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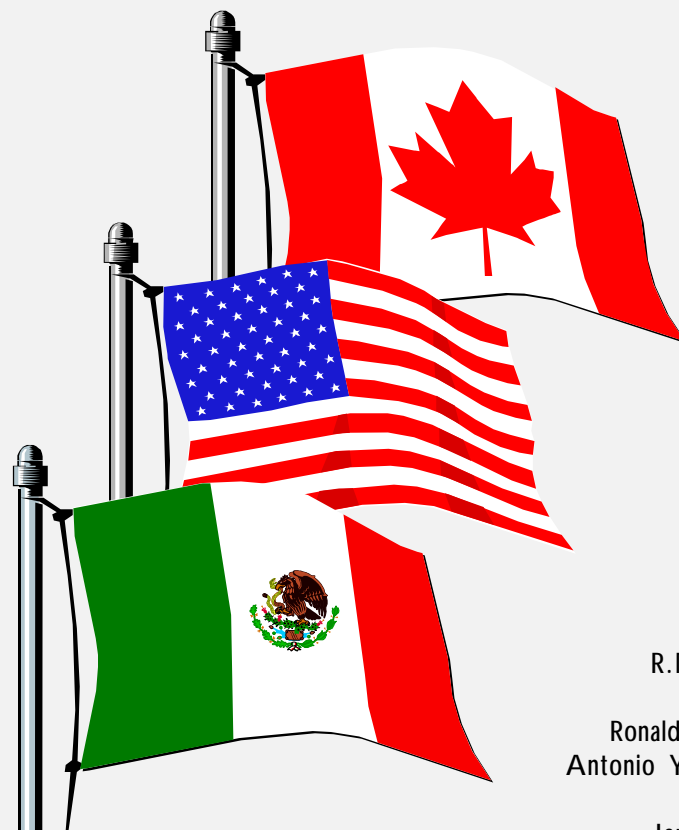
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# Keeping the Borders Open

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Edited by

R.M.A. Loyns  
Karl Meilke  
Ronald D. Knutson  
Antonio Yunez-Naude

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# KEEPING THE BORDERS OPEN



UNIVERSITY  
*of* GUELPH



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## **EXECUTIVE SUMMARY**

### **KEEPING THE BORDERS OPEN**

NAFTA has made major positive contributions to farmers, agribusinesses, and consumers. These contributions include reductions in regulation and trade barriers; reduced prices for many food products; increased efficiency of production, processing, and distribution; increased demand for farm products; increased trade; and reduced inflation. Business and trade relations among the participants in food production, processing, and distribution have been significantly improved. NAFTA's strength relies on day-to-day working relationships, frequent ministerial contact, and effective institutions at the working level.

#### **Need for NAFTA Leadership**

The risk of trade disruption is one of the most significant risks facing agriculture. Despite the gains, NAFTA has neither accomplished free trade nor has it achieved an adequate level of trade harmony. Several areas not dealt with in the agreement continue to limit trade and cause stress. In particular, domestic farm policies and trade remedy laws limit the gains from trade that NAFTA could provide.

In order to continue the momentum of gains and to reduce the incidence of impediments, there is need to provide NAFTA with the tools to facilitate actions that reduce policy stress and stimulate national and supranational trade and economic development. This will require new institutional arrangements within the NAFTA framework to provide leadership for making further improvements in trade relations.

A visionary leadership body that speaks for North American agriculture was proposed to be established at the supranational level within NAFTA. This body would evaluate progress in achieving NAFTA's objectives; identify and evaluate sources of trade frictions; and be an active advocate, mediator, and participant in recommending outcomes that foster benefits for North American farmers, agribusinesses, and consumers. This voice would search for mutually beneficial solutions rather than pursue the confrontational, protectionist, short-run, and nationalistic interests that continue to detract from the positive NAFTA contributions.

