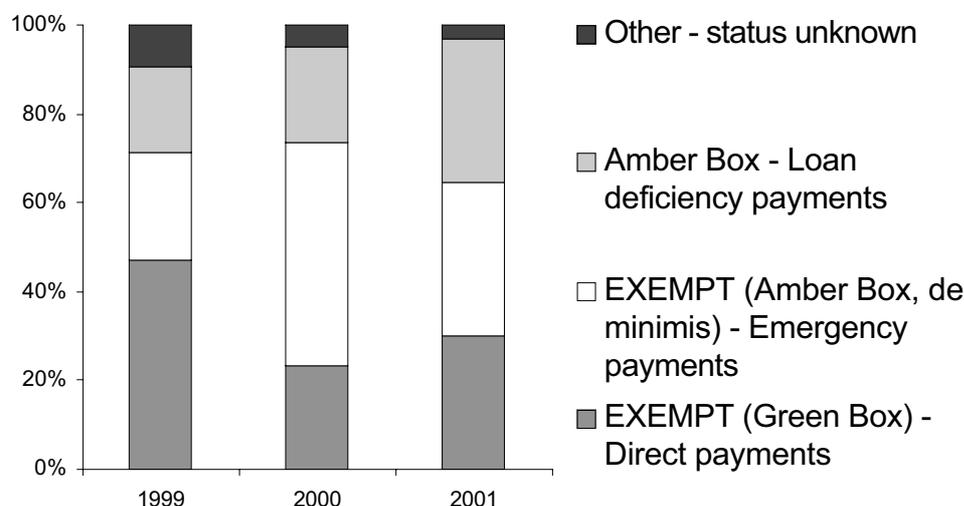
## The classification of US support at the WTO

The structure of US support is critical to Mexico. The US claims that domestic subsidies do not affect its exports. Despite huge pay-outs, no export subsidy was reported for the crop to the World Trade Organization (WTO) in 2000 or 2001. However, WTO regulations, written to protect the interests of the US and the EU, fail to acknowledge that such government payments are one of the factors influencing domestic production, and therefore determine export volumes and prices.

According to WTO rules, two of the main types of payment made to the corn sector since the passing of the 1996 Federal Agriculture Improvement and Reform (FAIR) Act have been exempt from major restrictions. 'Emergency payments' were not mandated in the Act, but were introduced in 1998 in response to plummeting agricultural prices. They are technically classified as 'Amber Box', or 'trade-

distorting', due to the direct link between payments and market prices. They should therefore be subject to absolute limits, to be reduced over time. However, these were exempted under a special 'de minimis' clause.<sup>10</sup> Most direct payments fall into the 'Green Box' category, and are considered to have 'no, or at most minimal, trade-distorting effects on production'. They are therefore not capped in any way. The end result is that over one half of domestic payments in 2001 were not classified as 'trade-distorting' at the WTO, and were therefore not limited as such (see Figure 1).

**Figure 1: The structure of government payments to the corn sector at the WTO (% share)**



Source: United States Department of Agriculture

Most direct payments to farmers are exempt from WTO restrictions despite evidence to suggest that they influence production. Firstly, by increasing the farmer's direct income, government payments provide a cushion against risk in the market and provide additional capital for investments. Secondly, farmers are allowed to update the acreage figures on which the payments are calculated. This may lead them to anticipate that this will happen again in the future, which encourages increased land use in the hope that this will be included in calculations for future payments.<sup>11</sup>

## Export subsidies to Mexico

With 70 per cent of world market share, the sheer volume of corn exports from the US means that the US export price influences world prices, and prices in key markets such as Mexico, that are open to imports from the US. This begs the question: how much does the US effectively subsidize its exports? Given that the impact of domestic

subsidies on exports is not fully recorded, the 'real' export subsidy can only be estimated. There are two ways of capturing the scale of the problem in relation to Mexico:

- 1 Cost of production versus export price:** the difference between the cost of producing corn and the price at which it is exported. This calculation of the 'dumping margin', or the amount by which corn is subsidized for export, can then be applied to the volume of exports to Mexico<sup>12</sup>. The cost of producing corn between 2000 and 2002 was on average \$20 more per metric ton than the price at which the corn was exported. Each year, exports to Mexico therefore carried an 'implicit' subsidy of around \$105m.
- 2 Domestic payments: the 'implicit' subsidy:** the amount of money provided in government payments per unit of corn production in the US. This is multiplied by the volume of production exported to Mexico, to provide an estimate of the subsidy that is implicit in exports to that country<sup>13</sup>. US farmers received on average \$27 per metric ton of corn produced between 2000 and 2002.<sup>14</sup> On this basis, the 'implicit' subsidy was on average US\$145m per year.

These calculations demonstrate that the subsidy component 'implicit' in US corn exports to Mexico amounts to between US\$105 and 145mn each year. This is of the same magnitude as the annual incomes of the 250,000 corn farmers in Chiapas.<sup>15</sup>

## Export credits

Yet these figures also omit a crucial 'hidden subsidy'<sup>16</sup>: export credits. The explicitly stated aim of export credit programs is to increase US market share and to compete against foreign agricultural exports. Export credit guarantee programs underwrite credits extended by commercial US banks to foreign banks to pay for US food and agricultural products sold to foreign buyers. The Supplier Credit Guarantee Program (SCGP), aimed at speeding up the process, cuts out the banks. Instead, the US government guarantees a note from the importer to the exporter. Although both types of export credits go directly to importers, large traders, such as Cargill and ADM in the corn sector, cut the deals and benefit from the insurance that it gives them.

