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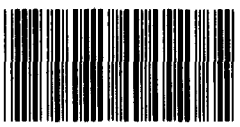
Report to the Chairman, Committee on Agriculture, House of Representatives

March 1991

U.S.-MEXICO TRADE

Impact of Liberalization in the Agricultural Sector



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-242276

March 29, 1991

The Honorable E (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

As you requested, we (1) examined efforts to remove impediments to agricultural trade between the United States and Mexico, (2) explored the benefits of increasing such trade, (3) reviewed remaining barriers to be addressed in free trade agreement negotiations, and (4) obtained the views of U.S. producer groups on agricultural trade liberalization.

Unless you publicly announce its contents earlier, no further distribution of this report will be made until 30 days from its issue date. At that time, we will send copies to the Secretaries of Agriculture and the Treasury, the U.S. Trade Representative, and other interested congressional committees. Copies will also be made available to others on request.

Please contact me on (202) 275-4812 if you or your staff have any questions concerning this report. The major contributors to this report are listed in appendix I.

Sincerely yours,

Allan I. Mendelowitz

Allan I. Mendelowitz, Director
International Trade, Energy, and
Finance Issues

Executive Summary

Purpose

The 1980s witnessed a major increase in agricultural trade between the United States and Mexico. During the decade U.S. and Mexican authorities sought to enhance and expand agricultural trade by reducing existing trade barriers. Since June 1990, when the U.S. and Mexican Presidents announced their intent to pursue negotiations leading to a free trade agreement, efforts to address agricultural trade barriers have been integrated into overall free trade agreement negotiations.

The Chairman of the House Committee on Agriculture asked GAO to (1) examine current bilateral and unilateral efforts to remove impediments to agricultural trade between Mexico and the United States, (2) explore the benefits of increased agricultural trade and the nature of this trade between the two countries, (3) review trade barriers that will need to be addressed in free trade agreement negotiations, and (4) present the views of U.S. producer groups regarding agricultural trade liberalization with Mexico.

Background

During the 1980s the United States and Mexico benefited from a gradual process of trade liberalization. Key events in this process included Mexico's accession to the General Agreement on Tariffs and Trade and the conclusion of the Bilateral Framework Agreement on Trade and Investment between the United States and Mexico. These events and related developments had a significant impact on the agricultural sector. For example, Mexico's membership in the General Agreement on Tariffs and Trade led to the reduction of its tariffs and the elimination of many nontariff barriers, providing opportunities for U.S. agricultural products to be exported to Mexico. Similarly, Mexico's efforts to diversify its exports and reduce dependence on petroleum revenues encouraged expansion of agricultural exports to the United States. These exports doubled during the past decade.

Results in Brief

In recent years the United States and Mexico have been engaged in a series of bilateral discussions which have successfully reduced or eliminated barriers to agricultural trade. The U.S. Department of Agriculture and Mexico's Secretaria de Agricultura y Recursos Hidraulicos are currently working together to remove remaining impediments and facilitate upcoming free trade negotiations. Both governments have also taken unilateral steps to liberalize trade.

Increased bilateral agricultural trade during the 1980s benefited the United States and Mexico in different ways. The United States enjoyed a

substantial net surplus in agricultural trade with Mexico during the period, and Mexico also experienced gains by doubling the value of its agricultural exports to the United States between 1980 and 1989. Much of the trade in agricultural products between the two countries is characterized by complementary production and comparative advantage.

Free trade negotiations are likely to focus on the eventual elimination of all tariffs; however, in the agricultural sector certain nontariff barriers are expected to be addressed in order to achieve a free flow of trade. For example, U.S. plant and animal health requirements restrict imports of many Mexican agricultural products. On the other hand, Mexico's import licensing system is a major obstacle to U.S. agricultural exports.

Some U.S. producer groups fear they will face strong competition as a result of a free trade agreement, while others expect to increase their exports to Mexico. Spokesmen for the U.S. agricultural industry insist that free trade negotiations need to establish a "level playing field."

Principal Findings

Governments Liberalized Trade During the 1980s

During the 1980s, the U.S. and Mexican governments undertook a series of bilateral and unilateral actions that have reduced or removed many barriers to trade. The 1987 Bilateral Framework Agreement on Trade and Investment established routine consultations between the two countries on commercial issues. Currently, several joint task forces, including three technical working groups from the U.S. Department of Agriculture and Mexico's Secretaria de Agricultura y Recursos Hidraulicos, are laying the groundwork for negotiations on a free trade agreement.

Unilaterally, the United States has provided opportunities for Mexican exports under programs such as the Generalized System of Preferences, which grants duty-free treatment to selected commodities from developing countries. In recent years Mexico has been a major beneficiary of the program, which assisted Mexican agricultural exports of approximately $200 million in 1989.

During the 1980s, Mexican government initiatives to liberalize trade included removing most import licensing requirements and substantially reducing tariff rates. A number of U.S. agricultural exports, particularly

processed foods, have benefited from this new access to Mexican markets.

Both Countries Gain From Bilateral Agricultural Trade

Statistical data suggest that increased bilateral agricultural trade during the 1980s benefited both the United States and Mexico. The most impressive gains for the United States occurred during the last 2 years of the decade, after Mexico eliminated many of its import licensing requirements. For the decade, the United States enjoyed a net surplus of $3.3 billion in agricultural trade with Mexico. In contrast, Mexican agricultural exports to the United States experienced a more sustained pattern of gains, with an average annual growth rate of nearly 10 percent for the decade. Consequently, Mexican agricultural exports to the United States increased from just over $1 billion in 1980 to nearly $2.3 billion in 1989.

The United States and Mexico also enjoy rewards from bilateral agricultural trade which are not evident from statistical data but nevertheless are beneficial to both countries. A number of major Mexican agricultural exports, such as coffee, do not compete with U.S. agricultural production, while others, such as cantaloupes, supplement low U.S. production during certain periods of the year. U.S. agricultural exports to Mexico allow Mexican consumers to meet their requirement for dietary staples, such as corn and beans, at affordable prices.