### **Need for National Restraint**

While NAFTA initially resulted in a reduction in SPS barriers, antidumping, and countervailing duty actions; recent increases are notable and concerning. These actions, more often than not, have frivolous, retaliatory, costly, and risk-increasing characteristics that seriously undermine NAFTA as an institution.

If NAFTA's benefits are to be realized, national restraint must be exercised to avoid taking backward steps in terms of trade and trading rules that deter trade expansion and thus thwart the gains that have already been achieved. Specific concerns include the imposition or maintenance of sanitary and phytosanitary (SPS) trade barriers that are not based on science, anti-dumping (AD) actions, countervailing duties (CVD), and increased agricultural subsidies by NAFTA countries. Individual countries should always consider the economic impacts of their actions on other member countries.

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## **Counterproductive Policies**

Agricultural prices are determined by competitive forces of supply and demand that are subject to considerable seasonal and cyclical variation and in some cases, a high degree of perishability. Consequently, most agricultural prices periodically and predictably fall below total costs of production, a main standard for findings of dumping. While injury may be demonstrated in such instances, it often results from normal market adjustments to relative supply or demand conditions and is likely reflected on the world market for these commodities. When no price differences can be demonstrated between the countries involved, it is a clear indicator of a competitive market. These price characteristics should be recognized when dumping cases are brought.

Countervailing duty cases often result from perceptions of farm subsidies and sometimes from their reality. Subsidies usually result in lower prices to producers in other NAFTA countries and higher producer costs in the subsidizing country. The higher production costs are the result of capitalization of subsidies into the value of land and other capital assets, which increase rental rates and asset prices. Countervailing duty cases have doubtful impact on modifying subsidization policies. A more efficient and less costly means to reduce the trade distorting effects of subsidies is restraint in the use of this form of public support for agriculture, particularly subsidies extending over a number of years.

## **Role of Science**

Special care must be taken to assure that SPS regulations are based on scientific facts that can be replicated in research. Sound science is to be distinguished from “soft science” that is based on normative judgments on the part of the advocates and their research counterparts regarding what is good, moral, and ought to be. Such judgments need to be carefully and consistently avoided in SPS decisions.

The evidence in dumping and countervailing cases often has limited economic content. It is frequently based on evidence that runs counter

to economic and business logic. Free trade, and the benefits thereof, is an economic concept. Therefore, economic science should be seriously considered in trade dispute decisions.

The NAFTA countries share an obligation for employing sound science and transparency. Sound science and transparency in policy, programs, and decision-making should enhance trade harmony among the NAFTA partners. NAFTA's integrity depends on being able to openly evaluate the impacts of its policies and those of its member countries on trade.

The following areas were identified where gains can be realized by all NAFTA countries and where the only pain involves sharing costs. The areas where the benefits can be readily realized and should be actively pursued include:

- **Eradication programs for animal diseases and pests:** There are substantial benefits to be realized in all NAFTA countries from the eradication of diseases such as bovine tuberculosis and brucellosis; from systematic control of carriers of disease such as ticks; from control of plant diseases; and from cooperative efforts to prevent outbreaks of contagious animal diseases such as foot and mouth disease (FMD).
- **Food Safety:** Hazard analysis and critical control points (HACCP) procedures need to be implemented throughout all NAFTA countries for both crops and livestock. HACCP facilitates trade by reducing reasons for SPS barriers while protecting the health and safety of the member countries' highly mobile populations.
- **Facilitate commerce:** Compatible grades, standards, and payment procedures are essential for trade in agricultural commodities. The US Perishable Agricultural Commodities Act (PACA) provides a useful model for implementation across NAFTA.



- **Infrastructure:** Improved border infrastructure is an obvious area of need. Many other examples, such as the development of water quantity and quality infrastructure, are equally important.
- **Education:** There is need for a massive education program informing concerned citizens in the three countries about the accomplishments and problem areas of NAFTA. An informed body politic can then take ownership of NAFTA.

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