Mexico is a major beneficiary of these programs, with importers receiving just under one fifth of the total spent on export credits by the US in 2002. The favorable credit terms and the expansion of markets for cheap US exports drive down prices, acting in the same way as an export subsidy. Applying the OECD's estimate of the subsidy component of export credit programs to credits to the corn

sector,<sup>17</sup> this would add at least an extra US\$15m to the total corn export subsidy to Mexico in 2002.<sup>18</sup>

## Domestic subsidy distribution

Powerful myths underpin US policies, including the belief that they are crucial to preserve the rural way of life for small family farmers. However, the evidence shows this to be false, with the farms with the largest area receiving the biggest share of payments. Around one fifth of the richest corn farms receive nearly one half of government payments to the sector.<sup>19</sup> The average annual payment to a very large farm is six times that to a small, low-sales farm.<sup>20</sup> This is despite the fact that the smaller farms<sup>21</sup> make up 75 per cent of all corn farms (Foreman, 2001). The majority of their land is not irrigated, but rain-fed, which makes small farms vulnerable to weather fluctuations.

### **Box 2: Losing out: small US farmers**

George Naylor lives in Churdan, Iowa. He estimates there are only a fifth as many farmers in Churdan as there were thirty years ago. George farms a total of 470 acres, rotating corns with soybeans. He sells his grain to the local co-operative, which in turn sells to a variety of purchasers, including Archer Daniels Midland (ADM) and Cargill. Family farms used to sustain diverse activities, including livestock. However, these operations are increasingly owned by large corporations. George considers himself lucky, because he owns most of the land that he farms and is less indebted than many other farmers in his area. Even so, he has to maximize production to make ends meet, and his wife works to supplement their income. For many farmers whom George knows, a farm's income does not keep up with the costs. A lot of his neighbors have off-farm jobs, or give up the struggle and rent out the land, finding that 'farming doesn't pay'. He notes, "If it wasn't for government payments, many farmers would go broke...for them, payments are just keeping the system working."<sup>22</sup> This system perpetuates "a sweet deal for the big grain processors and livestock companies."

Agribusiness exporters are the other major beneficiaries of the US subsidy system, and of regional liberalization agreements such as NAFTA. By transferring the cost of maintaining production to US taxpayers, exporters gain access to produce at prices that do not reflect production costs, and are able to guarantee sales through export credits. The corn sector is particularly prey to the power of big business. Just two companies – Cargill and Archer Daniels Midland (ADM) – control 70 per cent of all of the US's corn exports (Hendrickson, 2003). Such agribusinesses have also expanded their power through vertical and horizontal integration, controlling inputs such as fertilizers, pesticides, and seeds, and consolidating their global reach through the purchase of facilities and shares in

companies in foreign markets. Cargill sold its seed technology in Mexico to Monsanto and is seeking to buy up Mexico's key grain terminals, while ADM is allied with seed firm Novartis and owns a significant part of Mexican corn-processing firms (see Section 5). Underpinning all these developments is the political influence wielded by such companies, on the US government's agricultural policy, at the WTO, and over Mexican officials, exemplified in Box 3.

**Box 3: Corn corporations and the 'revolving door'**

Key agribusiness executives have long played a primary role in the design and execution of US agricultural policy. Cargill executives have served in senior positions within the US Department of Agriculture since the 1970s, besides serving on various export advisory boards. Former Cargill executive Daniel Amstutz even headed the agriculture negotiations during the early years of the Uruguay Round of talks (which resulted in the WTO's creation). An internal Cargill communication during the negotiation of the NAFTA agreement stated, "NAFTA is important to Cargill because it clears the way for what we want to do,"<sup>23</sup> and Cargill marshaled its employees in more than 600 US locations to lobby their Congressional representatives in support of NAFTA's eventual enactment. Many key agribusiness groups are vocal supporters of the case for continuing export credit programs. A communication to USDA from CoBank, one of the major banks extending export credits on behalf of Cargill and ADM, suggested that not only should there be no 'next steps' to create export credit disciplines for agricultural products within the WTO, but also that allowing agricultural credits to be part of the discussion amounted to 'harmful unilateral concessions' which should be avoided.

## 4. The liberalization of agriculture in Mexico: when 15 years means nothing

*"(...) the country is in the worst of all possible worlds: we no longer have the good of the old system and only have the bad of the new one."*

National Association of Rural Producers' Enterprises (ANEC), 2000

*"Removing trade barriers and allowing huge volumes of dumped imports is exactly one of the main causes, not the consequence, of the loss of profitability in the corn sector (...)."*

ANEC, 2000

All the resources devoted by the US to supporting its exports would be pointless without the opening of foreign markets. For this reason, for more than two decades US administrations have encouraged the rapid and unconditional liberalization of developing country economies, while consolidating their own support measures to agriculture.