Some Nontariff Barriers Still Impede Bilateral Agricultural Trade

While free trade negotiations between the United States and Mexico are expected to focus on the eventual elimination of all tariffs, efforts to liberalize agricultural trade are likely to address certain important nontariff barriers. Meeting U.S. plant and animal health requirements is the impediment to agricultural trade that Mexican officials emphasized the most. For U.S. officials, Mexico's continued control of certain U.S. exports through its import licensing requirements represents the principal barrier to agricultural trade. Border processing and administrative controls pose difficulties for both countries.

U.S. Growers Seek a "Level Playing Field" for Further Trade Liberalization

Free trade negotiations are expected to address the diverse concerns of the U.S. agroindustrial sector. To some extent, these concerns are domestic issues which will be difficult to accommodate in international negotiations. Representatives of some U.S. producer groups argue that existing tariffs are necessary to protect them from Mexican competitors who are not burdened by environmental, wage, and safety regulations

and tax payments. Other U.S. agroindustrial groups, such as grain and oilseed producers, expect to benefit from further trade liberalization with Mexico. Generally, U.S. producer groups support increased trade liberalization. However, they insist that free trade negotiations need to establish a "level playing field" in which they have full access to Mexican markets and in which they are not burdened by regulatory requirements that their competitors in Mexico do not face.

Recommendations

This report analyzes liberalization in agricultural trade between the United States and Mexico. It contains no recommendations.

Agency Comments

As requested, GAO did not obtain official agency comments on this report. However, responsible officials were consulted during the review, and their views have been incorporated where appropriate.

Contents

Tables

Figure

Abbreviations

APHIS	Animal and Plant Health Inspection Service
FAS	Foreign Agricultural Service
GAO	General Accounting Office
GATT	General Agreement on Tariffs and Trade
GSM	General Sales Manager
GSP	Generalized System of Preferences
ITC	International Trade Commission
SARH	Secretaria de Agricultura y Recursos Hidraulicos
SECOFI	Secretaria de Comercio y Fomento Industrial
USDA	U.S. Department of Agriculture
USTR	U.S. Trade Representative

Introduction

During the 1980s, trade between the United States and Mexico benefited from a process of liberalization. The total value of bilateral trade increased by 89 percent, from $27.8 billion in 1980 to $52.6 billion in 1989. A pivotal event in this process was Mexico's accession to the General Agreement on Tariffs and Trade (GATT) in 1986, which precipitated a reduction of tariff rates and elimination of many nontariff barriers. Since 1987 Mexico and the United States have held discussions and concluded a number of agreements in an effort to resolve trade disputes. These efforts are now focused on laying the groundwork for negotiations on a free trade agreement.

While the agricultural sector accounts for only 10.5 percent of all trade between the United States and Mexico, agricultural trade was on the increase throughout the 1980s. Problems still remain, however, and bilateral technical working groups are engaged in discussions to identify major issues in the agricultural sector that will need to be addressed in free trade negotiations.

Mexico's Accession to GATT

The Mexican government joined GATT in 1986 in order to gain access to international markets for its products. By improving the country's balance of trade, Mexican authorities hoped to generate the hard currency earnings needed to service the huge external debt Mexico accumulated during the late 1970s and early 1980s. Mexican officials also wanted to modernize and diversify the economy and reduce dependence on petroleum exports, which had substantially declined in value after 1982. However, upon joining GATT Mexico also had to open its own markets to foreign products by reducing tariff rates and eliminating many nontariff barriers to trade, particularly import licensing requirements.

Bilateral Discussions on Trade

In 1987 the United States and Mexico signed the Bilateral Framework Agreement on Trade and Investment. The goal of the agreement was to improve and make more routine consultations on trade and investment issues between the two countries. In concluding the agreement, both countries acknowledged the importance that trade had assumed in bilateral relations.

Building upon the success of the agreement, the Presidents of Mexico and of the United States concluded an understanding at a summit meeting in October 1989 to expand bilateral trade and investment relations. The results included the establishment of a negotiating mechanism known as the Trade and Investment Facilitation Talks. The Facilitation

Talks mechanism was designed to move beyond the stage of consultations to a process of problem solving and negotiations on bilateral trade and investment issues.

In March 1990 two areas of work were established under the Facilitation Talks mechanism. These two areas are (1) petrochemicals and (2) standards, regulations, testing, and certification. However, the Facilitation Talks were superseded in June 1990, when the U.S. and Mexican Presidents announced their intent to pursue negotiations leading to a free trade agreement between the United States and Mexico. According to an official with the Office of the U.S. Trade Representative (USTR), since the Presidents' announcement, Mexican negotiators have opted to address trade and investment issues in the context of broader negotiations on a free trade agreement.

In September 1990 the President of the United States formally notified Congress of the administration's intent to pursue free trade negotiations with Mexico. Under the direction of the Office of the U.S. Trade Representative and Mexico's Secretaria de Comercio y Fomento Industrial (SECOFI), nine bilateral groups were established to exchange information on major trade issues and consider Canada's participation in the free trade negotiations. The nine issue areas are automotive trade, insurance, petrochemicals, rules of origin, technical barriers, transport, financial services, tariffs, and agriculture. In December 1990 Canada was invited to join the free trade negotiations. Canada accepted this invitation in February 1991.

Liberalization Efforts in the Agricultural Sector

Mexico's accession to GATT and bilateral efforts to resolve trade disputes have had a significant impact on agricultural trade between the two countries. Mexico's drive to reduce its dependence on oil revenue encouraged expansion of its agricultural exports to the United States. These exports doubled during the 1980s. Mexico's membership in GATT led to the reduction of its tariffs and the elimination of many nontariff barriers, providing opportunities for U.S. agricultural products to be exported to Mexico.

While broad discussions on trade and investment issues are being handled by USTR and SECOFI, officials with the U.S. Department of Agriculture (USDA) and Mexico's Secretaria de Agricultura y Recursos Hidraulicos (SARH) are cooperating to identify and find solutions to major issues in the agricultural sector that will need to be addressed in free trade agreement negotiations. In August 1990 these activities were

consolidated under three joint USDA/SARH technical working groups. The areas of responsibility for the technical working groups are plant and animal health, policy issues, and collaborative research. On October 31, 1990, the three groups met and reported making progress on a number of issues.