Mexico is no exception. NAFTA is an example of unprecedented liberalization between the three countries of the region (Mexico, the US and Canada). It was presented as a new model of trade relations which would lift developing countries out of the downward economic spiral that they had experienced since the start of the 1980s. But the reality was very different. In the agricultural sector, where Mexico was supposed to have a comparative advantage, trade with the US has increased since 1994, but the value of US exports has exceeded that from its southern neighbor, at a quicker pace.<sup>24</sup>

Most importantly, the process has not led to a reduction in poverty, which remained almost static throughout the 1990s. According to the World Bank, 42 out of every 100 Mexicans live in poverty, nearly half of them in extreme poverty. Levels of inequality have not declined, but instead have increased in the southern belt of the country (Wodon et al., 2003).

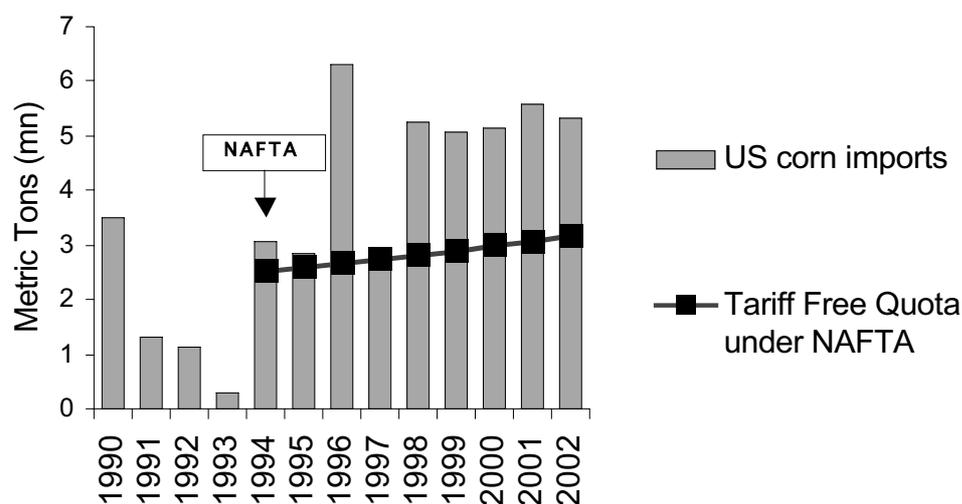
NAFTA came into force on 1 January 1994, with the express aim of liberalizing trade among the three nations over a period of 15 years. The agreement mandated the rapid liberalization of most farm sectors, aiming to encourage Mexican producers to move out of unprofitable crops and into export crops like fruit and vegetables. An exception was made for a restricted list of products considered to be 'sensitive', subject to transition periods of liberalization.

Unsurprisingly, the US excluded from the treaty any substantive reduction in its support programs to agriculture (including those that would affect sectors critical to rural areas of Mexico).

It was agreed that corn should be one of the 'sensitive' sectors, with liberalization to be phased in by 2008, by gradually reducing tariffs while increasing the tariff-free quota for imports (see Figure 2). The process was supposed to soften the impact on a sector already damaged by agricultural liberalization since the start of the 1990s,<sup>25</sup> in large part due to the removal of minimum guaranteed prices for corn by the state. Instead, direct payments to producers were introduced, although these have been unevenly distributed between Mexican farmers.

However, the transition, which should have taken 15 years, was undertaken in a little more than 30 months. Since NAFTA came into force, the Mexican government has systematically set import quotas above the agreed limits<sup>26</sup> (at an average 2 million tons in recent years). A few months after liberalization, corn imports from the US doubled in comparison with the years immediately prior to the agreement. Since then, with the exception of 1997, corn imports have increased, tripling (and even quadrupling) in comparison with the levels prior to NAFTA.<sup>27</sup> US grain now accounts for around 25 per cent of the value of national production and 30 per cent of demand over the past few years, in a country with one of the highest per capita consumptions of corn in the world.<sup>28</sup>

**Figure 2: Corn imports from the US to Mexico under NAFTA**



Source: United States Department of Agriculture, Nadal (2002)

\*\*The drop in 1997 was due to a drought in the US and to the Mexican currency crisis, which increased the competitiveness of its corn exports.

In addition, imports above the NAFTA quota were never subject to the agreed tariffs. In other words, between 1994 and 1998 Mexican citizens lost more than 2.1 billion dollars in uncollected tariffs.<sup>29</sup> To put this in context, this is equivalent to expenditure on the PROGRESA program between 1997 and 2000. This program is the main instrument of the Mexican government for fighting rural poverty, providing two and a half million families each year (especially women and children) with nutritional, educational, and healthcare programs.

Contrary to what was envisaged, increased corn imports did not reduce Mexico's national production, which has even increased slightly in recent years. Fruit and vegetables have not proved a viable alternative to corn<sup>30</sup> (Nadal, 2002), and most Mexican producers carried on producing corn due to the lack of alternatives and the importance of corn as a foodstuff for their families.

The liberalization of prices and the deluge of cheap imports had foreseeable consequences: a drop in prices and a drastic deterioration in living conditions for the smallest producers. Since the implementation of NAFTA, real corn prices in Mexico have fallen more than 70 per cent (from 732 pesos in 1994 to 204 in 2001).<sup>31</sup> Corn producers and their families therefore live on less than one third of the income that they earned in 1994. The implications for sustainable and equitable development are incalculable.

## **5. The winners and losers from liberalization and dumping**

*"The situation grows more and more difficult. Many women are leaving their homes to earn a living away from the countryside. Many people don't want to produce corn, as you can't earn enough to live off. Every time you go to sell the corn, you have to go further, for a lower price. We don't want to have more than one or two children, as we can't afford to buy them milk or diapers."*

Flor Pérez, 24, San Cristóbal de las Casas

Mexico negotiated the agricultural chapter of NAFTA on the basis of unreal assumptions about the free market. The consequence was that, when the treaty was put into practice, the sectors that were expected to 'adjust' failed to do so. More insidiously, not only were the Mexican government's hypotheses proved wrong, but those groups able to influence the design of the Agreement, namely big agribusiness firms, creamed off the benefits. Both the Mexican and US governments preached 'free trade'; meanwhile, certain private

interests have benefited from a combination of US protectionism and the flinging open of the Mexican corn market.

## The winner takes all...

It would be naive to suppose that the crisis in the Mexican rural sector was simply the result of an error of judgment by the Mexican government. The decisions taken by both Mexico and the US were heavily influenced by certain sectors and companies, which are the true winners from the liberalization process.

The major US corn exporters exert an important influence in Mexico. These companies are able to capture a significant share of the Mexican market thanks to two factors: low prices (the result of US subsidies) and a high financing capacity (due to the huge volume of production that they command, and the credits given by the US government to their clients). In addition, their participation in the Mexican market means that they receive support from the Mexican state,<sup>32</sup> thus acquiring an added advantage over their competitors. All this is reinforced by a strategy of buying up shares in Mexican firms, in a process of corporate concentration.

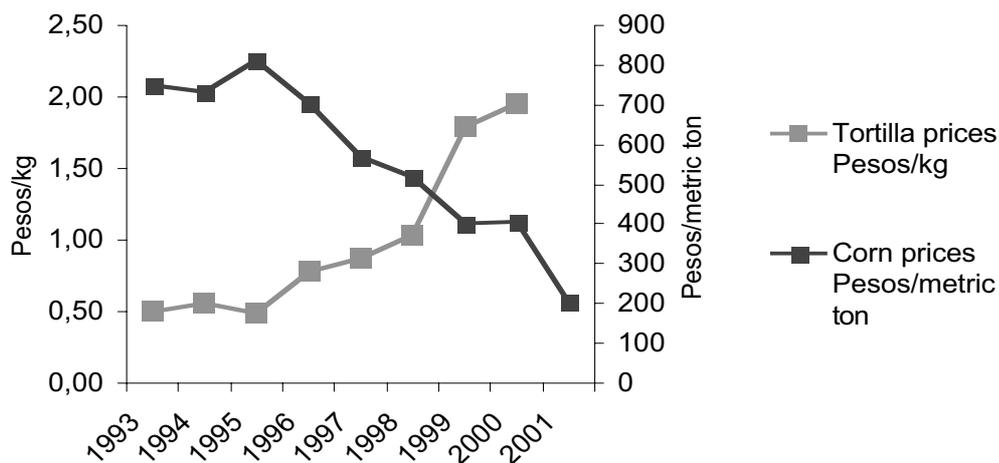
On the Mexican side, the main beneficiaries are in the import sector, from large livestock farmers to processors of soft drinks, who use corn syrup. The most stark example of the gap between the winners and the losers is the tortilla and flour sector, and its two main companies Maseca and Minsa. These two companies (which have links with ADM and Cargill respectively) command a dominant position in the tortilla<sup>33</sup> and flour processing industries, as a result of their political connections with the governments that have managed the liberalization of the sector.

Maseca is said to import around 30 per cent of the corn that it purchases, while Minsa imports between 12 and 15 per cent<sup>34</sup>. According to the director of purchasing at Minsa, the company prefers to import because to do so is cheaper, not because the quality is better. Producers' associations go further than this, claiming that companies such as Maseca and Minsa import corn with the deliberate intention of putting pressure on national prices.

Contrary to textbook assumptions, the fall in corn prices has not benefited Mexican consumers. Even though corn prices to importers have fallen, the price reductions have not been passed on to consumers. Tortillas, the basic foodstuff for poor Mexicans, provide the best illustration. Despite the fact that the primary material makes up 80 per cent of the cost of production, the price of a kilo of tortilla rose three-fold, in real terms, between 1994 and 1999 (ANEC, 2000).

Paradoxically, these same companies (Cargill, Maseca, and Minsa, along with others such as the livestock industry, which has a direct interest in forcing down domestic prices) are in the majority on the Mexican import committee, the body that advises the government on what import quotas to set for the corn sector each year.

**Figure 3: Corn and tortilla prices in the Mexican market**



Source: ANEC

**Box 4: The long shadow of big business**

As a result of NAFTA, the corn sector in Mexico was opened up to the expansionist ambitions of transnational companies such as Cargill and ADM. Cargill already receives subsidies from the Mexican government for the transportation and distribution of corn. In addition, it is seeking to buy up transportation and storage facilities in the country, and is currently planning to acquire concessions for two key Mexican grain terminals. Both Cargill and ADM are also involved in the corn flour industry in Mexico, a relatively small, but politically sensitive corner of the import market, given that corn flour companies also buy up Mexican corn, and directly supply the tortilla market.