Objectives, Scope, and Methodology

The Chairman, House Committee on Agriculture, asked us to (1) examine the principal problems that continue to impede agricultural trade and review bilateral and unilateral efforts to eliminate them, (2) explore the benefits of expanded agricultural trade that have accrued to Mexico and the United States, (3) review barriers to agricultural trade that will need to be considered in any free trade agreement negotiations, and (4) present the views of U.S. agricultural industry groups regarding agricultural trade liberalization with Mexico.

The information presented in this report is based primarily on official documents and statistics from USDA, USTR, the U.S. Department of Commerce, the International Trade Commission (ITC), the Mexican SARH, the Mexican SECOFI, and other U.S. and Mexican government agencies. We also relied on data provided by academic institutions and industry groups in the United States and Mexico.

All figures discussed reflect calendar year information and are based on data provided by USDA unless otherwise specified. We focused our review on items defined by USDA as agricultural commodities. We did not include forestry, fishery products, or distilled spirits within the scope of our review.

To obtain a balanced view on the major issues in bilateral agricultural trade, we met with Mexican as well as U.S. government officials. In the United States, we interviewed officials responsible for trade or Mexican affairs at the Office of the USTR; various USDA agencies, including the Foreign Agricultural Service (FAS), the Economic Research Service, the Agricultural Marketing Service, the Statistical Reporting Service, and the Animal and Plant Health Inspection Service (APHIS); the Department of Commerce's International Trade Administration; the ITC; the Department of the Treasury's Customs Service; the Department of Transportation's Federal Railroad Administration and Office for Policy and International Affairs; the Food and Drug Administration; the Department of State; the Agency for International Development; and the Mexican embassy in Washington, D.C.

We also held discussions with spokesmen from state government agencies in California, Florida, and Texas, which are among the regions most affected by competition from Mexican agricultural exports. To discuss trade impediments caused by problems associated with border processing and inadequate infrastructure, we interviewed officials at various organizations along the U.S.-Mexico border, including the Border Trade Alliance, West Mexican Distributors, the Southern Pacific Railroad, the Union Pacific Railroad, the Mexico-Texas Bridge Owners Association, the Middle Rio Grande Development Council, and the Arizona Federal-State Inspection Service.

To explore the Mexican government's perspective on bilateral agricultural trade issues, we interviewed Mexican officials at SARH responsible for international policy and research, animal and plant health, and foreign agricultural trade; officials at SECOFI responsible for commercial policy, import services, and statistical research; and officials at the Secretariat of the Treasury responsible for export credits, international negotiations, and customs. We met with representatives of growers' organizations in Mexico to learn about the obstacles they face in exporting to the United States. We also interviewed staff of the U.S. embassy in Mexico City who are actively involved in monitoring developments in U.S.-Mexico agricultural trade and Mexican government policy.

In order to gauge U.S. agricultural industry reaction, we obtained policy or position statements from various U.S. producers' associations. We chose those groups which may be most affected by further trade liberalization between Mexico and the United States, based on the value of imports and exports in 1989. We also sought statements from some industry groups that have significantly increased exports to Mexico as a result of recent liberalization, such as poultry and wine.

The U.S. industries we obtained statements from included the American Soybean Association; the Continental Grain Co.; the Wheat Export Trade Education Commission; U.S. Wheat Associates, Inc.; the USA Rice Council; the North American Export Grain Association, Inc.; the U.S. Meat Export Federation; the National Cattlemen's Association; the USA Poultry & Egg Export Council; the National Broiler Council; the National Milk Producers; Mid-America Dairymen, Inc.; the Wine Institute; the American Wine Trade; Anheuser-Busch; the Western Growers Association; the Northwest Horticultural Council; the Grower-Shipper Vegetable Association; the United Fresh Fruit and Vegetable Association; the National Onion Association; the National Watermelon Association, Inc.;

and Sun World. In individual states we contacted the California Strawberry Advisory Board, the California Tomato Growers Association, the California Grape and Tree Fruit League, the Florida Fruit and Vegetable Association, the Florida Tomato Committee, the Florida Celery Exchange, Florida Citrus Mutual, the Texas Pork Producers Board, and the Oregon-Washington-California Pear Bureau.

We performed our review from January 1990 to December 1990 in accordance with generally accepted government auditing standards. As requested, we did not obtain agency comments on this report. However, the information presented was discussed with appropriate officials at USDA and USTR, and their views were incorporated where appropriate.

U.S. and Mexican Government Actions Lead to Liberalization of Trade

During the past decade, agricultural trade between the United States and Mexico has benefited from a number of bilateral initiatives and unilateral actions undertaken by both governments to liberalize trade. U.S. agricultural exports to Mexico have experienced significant growth following Mexico's elimination of many import licensing requirements. On the other hand, the United States has extended duty-free treatment to a number of Mexican agricultural exports. Bilateral efforts are now focused on the work of three joint USDA/SARH technical working groups.

Technical Working Groups

During the October 1989 summit, the Presidents of the United States and of Mexico called upon USDA and Mexico's SARH to work through binational technical groups to remove impediments to agricultural trade. In the past, the two agricultural departments had worked together on a number of specific programs to eradicate agricultural pests, promote research into the development and exploitation of new crops, encourage conservation, and improve productivity of conventional crops and livestock.

In August 1990 the USDA/SARH technical working groups were consolidated into three areas: plant and animal health, policy issues, and collaborative research. These three groups were to serve as clearinghouses to identify technical solutions to issues and concerns facing agricultural trade between Mexico and the United States. However, following the President's September 1990 notification to Congress on the intent to pursue free trade negotiations with Mexico, the technical working groups have turned their attention to laying the groundwork for these negotiations in the agricultural sector.

An October 1990 meeting between U.S. and Mexican delegates from the three working groups consolidated the new working group structure and, for the first time, addressed all agricultural issues of concern to both countries. A USDA official with the plant and animal health group reported making a number of significant breakthroughs. U.S. authorities agreed to allow imports of lambs from Mexico. They also agreed to place a notice in the Federal Register finding that Mexican citrus exports were free of citrus canker and providing for removal of related import restrictions. In addition, U.S. officials expected to declare Mexico free of screwworm infestation in 1991.[1] Mexico agreed to streamline health certificate regulations and permit inspections of U.S. livestock destined for

[1]On February 25, 1991, in Mexico City, U.S. officials announced formal recognition that Mexico is free of screwworm infestation.

Mexico at private as well as state facilities. Both countries will also explore alternatives to existing pesticides and fumigants used in agricultural production and will collaborate on establishing a new pest-free zone in Baja California, Mexico. It was agreed that, to the extent possible, the systems of grades and standards for agricultural products should be similar in the two countries.

U.S. and Mexican delegates have agreed that the policy issues group should be a forum for addressing economic and trade issues affecting liberalization of trade in the agricultural sector. Mexican delegates expressed concern over the process for changing requirements for U.S. marketing orders and have agreed to provide U.S. officials with a formal paper on this subject. Similarly, U.S. delegates questioned Mexico's continued reliance on import licenses and will present to the Mexicans a formal paper on that issue.

The collaborative research group agreed to develop an inventory of issues where joint research could potentially lead to resolution of policy or plant and animal health-related issues. Mexico agreed to receive a U.S. delegation on biotechnology to begin an open dialogue on regulatory and policy issues. The three groups plan to meet again in 1991.

Mexican Government Actions

In order to protect domestic producers and encourage consumption of local products, the Mexican government controls imports of various commodities by requiring prior import permits or licenses and limiting the number of licenses issued for these commodities. According to data provided by Mexico's SECOFI, 317 agricultural commodities required prior import licenses in 1985.[2] Beginning in 1986, however, Mexican authorities eliminated many of these import licensing requirements. By 1990, only 57 agricultural commodities were subject to import licenses.

U.S. agricultural exports to Mexico grew substantially following elimination of import licensing requirements for many commodities. Many U.S. processed food products greatly benefited from the removal of import licenses. For example, according to data provided by SECOFI, the value of U.S. beer and wine exports to Mexico increased from $2.1 million in 1986 (the last year import licenses were required for these products) to $26.4 million in 1989. Similarly, the value of U.S. processed cereal exports (primarily breakfast cereals, breads, and biscuits) rose from

[2]SECOFI provided data on import licenses for products in chapters 1 through 24 of the Harmonized Tariff Schedule.

$306,000 in 1986 to $14.2 million by 1989, while U.S. processed cocoa and chocolate exports, such as chocolate bars and cocoa powder, expanded from $411,000 to $29.5 million during the same period.

In addition to processed food products, certain U.S. fruit exports to Mexico enjoyed considerable gains following the suspension of import licensing requirements. Since licensing requirements were dropped in 1989, Mexico has become the leading foreign market for U.S. fresh pears. According to SECOFI data, U.S. pear exports to Mexico rose from $509,000 in 1988 to $9.1 million in 1989. Similar export growth was experienced by apricots, peaches, and nectarines.

Since 1986 Mexico has also reduced its overall tariff rates and rationalized its tariff system by consolidating the number of tariff levels imposed on imports. In December 1988 Mexico went beyond its obligations under the GATT, which set overall tariff ceilings at 50 percent, and unilaterally reduced the maximum tariff rate to 20 percent. Tariffs on bulk commodities, which represent a large proportion of agricultural imports from the United States, are rather low relative to tariffs on processed foods and specialty crops. Mexico applies the highest duty (20 percent) to some popular export commodities from the United States, such as fruit and alcoholic beverages.

U.S. Government Actions

Under the U.S. Generalized System of Preferences (GSP) program, during the 1980s Mexico has been the leading source of fruits and vegetables imported into the United States. Since 1985, Mexican exports of winter cantaloupes to the United States have also enjoyed duty-free status under Public Law 97-446, section 122.

The GSP program offers duty-free entry to over 4,000 products from more than 100 countries. This program encourages economic development by promoting trade rather than by giving financial aid. In 1989 Mexico was the major beneficiary of the GSP program, with agricultural exports under this program of approximately $200 million. The leading Mexican agricultural exports to the United States under the GSP program in 1989 included sugar ($47 million), vegetables ($24 million), and fruits and nuts ($13 million).

The GSP annual review provides opportunities to adapt and adjust the provisions of the GSP program to meet changing market conditions on a product-specific basis. Mexico was the principal beneficiary of the 1989 GSP product review, effective July 1, 1990.

The 1989 product review granted GSP eligibility to new Mexican agricultural commodities which had 1989 exports totaling $62 million. Specifically, the 1989 product review awarded exemption from the competitive needs limit under the "de minimis" provision to 16 Mexican agricultural products, with a combined value of $40.5 million in 1989 (see table 2.1).[3] Mexico was also granted a waiver from the competitive needs limit under section 504(d) of the GSP statute for exports of nopalitos (prickly pear).[4] In addition, the 1989 product review reinstated duty-free treatment for exports of 14 Mexican products with a combined value of $21.2 million (see table 2.2), and a new Mexican agricultural export, frozen string beans, was awarded GSP treatment.

Table 2.1: Mexican Agricultural Products Designated Eligible for GSP Treatment Under the De Minimis Waiver Effective in 1990

Product	Tariff code	1989 U.S. imports from Mexico
Radishes	0706.90.20	$5,865,777
Beets and horseradish	0706.90.30	183,169
Celery	0709.40.40	320,076
Jicamas	0709.90.05	3,242,565
Okra (summer)	0709.90.13	3,670,152
Okra (other)	0709.90.16	1,889,350
Chickpea seeds (garbanzos)	0713.20.10	69,000
Chickpeas (garbanzos)	0713.20.20	7,204,828
Pecans	0802.90.15	3,070,419
Watermelon (seasonal)	0807.10.30	9,662,196
Origanum, other than crude	0910.99.40	781,729
Grain sorghum	1007.00.00	40,200
Corn flour	1102.20.00	1,198,009
Piassava, couch grass	1403.90.40	1,769,930
Jojoba oil	1515.60.00	1,237,463
Homogenized tobacco	2403.91.20	298,246
Total		**$40,503,109**

Source: Data provided by USTR.