ADM owns around one third of Mexican company Maseca, the largest corn flour processor in Mexico, and a major manufacturer of tortillas in both the US and Mexican markets. Cargill is less heavily involved with the processing industry, but supplies financing for other flour processors such as Mexican firm Minsa. Large firms such as ADM and Cargill have the upper hand, as their vast size means that they can transport grain more cheaply, and they have the finances to provide loans in dollars at low interest rates.

They also have strategic alliances with other US firms such as Monsanto and Novartis, which provide seeds and fertilizer to their producers. They therefore have huge financial and political power, which has enabled them to take advantage of the liberalization of the corn sector, and to benefit from low prices and subsidies.

### ... the losers suffer

Unfair competition from US companies is devastating production in the Mexican countryside. Forty per cent of the nearly three million producers work between four and eight hectares each, with very low productivity levels (Nadal, 2002). The few tons that a producer can grow per harvest do not provide families with enough income to cover their basic necessities. Many of them turned to corn after declines in the prices of other crops, such as coffee, and now find themselves with no way out except migration to the US.

According to calculations undertaken by the corn producers' cooperative COPRODESA, a typical producer in the Puebla region earned around \$400 last year for his crop, while the total costs of production ranged between \$460 and \$520. The fall in prices is illustrated by the costs of gasoline in the state. In 1993, one kilo of corn would buy one liter of gasoline. Now five kilos are required to buy the same amount.

The Mexican government's aid to producers falls short. There is a range of government-funded support programs, but the lack of resources and poor management mean that there is not enough to compensate producers for the losses sustained from falling prices. These programs were reformed as part of the liberalization process in a way that harmed small producers. Mexico complied with WTO strictures and abandoned a price floor, introducing instead direct payments for production and commercialization.<sup>35</sup> Although the old system suffered from corruption and bad management, producers' organizations calculate that the new system reaches only one in every four farmers, and that its distribution is often uneven (women have more problems accessing these programs than men, for example). Despite this, it is an essential support for many thousands of producers, and also acts as a credit guarantee.

Without government help, small producers are defenseless against large companies which exploit their monopoly in the market to cheat producers. Knowing that producers rely solely on corn for a living, 'coyotes' (or middlemen) working for companies such as Maseca refuse to give producers the full price for their harvest, arguing that it is of poor quality. The same processing companies are not so strict when it comes to importing poorer-quality yellow corn from the US.

**Box 5: The fight for fair corn prices: the co-operative near Carranza, Chiapas**

The corn plots near Carranza are steep and rocky, the corn stalks flattened against the hillside following the yearly harvest. "*We continue to search for a better way of life*", says Nino, one of the producers sitting under a tree by the local grain store. The store, no more than bags of corn covered in plastic sheeting, is watched by the producers day and night. They cannot afford to let thieves rob them of their only source of income for the entire year. From the grain each producer will take care of a family of between 5 and 15 members, on just 80 pesos a week. Most of this is spent on food: a sparse diet of tortillas and beans. There is running water and electricity in the community, but it can cost up to a half of a month's earnings. When the rains come in October, many of their children will fall ill with respiratory and stomach problems, but there is no money to treat them. Only if they are critically ill will they be taken to the nearest health center in Carranza, where treatment for influenza can cost up to 1000 pesos, or a quarter of a corn producer's annual earnings.

Faced with falling corn prices, producers have few alternatives: "*Corn is the only work that we know how to do*", says Heberto, another member of the Carranza community. There is no guaranteed market for alternatives such as tomatoes or mangoes, while the price of beans is also dropping. At the same time, the cost of seeds and fertilizers has risen. There is little access to credit: the state development bank does not accept land as a guarantee for a loan, and producers are forced to turn to middlemen, who charge up to 15 per cent interest a month. Given the harsh conditions, around 30 community members a year leave for the north of Mexico or the United States. For those who stay, however, producers' co-operatives offer some hope of obtaining fair prices. Uniting around five thousand producers in Chiapas, the co-operative sets a price and negotiates with grain buyers on their behalf. Last year they gained a price of 1360 pesos per ton of corn, compared with the 1100 initially offered by the main buyer in the region, Maseca. The co-operative offers an element of stability in an uncertain climate, sticking to the promised price even when prices fall. But ultimately the issue goes beyond Chiapas itself. Notes Nino, "*It's a good project, but there are obstacles. It's a national and international crisis.*"

When times are hard, producers must look to other alternatives to ensure their livelihoods. Over the last few years, more and more families have started to use private credit at exorbitant interest rates, which traps them in a spiral of debt. However, even with such sources of financing, members of the family are forced to turn to casual labor to supplement their incomes. Men leave their homes for variable periods of time, working as builders, waiters, and laborers in return for a small income. While they are away, women take responsibility for looking after the land and production, which puts the burden of childcare on to their relatives and neighbors.

## Small producers: fighting the battle

This section has examined the difficulties faced by small corn producers in their efforts to make ends meet. The majority feel that they have been abandoned by their government in the face of intense competition from the US. But rural life in Mexico is also full of stories of resistance, with rural families uniting to overcome their day-to-day problems. One example of this is the case of the women and young people of Petzala (Puebla). When they saw that corn was no longer providing them with sufficient income, they decided to look for new ways to generate funds. The women set up a small mushroom plant, while the young people bought land nearby on which to grow peach trees.