[3]Under the competitive needs limit provision, a country loses GSP duty-free treatment for a product if its shipments of that product equaled or exceeded 50 percent of the value of total U.S. imports during the previous year. However, the competitive needs limit can be waived in cases where total U.S. imports of a product did not exceed $10.4 million in 1989.

[4]Under the section 504(d) provision, the competitive needs limit can be waived for goods that are not produced in the United States.

Table 2.2: Mexican Agricultural Products Redesignated Eligible for GSP Treatment (Following the 1990 Product Review)

Product	Tariff code	1989 U.S. imports from Mexico
Garlic	0703.20.00	$5,521,075
Peas	0710.21.40	839,601
Tomatoes	0710.80.50	16,745
Brussels sprouts	0710.80.65	487,663
Miscellaneous frozen vegetables	0710.80.70	16,436
Cucumbers	0711.40.00	518,418
Preserved mixed vegetables	0711.90.60	1,192,949
Guavas and mangoes	0804.50.80	0
Rice, semi or wholly milled	1006.30.10	0
Cereals, other than corn	1904.90.00	0
Cucumbers (preserved by vinegar)	2001.10.00	51,517
Homogenized vegetables	2005.10.00	0
Miscellaneous preserved vegetables	2005.90.90	1,501,876
Cordials, liqueurs	2208.90.45	11,090,230
Total		**$21,236,510**

Source: Data provided by USTR.

Another significant Mexican agricultural export to the United States that enjoys duty-free treatment is fresh winter cantaloupe, with an export value of $52.6 million in 1989. Cantaloupes are the fifth most valuable horticultural commodity exported from Mexico to the United States in terms of dollar value. About 93 percent of Mexican cantaloupe exports currently enter the United States between December and May. Recognizing the complementary nature of Mexican cantaloupe exports, in 1985 Congress amended the Tariff Schedule of the United States (P.L. 97-446, sec. 122) to allow cantaloupe exports duty-free access between January 1 and May 15. On August 20, 1990, this provision was extended until December 1992 under the Customs and Trade Act of 1990 (P.L. 101-382, sec. 461 (A)(2)).

Both Countries Benefit From Bilateral Agricultural Trade

During the 1980s the United States and Mexico reaped the benefits of increased bilateral agricultural trade. Mexico's agricultural exports to the United States more than doubled from 1980 to 1989 (see table 3.1). While U.S. agricultural exports to Mexico did not experience such impressive growth, the United States enjoyed a net surplus of $3.3 billion in agricultural trade with Mexico during the decade. Agricultural trade benefited both countries by allowing each to exploit its comparative advantage in the production of certain commodities and to satisfy demand for other goods through lower-priced imports.

Table 3.1: Value of U.S.-Mexican Agricultural Trade, 1980-1989

Dollars in millions

Year	U.S. exports to Mexico	Mexican exports to the United States	U.S. trade balance
1980	$2,468	$1,059	$1,409
1981	2,432	1,102	1,330
1982	1,156	1,158	−2
1983	1,942	1,280	662
1984	1,993	1,279	714
1985	1,439	1,446	−7
1986	1,080	2,080	−1,000
1987	1,202	1,867	−665
1988	2,234	1,820	414
1989	2,731	2,280	451
Total	**$18,677**	**$15,371**	**$3,306**

Source: Data provided by USDA.

Mexican Agricultural Exports to the United States

While Mexican agricultural production for domestic consumption remained stagnant during the 1980s, Mexican agricultural exports to the United States experienced dynamic growth (see table 3.2). From 1980 to 1989, the value of Mexican agricultural exports to the United States grew at an average annual rate of nearly 10 percent. Mexico's share of total U.S. agricultural imports rose from an average of 6.9 percent for the period 1980 through 1984 to more than 9 percent for the period 1985 through 1989. Mexico's agricultural exports to the United States doubled from $1 billion in 1980 to nearly $2.3 billion in 1989. The only year during the decade that registered a significant decline was 1987.

Table 3.2: Mexico's Ranking Among Major Suppliers of U.S. Agricultural Imports, 1980-1989

Dollars in millions

Year	Total U.S. agricultural imports	Agricultural imports from Mexico	Mexico's share of U.S. agricultural imports (percent)	Ranking
1980	$17,366	$1,059	6.1	4
1981	16,772	1,102	6.6	3
1982	15,389	1,158	7.5	3
1983	16,627	1,280	7.7	3
1984	19,334	1,279	6.6	3
1985	19,968	1,446	7.2	3
1986	21,453	2,080	9.7	1
1987	20,402	1,867	9.2	2
1988	20,951	1,820	8.7	3
1989	21,752	2,280	10.5	2

Source: Data provided by USDA.

U.S. Agricultural Exports to Mexico

U.S. agricultural exports to Mexico from 1980 through 1989 exhibited a more erratic pattern, showing significant declines in 1982, 1985, and 1986, and major gains in 1983, 1988, and 1989 (see table 3.3). While the value of Mexican agricultural exports more than doubled during the decade, the value of U.S. agricultural exports to Mexico in 1989 ($2.7 billion) was about 10 percent higher than what it had been in 1980 ($2.5 billion). Nevertheless, the United States enjoyed a surplus in agricultural trade with Mexico for 6 years out of the decade, and the cumulative U.S. agricultural trade surplus with Mexico for the period was over $3.3 billion (see table 3.1).

Table 3.3: Mexico's Ranking Among Major Markets for U.S. Agricultural Exports, 1980-1989

Dollars in millions

Year	Total U.S. agricultural exports	Agricultural exports to Mexico	Mexico's share of U.S. agricultural exports (percent)	Ranking
1980	$41,233	$2,468	6.0	3
1981	43,339	2,432	5.6	3
1982	36,627	1,156	3.2	8
1983	36,099	1,942	5.4	3
1984	37,804	1,993	5.3	4
1985	29,041	1,439	5.0	4
1986	26,222	1,080	4.1	6
1987	28,709	1,202	4.2	7
1988	37,093	2,234	6.0	4
1989	39,991	2,731	6.8	3

Source: Data provided by USDA.

Comparative Advantage Explains Much U.S.-Mexico Agricultural Trade

Many Mexican agricultural exports to the United States do not compete with U.S. agriculture but, rather, complement domestic production and benefit the American consumer. Complementary or noncompetitive commodities, such as coffee, cocoa, and tropical fruits, account for about 24 percent of the value of Mexican agricultural exports to the United States (see tables 3.4 and 3.5). Another leading category of Mexican agricultural exports to the United States is fresh horticultural produce, such as tomatoes and melons. Although many of these horticultural commodities are produced in the United States, Mexican exports tend to supplement low U.S. production when imported during the winter months.[1] For example, in 1989, about 12 percent of the total value of U.S. agricultural imports from Mexico consisted of horticultural commodities exported during periods of low U.S. production.

Commodities that do not compete directly with U.S. agricultural production account for about one-third of the value of Mexican agricultural exports to the United States. Mexican agricultural exports to the United States also provide greater year-round selection and lower prices for American consumers.

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

Table 3.4: Top 10 Mexican Agricultural Exports to the United States

Dollars in millions

Rank	Commodities	1980	1989	Average value (1980-1989)
1	Fresh vegetables (except potatoes)	$293.9	$586.4	$442.5
	Principal components			
	Tomatoes	131.0	222.3	197.1
	Peppers	52.6	62.2	60.2
	Cucumbers	40.9	84.7	57.5
	Onions	19.2	57.8	36.0
	Squash	13.8	35.6	25.6
2	Coffee, coffee products	311.3	501.2	359.1
3	Cattle (weighing less than 700 pounds)	88.6	282.5	170.5
4	Beer, ale	22.7	144.4	83.3
5	Fresh melons	35.4	93.1	50.4
	Principal component			
	Cantaloupes	20.0	52.6	28.8
6	Frozen vegetables	9.3	90.3	37.2
	Principal components			
	Broccoli	5.4	64.6	24.3
	Cauliflower	1.9	17.5	9.2
7	Fresh fruits miscellaneous	21.8	72.0	40.2
	Principal components			
	Mangoes, guavas[a]	9.4	37.0	20.7
	Bananas	2.5	16.1	9.5
8	Fruit and vegetable juices	7.5	62.5	35.1
9	Sugar, related products	17.8	51.5	24.4
10	Vegetables, prepared or preserved	28.5	49.4	34.8
	Principal component			
	Tomato paste, sauce	6.4	16.9	10.1

[a]Mangoes represent more than 99 percent of total.

Source: Data provided by USDA.

Table 3.5: Top 30 Mexican Agricultural Exports to the United States by Value in 1989

Rank	Commodity group	Value in 1989
1	Fresh vegetables, except potatoes	$586,372,936
2	Coffee and coffee products	501,185,534
3	Cattle (weighing less than 700 pounds)	282,532,226
4	Beer and ale	144,353,687
5	Fresh melons	93,073,776
6	Frozen vegetables	90,283,153
7	Miscellaneous fresh fruits	71,976,798
8	Fruit and vegetable juices	62,515,114
9	Sugar, related products (except honey)	51,519,375
10	Vegetables, prepared or preserved	49,347,474
11	Spices	38,501,207
12	Fresh deciduous fruits	31,765,783
13	Miscellaneous grains and feeds	29,705,494
14	Tobacco products	24,153,200
15	Canned fruits	18,681,571
16	Cocoa, cocoa products	16,376,755
17	Fibers	15,707,885
18	Frozen fruits	12,772,924
19	Miscellaneous meat products	11,343,227
20	Edible tree nuts	9,936,552
21	Safflower oil	9,249,719
22	Fresh citrus fruits	8,575,776
23	Cut flowers	8,492,284
24	Dried peas (except seeds)	7,871,726
25	Hides and skins	6,351,427
26	Essential oils	5,828,913
27	Nursery products (except cut flowers)	5,763,660
28	Dried, dehydrated vegetables	5,623,765
29	Dried fruit	5,258,401
30	Cotton linters	3,940,674
Subtotal (commodities listed)		$2,209,061,016
Total Mexican agricultural exports to the United States		**$2,269,275,875**

Source: Data provided by USDA.

Similarly, U.S. agricultural exports to Mexico benefit Mexican consumers. Mexico's population has increased from 68 million in 1980 to 84 million in 1990 and is expected to continue growing at a rapid rate through the end of the century. However, Mexican domestic agricultural production has not kept pace with this dynamic growth in population. Consequently, Mexican consumers have come to rely increasingly on imports of U.S. agricultural commodities to meet a large portion of their demand for basic dietary staples (see tables 3.6 and 3.7). During Mexico's economic crisis of the mid-1980s, low-priced U.S. agricultural exports also helped relieve inflationary pressures on the Mexican economy and indirectly contributed to political and social stability.

Mexico also depends on U.S. exports to meet a significant share of its demand for dairy and meat products through the importation of U.S. livestock and indirectly by importing animal feeds for domestic livestock and dairy production.

Table 3.6: Top 10 U.S. Agricultural Exports to Mexico

Dollars in millions

Rank	Commodities	1980	1989	Average value (1980-1989)
1	Corn	$677.9	$435.2	$362.4
2	Grain sorghum (consumption)	318.8	273.3	226.6
3	Soybeans	259.4	272.5	251.0
4	Milk, milk products	30.4	112.7	36.2
	Principal component Milk, cream	25.8	84.7	26.1
5	Animal fats	62.8	102.8	71.8
6	Live animals (excluding poultry)	17.9	96.4	61.8
	Principal components Breeder cattle	9.4	45.8	27.4
	Nonbreeder cattle	2.4	26.4	17.8
7	Field crop seeds	14.8	96.0	33.5
	Principal component Grain sorghum (for planting)	12.8	45.8	15.4
8	Hides, skins	69.6	95.8	83.3
9	Dairy products miscellaneous	18.1	82.7	50.4
	Principal component Nonfat dry milk	17.2	70.0	40.9
10	Beef, veal	2.3	78.5	14.3

Source: Data provided by USDA.