Many corn producers are organizing to ensure better prices for their products. Across the country co-operatives have sprung up, grouping together small producers to negotiate with companies. Others have gone even further. Tired of losing out in the corn market, the members of the COPRODESA co-operative (Puebla) decided to challenge the powerful commercial enterprises and create a network of tortilla shops. This project, which is about to begin, could double the producers' incomes, thanks to the sale of tortillas. The new company is called 'Our Corn', synonymous in Mexico with accessible prices and high quality.

Initiatives like these have enabled many producers and their families to avoid extreme poverty and migration. But they are still only exceptions. Surviving in the Mexican countryside should not be a question of individual acts of heroism, but should be based on a market which gives everyone the right to engage in fair competition.

**Box 6: The National Rural Accord**

On 31 January, 2003, 100,000 Mexican rural producers marched to the main square in Mexico City. Mexican producers know that they can make a living, but that they can only do so when trade rules are just, and they are demanding changes to. Ignacio Grandes, leader of a group of producers in Puebla, described the event as 'one of the most emotional of my life'. For many producers like him, this was the first time in many years that the rural sector had put its demands so squarely on the national agenda.

The march was the culmination of a process that had begun months before with the creation of the movement 'El Campo No Aguanta Más' (literally, 'The Countryside Will Take No More'). Numerous rural organizations denounced the government's abandonment of the rural sector since the signing of NAFTA. They demanded that the Mexican government reconsider the nation's food sovereignty and security, and proposed measures to ensure that these aims were met. The proposals ranged from a revision of NAFTA to greater funding for education, healthcare, and housing.

The protests forced the government into negotiations. The result was the National Rural Accord, a text which commits the government to take action to support the rural sector. The Accord presupposes a change in Mexico's stance at the WTO, where it has always sided with US interests.

As expected, these proposals have not been well received in the US. The negotiations between the government and agricultural organizations put Mexico's relations with the US under pressure, and the US ambassador issued press releases demanding urgent meetings with Mexican senators. The senator for Minnesota, Norman Coleman, warned Mexico of the consequences of what he described as 'illegal actions'. Three weeks later the US submitted a complaint to the WTO about anti-dumping measures taken by Mexico in the rice and beef sectors.

## 6. Conclusions and recommendations<sup>36</sup>

For Mexican corn growers, NAFTA, US agricultural dumping and the actions of the Mexican government have led to unfair competition, economic insecurity, and higher levels of poverty. Mexican citizens have lost out on revenue from unapplied tariffs. Consumers have seen an abrupt increase in the price of tortillas and a deterioration in the quality of such corn products. The environment is under pressure from the depletion of natural resources and the progressive disappearance of native genetic varieties of corn.

The current Doha Round of negotiations at the World Trade Organization offers an opportunity to reform these rules and make them work for sustainable and equitable development. Unfortunately, so far this seems unlikely to occur. Rich countries are

pushing the WTO agricultural negotiations in the direction of a NAFTA-style agreement, perpetuating dumping and preventing developing countries from taking effective action to stop it.

The Doha talks were dubbed the 'development round' precisely because they were supposed to offer a solution to the type of problem described in this paper. However, 18 months of talks have yielded little result. Neither the 2002 US Farm Bill nor European moves to reform the Common Agricultural Policy will lead to significant change. The attitude of these governments is reflected in the multilateral arena, where the US and the EU have managed to block the reform process, embroiling the WTO in a series of damaging accusations and counter-accusations. Poor countries pay the price for this stalemate. The negotiating texts from the present round are proof of this. Their implied message is that 'dumping will continue, and poor countries will not be able to do anything about it'.

The rules that govern the trade in corn between the US and Mexico are essentially no different from those in the Agreement on Agriculture. Furthermore, the negotiating process at the WTO looks more and more like that which led to the signing of the NAFTA agreement. Many Latin American countries involved in negotiating the Free Trade Agreement of the Americas (FTAA) are watching Mexico's experience closely, because it offers a window into the future of trade negotiations with the US.

In light of the above, Oxfam recommends the following:

**1 WTO members should agree to a timetable at Cancun for the elimination of agricultural export dumping. This should include:**

The elimination of all types of government support measures to exports before 1 January, 2005 (the scheduled end of the round). Export credits should be subject to the same disciplines as export subsidies. Food aid should also be subject to appropriate strict disciplines.

An agreement on the restructuring of the Green and Blue boxes: establishing a maximum limit and timetables for reduction in both cases. This should include an agreement on how to calculate the export subsidy equivalent in direct support measures, with limits on their use for export products.

Industrialized countries should guarantee that their support to agriculture (decoupled or not) is for social and environmental ends, and not to stimulate domestic production and increase their world market share.

Beyond these shorter-term measures, the current round of negotiations should encompass profound reform of the model of boxes that has been the basis for the Agreement on Agriculture, and which has proved to be of little use in guaranteeing equitable trade relations. The principle which should govern the agreement is that no product should be exported below the effective price received by producers (which includes government support payments), or below the costs of production.

**2 The WTO Agreement on Agriculture should guarantee the right of developing countries to protect their agricultural sector in the interests of sustainable development and food security. The agreement at Cancun should include the following measures:**

Developing countries should have the right to use tariff barriers to prevent the entry of subsidized products. An automatic compensation mechanism should be applied when developing countries face unfair competition.

The Agreement on Agriculture should include a special safeguard measure which can be used by all developing countries, without restrictions on products. The mechanism would be applied on the basis of simple development indicators.

A list of special products should be exempt from liberalization targets. This list could be refined for each developing country, and should include the possibility of renegotiating tariff reduction commitments agreed under the Uruguay Round if these affect crops and other products that are key to food security.

**3 The US government must introduce fundamental changes to its agricultural support system.** Support should be aimed at guaranteeing the sustainability of US family farms by providing fair prices and equal access to USDA agricultural support for small producers, minorities, and women.<sup>37</sup> Intensive agricultural methods which lead to overproduction and environmental degradation should be curbed.

**4 As requested by Mexican civil society, represented by the movement El Campo No Aguanta Más, the Mexican government should push for the revision and renegotiation of NAFTA, so as to protect crops and products that it considers essential for food security and development in the country.**

In the short term, Mexico should apply the timeframe originally agreed for the gradual liberalization of the corn sector.

The Mexican government should negotiate the exemption of key products like corn and beans from the liberalization measures applied to other products.

Any FTAA negotiations must include lessons learned from the NAFTA failures and focus on sustainable development and poverty reduction.

### Annex: Calculation of the 'real' export subsidy to Mexico

| Method 1  | 1998    | 1999    | 2000    | 2001    | 2002    |
|---|---------|---------|---------|---------|---------|
| (1) Cost of production, \$/bushel   | 2.83    | 2.85    | 2.95    | 2.71    | 3.07    |
| (2) Export price, \$/bushel   | 2.58    | 2.29    | 2.24    | 2.28    | 2.69    |
| (3) Difference between cost of production and export price (1)-(2), \$/bushel | 0.25    | 0.56    | 0.71    | 0.43    | 0.39    |
| (4) Difference between cost of production and export price, \$/ton            | 9.99    | 21.93   | 28.07   | 16.82   | 15.14   |
| (5) US corn exports to Mexico (Mt)  | 5247763 | 5068619 | 5146666 | 5592398 | 5325745 |
| (6) Dumping margin to Mexico (4) x (5), US\$m                                 | 52.44   | 111.17  | 144.47  | 94.04   | 80.65   |

Source: Foreman (2001) & Table 1 – Cost of production forecasts for US major field crops, United States Department of Agriculture, & Institute for Agricultural Trade Policy (2002)

(USDA cost of production data is calculated using operating costs plus allocated overheads, added to which we have included IATP's estimate of transport and handling costs.)

| Method 2   | 1998    | 1999    | 2000    | 2001    | 2002    |
|--|---------|---------|---------|---------|---------|
| (1) CCC net payments per ton   | 12.16   | 22.87   | 42.91   | 26.66   | 12.53   |
| (2) US corn exports to Mexico (Mt)                                       | 5247763 | 5068619 | 5146666 | 5592398 | 5325745 |
| (3) Total payments implied in US corn exports to Mexico (1) x (2), US\$m | 63.8    | 115.9   | 220.8   | 149.1   | 66.7    |

Source: United States Department of Agriculture

## Notes

<sup>1</sup> In a letter to Mexican officials on 8 May 2003, Senator Charles Grassley, chairman of the committee of finance, warned: "Mexico has recently undertaken a number of actions against US agricultural products that undermine the spirit, if not the law, of NAFTA. Mexico's continued pattern of not meeting its international trade negotiations is unacceptable."

<sup>2</sup> The material relating to the situation in Southern Mexico is taken from interviews undertaken by the authors in the states of Chiapas and Puebla, May 2003.

<sup>3</sup> Figures taken from the Migration Information Source web site. According to this source, around nine million Mexicans live today in the US, and more than half of them are undocumented.

<sup>4</sup> The situation is likely to deteriorate further in coming months as – following intense lobbying by pharmaceutical firms and the US government – the Mexican congress has approved patent legislation which will multiply the cost of many essential medicines.

<sup>5</sup> Agricultural Resource Management Survey, USDA, 1996.

<sup>6</sup> The corn sector accounted for one quarter of total government pay-outs made through the Commodity Credit Corporation (CCC, the USDA's market support agency), on average, between 2000 and 2002 (USDA, Table 35). Of course, this does not reflect the relationship between payments and production area and yield. The corn sector is relatively highly subsidized per acre (\$145 per acre, higher than soybeans or wheat, less than cotton or rice), but less subsidized per metric ton (at \$43 per metric ton) than other crops such as wheat or cotton, given vast corn production levels.

<sup>7</sup> USDA Table 35 – CCC Net Outlays.

<sup>8</sup> The 2003 Mexican agricultural budget allocation was \$1.2bn at the prevailing exchange rate (Government of Mexico, 2003).

<sup>9</sup> Farmers were allowed to update their acreage data for both direct and counter-cyclical payments, and their yield data only for counter-cyclical payments.