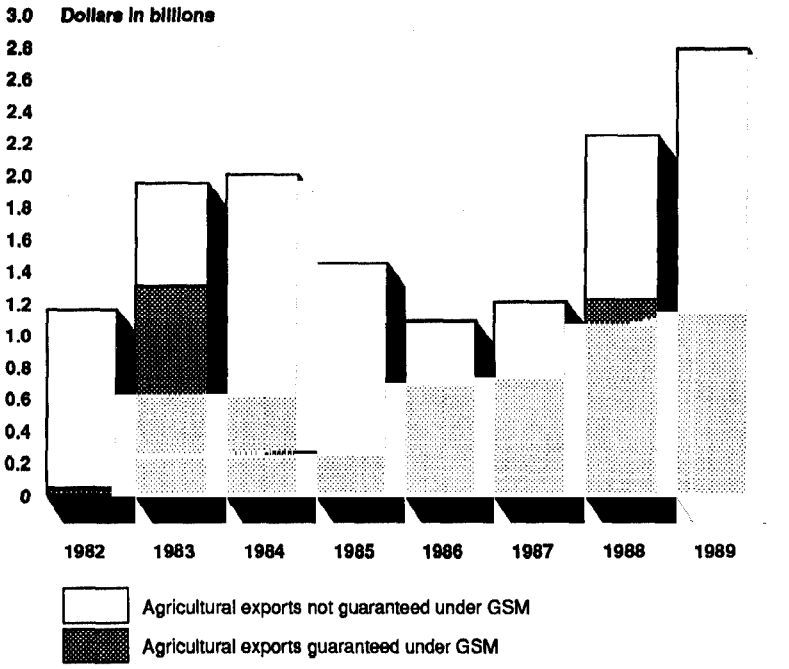
Table 3.7: Top 30 U.S. Agricultural Exports to Mexico by Value in 1989

Rank	Commodity Groups	Value in 1989
1	Corn	$435,220,425
2	Grain sorghum	273,287,330
3	Soybeans	272,458,377
4	Milk, milk products	112,713,514
5	Animal fats	102,836,987
6	Live animals	96,378,157
7	Field crop seeds	95,954,069
8	Hides, skins	95,768,545
9	Other dairy products	82,715,791
10	Beef, veal	78,447,377
11	Sugar, related products (except honey)	69,790,893
12	Variety meats	66,772,238
13	Dried beans (except seeds)	66,452,187
14	Wheat	65,872,196
15	Rice	65,435,902
16	Soybean cake, meal	63,962,029
17	Pork	55,613,781
18	Poultry meat	52,125,639
19	Coarse grain products	43,022,639
20	Flours, isolates, concentrates	38,527,669
21	Cocoa, cocoa products	34,879,228
22	Feed, ingredients and fodder	26,434,942
23	Miscellaneous livestock and meat products	22,752,662
24	Fresh deciduous fruits	22,419,778
25	Barley	22,351,953
26	Miscellaneous meat products	21,178,919
27	Corn gluten, feed and miscellaneous	20,451,269
28	Miscellaneous vegetable seeds	20,312,333
29	Sunflowerseed oil	19,629,031
30	Essential oils	18,267,916
Subtotal (listed commodities)		$2,462,033,776
Total U.S. agricultural exports to Mexico		**$2,725,926,901**

Source: Data provided by USDA.

USDA's General Sales Manager (GSM) agricultural export credit guarantee programs, known as GSM-102 and -103, have also facilitated financing of agricultural imports by Mexico (see fig. 3.1). The terms of repayment for loans guaranteed under the GSM-102 program are 6 to 36 months. The GSM-103 loans carry terms in excess of 3 years but no more than 10. Mexico is one of the major beneficiaries of the GSM program.

Figure 3.1: GSM-Guaranteed Commodities and Total U.S. Agricultural Exports to Mexico, 1982-1989



Notes: Figures for total exports based on calendar year data. Figures for GSM guarantees reflect fiscal year data.

Source: USDA data.

Continuing Impediments to Bilateral Trade

Although the effort to reduce tariffs will likely take precedence in free trade negotiations, nontariff impediments to trade, such as regulatory and administrative practices maintained by both countries, are expected to be the focus of considerable attention. From the Mexican perspective, the major impediments to trade are related to U.S. plant and animal health requirements. From the U.S. perspective, officials are concerned about Mexico's continued reliance on import licenses to curb U.S. exports. Border processing and administrative controls are a problem for both countries.

U.S. Sanitary Requirements

U.S. and Mexican government officials agree that overcoming difficulties associated with plant and animal health is the principal challenge Mexican producers face in expanding the value of agricultural exports and introducing new commodities to the U.S. market. Most Mexican fruit crops face restricted access to the United States because of their history of pest infestation that might threaten U.S. orchards.[1] U.S. markets are also closed to many Mexican livestock and animal products because they may carry diseases that could contaminate U.S. herds and flocks.[2] Mexican plant and animal health officials would like to address some of these problems by extending the concept of pest-free zones, such as is currently applied to fruit crops from the Mexican state of Sonora, to other areas of Mexico and for other commodities. Mexican officials would also like to see the United States respond more quickly to changes in the status of plant and animal health problems so that Mexican agricultural commodities can be exported to the United States as soon as these problems are resolved.

Orchard Crops

In 1988, USDA's Animal and Plant Health Inspection Service declared areas of the Mexican state of Sonora a fruit-fly-free zone. Therefore, certain fruit exports from this region do not require chemical treatment prior to export and are exempt from other restrictions applicable to fruit from other areas of Mexico. Mexican officials would like U.S. authorities to recognize that other areas of Mexico are also free of fruit fly infestation. According to these officials, certain states, such as Chihuahua, produce apples and other orchard crops that could find a market in the United States if sanitary restrictions were lifted.

[1]Pests and diseases affecting Mexican orchard crops include the Mexican and Mediterranean fruit flies and the avocado seed weevil.

[2]Diseases afflicting Mexican livestock and poultry include Exotic New Castle disease, hog cholera, sheep and goat scrapie, and bovine tuberculosis.