<sup>10</sup> This permits support declared to be 'non-commodity specific' within the Amber Box up to the value of 5 per cent of agricultural production in developed countries, or 10 per cent for developing countries.

<sup>11</sup> For more details, see K. Watkins 'Northern Policies and World Poverty: will the "Doha development round" make a difference?', paper presented at the Annual Bank Conference of Development Economics, May 2003.

<sup>12</sup> Estimating the difference between the export price and the cost of production is just one of a number of methods of calculating a 'dumping margin'. See Annex for details of the calculations in this case.

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<sup>13</sup> Of course, not all that is paid out in direct payments will feed through to the export price, an assumption made for the purposes of this calculation.

<sup>14</sup> For the purposes of this calculation, although of course in practice payments are unequally distributed, see section below.

<sup>15</sup> Or \$108mn, based on an estimate of 250,000 corn producers in Chiapas (ANEC), of whom 88 per cent live below the 'moderate poverty' line of \$108.63 per quarter (World Bank, 2003).

<sup>16</sup> 'Hidden' means not fully recognized as such in the WTO.

<sup>17</sup> In 2002 Mexican importers of feed grains (of which most is corn) applied for US\$229mn in US export credits (Foreign Agriculture Service, USDA). The subsidy component amounts to at least 6.6 per cent of total funding. See OECD 'An Analysis of Officially Supported Export Credits in Agriculture', December 2000, p.35.

<sup>18</sup> The real figure is likely to be even higher, given that the OECD calculation excludes both the costs of covering loan rescheduling and defaults. In the case of the latter, the US government will cover nearly the entire cost of the commodity as well as interest charges. See 'US Export Credits: Denials and Double Standards', Oxfam America, March 2003.

<sup>19</sup> Farms as classified by sales and land asset values (see Foreman, 'Characteristics and Production Costs of US Corn Farms, Tables 7-9, August 2001).

<sup>20</sup> The average annual payment to a small, low-sales farm is \$3600, while that to a very large farm is \$23,000 (Agricultural Resource Management Survey, 1996).

<sup>21</sup> Or those with fewer than 250 acres.

<sup>22</sup> Interview conducted by K. Vora for Oxfam America, July 2003

<sup>23</sup> Cargill executive Ernest Micek, as cited in *Invisible Giant*, Brewster Kneen, Pluto Press, 2002, p. 16.

<sup>24</sup> While exports to Mexico grew at an average rate of 14 per cent annually since 1994 and 2002, exports from this country to the US grew only 6 per cent on average.

<sup>25</sup> During these years, government support to the rural sector was reduced, while essential resources such as land and credit were privatized (Yunez-Naude, 2002).

<sup>26</sup> The government officially justified its decision by claiming the need to reduce prices to control inflation and increase internal demand (especially in the livestock sector).

<sup>27</sup> Sources: ANEC, National Corn Commission (CNM) and Nadal (2002). The figures are probably bigger, given that an unquantified amount of corn is smuggled into Mexico each year. CNM calculates that 'non-controlled' imports could have reached 500,000 metric tons in 2001.

<sup>28</sup> Most Mexican corn is 'white' corn, used primarily for human consumption. The US, on the contrary, produces almost exclusively yellow corn, the variety which is mostly exported to Mexico, and is mainly used for livestock feed. Mexican livestock producers defend the need to

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increase such imports on the grounds that yellow corn is better nutritionally for the animals. However, corn producers argue that the only advantage is that it is cheaper, and that previously animals were fed with white corn and other grains.

<sup>29</sup> Calculation based on USDA figures, cited in Nadal, 2002.

<sup>30</sup> In fact, Mexico could be very close to reaching a ceiling on the horticulture products that it exports to the US (Nadal, 2002).

<sup>31</sup> ANEC, 2002.

<sup>32</sup> Companies such as Cargill receive support from the Mexican government for the sale and transport of grain. The amount received depends on the state.

<sup>33</sup> Minsa now only processes flour, although in the past it produced tortillas.

<sup>34</sup> Figures and other analysis based on an interview conducted by the authors with the director of purchasing at Minsa, May 2003.

<sup>35</sup> Government support to the agriculture sector is organized under the 'Alliance for the Countryside', partially financed by the World Bank, with more than 30 programs aimed at increasing productivity and compensating producers for income lost due to external competition. The main support mechanism is PROCAMPO, or direct support to the producer. This program is allocated \$350m annually. The WTO classifies it as a 'decoupled' subsidy (not linked to production) although, paradoxically, it is the main reason why many producers continue to grow corn. The other major program is ASERCA, which compensates producers for the cost of marketing their harvest, relative to the production and transport costs in each state. The program has been criticized because a significant proportion of its resources goes to large companies such as Cargill, Maseca, and Minsa.

<sup>36</sup> This section includes a summarized version of proposals made by Oxfam International throughout the WTO negotiations. To see details of this, visit [maketradefair.com](http://maketradefair.com), especially the documents entitled 'Boxing match in agricultural trade' and 'Missing the point: why Harbinson has got it wrong'. A number of other OI submissions to the negotiating delegations are also available on our web site.

<sup>37</sup> These and other measures were proposed by a wide variety of US civil society groups in a document entitled 'Small and Disadvantaged Farm Access and Accountability Amendment', presented to the US Senate during the negotiation of the 2002 Farm Act.

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