Similarly, Mexican plant health officials object to the U.S. ban on all Mexican avocadoes. They insist U.S. authorities should recognize that some areas of Mexico are not infested by the seed weevil and that avocado exports from these regions would not threaten U.S. avocado orchards. Moreover, they believe Mexican avocado exports should be allowed into areas of the United States that do not grow avocadoes, because they pose no risk to U.S. orchards. Mexican officials argue that if it is safe to export Mexican avocadoes to Toronto, Canada, it should be safe to export them to New York City. APHIS officials explain that at this time the Mexican government has not provided appropriate data or evidence which would substantiate that certain areas of Mexico are free of the avocado seed weevil.

Mexican plant health officials dispute allegations of citrus canker presence in certain orchards and complain about continued U.S. restrictions on Mexican citrus fruits. Mexican officials assert that after making repeated field tests, U.S. researchers have been unable to establish the existence of citrus canker in Mexican commercial orchards. In January 1991 APHIS published a proposal in the Federal Register to lift the ban on Mexican citrus fruit, on the basis that there is no biological evidence supporting the existence of citrus canker in Mexican orchards. APHIS officials expect that restrictions on Mexican exports of citrus fruit due to the citrus canker will be lifted in 1991.

At the October 1990 meeting of the USDA/SARH technical working groups mentioned in chapter 2, U.S. delegates agreed to review data from Mexican field tests and monitoring to determine whether certain areas of Mexico might be free of seed weevil and fruit fly infestation. A collaborative project under consideration would seek to eradicate fruit flies and establish a pest-free zone in the Mexican state of Baja California Sur. Mexican officials will also begin to work on a plan that could eventually allow exports of Mexican avocadoes to areas of the United States where there are no avocado orchards.

Livestock Products

Mexican animal health officials have proposed extending the concept of pest-free zones to livestock products from certain areas of the country. They note that, in practice, Mexico already applies this concept to U.S. poultry exports by allowing imports of chickens from U.S. states where poultry influenza is not present and by restricting imports from those states afflicted with the disease. They would like the United States to reciprocate, recognizing that "Exotic New Castle" disease is restricted to certain areas of Mexico, while poultry from other areas is safe.

According to APHIS officials, the United States provides Mexican authorities with verifiable technical data on poultry influenza to establish the absence of the disease from birds exported to Mexico, but Mexican health authorities have not provided comparable data on New Castle disease. The United States currently bans all poultry imports from Mexico to prevent the spread of New Castle disease to U.S. flocks.

Mexican animal health officials also questioned U.S. restrictions on Mexican exports of sheep because they allegedly carry a disease known as scrapie. These officials believe the U.S. position is unjustified because scrapie is already present in U.S. herds, from which much of the Mexican breeding stock is imported. They argue that the disease has never been diagnosed among the Mexican herds. According to APHIS officials, Mexican sheep and goat exports could gain access to the U.S. market if Mexico developed a national program for the testing, control, and treatment of scrapie similar to the programs already in effect in the United States and Canada. The October 1990 USDA/SARH technical working group meeting also brought an agreement by U.S. authorities to allow imports of Mexican lambs, since it is recognized that animals under a certain age do not carry or transmit scrapie.

Slow U.S. Response to Sanitary Problem Resolution

Mexican officials would also like to see a faster U.S. process for addressing changes in the status of plant and animal health problems. They complain that the current mechanism is too cumbersome and lengthy. From their perspective the current system represents a nontariff barrier to trade, since it restricts imports from Mexico long after the technical data are available proving that the plant or animal health problem has been resolved.

APHIS officials agree that the current process for changing import requirements in response to resolution of a plant or animal health problems is rather lengthy. It entails review by the USDA's Office of the General Counsel, approval by the Office of Management and Budget, publication of the finding and proposed regulation change in the Federal Register, and a 30- to 60-day period for public comments. According to APHIS officials, it is not unusual to take more than a year to remove U.S. market access restrictions on an agricultural commodity after technical data are available proving that the sanitary problem has been resolved. APHIS officials admit that, in comparison, Mexican authorities are generally able to clear restrictions on U.S. commodities within a matter of days. However, they explained that APHIS could not change the current U.S. process because it is mandated by law.

Negotiating Positions on Plant and Animal Health Issues

Mexican commerce and agriculture officials expressed a common belief that the problems discussed above have political roots and can be resolved through policy negotiations. They suggested, for example, that Mexico would be willing to remove its current import licensing requirements for poultry and certain deciduous[3] fruits and perhaps other commodities if the United States were willing to recognize pest-free zones for these commodities in Mexico.

APHIS officials said they are willing to cooperate with their Mexican counterparts to resolve any sanitary problems. They indicated they would even cooperate financially with Mexican authorities to eliminate pests or diseases in areas of Mexico contiguous to the United States in order to protect U.S. agriculture. APHIS officials said they are already engaged in such cooperative programs with Mexico for the eradication of the screwworm, the Mexican fruit fly, and the Mediterranean fruit fly. They noted they have asked Mexican authorities for concrete proposals, including data and plans of action, to address plant and animal health issues. According to an APHIS official, the success of the October 1990 USDA/SARH meeting demonstrates the U.S. commitment to resolving these problems. However, APHIS officials insisted that sanitary problems call for technical solutions, free from political considerations, and that negotiations must proceed on that basis.

Mexican Import Licensing Requirements

While Mexican authorities have made substantial progress since 1986 in eliminating import licenses, many U.S. agricultural exports to Mexico are still limited by these licensing requirements (see fig. 4.1). According to data provided by Mexico's Secretaria de Comercio y Fomento Industrial, in 1989, 78 commodities, representing approximately half the value of U.S. agricultural exports to Mexico, were subject to import licenses. By 1990, 57 commodities still required import licenses (see table 4.1).

[3]Fruits that grow on trees shedding or losing foliage at the end of the growing season.

Table 4.1: Agricultural Commodities Exported Into Mexico Requiring Import Licenses in 1990

Commodity	HTS code[a]
New-born chicks	1051101
Fresh or chilled poultry, not cut in pieces	2071001
Whole chickens, frozen	2072101
Whole turkeys, frozen	2072201
Fresh chicken cuts and offal	2073901
Frozen chicken cuts and offal	2074101
Frozen turkey cuts and offal	2074201
Pig and chicken fat, no lean meat or rendered	2090001
Milk and cream in powder or granules, sweetened	4021001
Milk and cream in powder or granules, not sweetened	4022101
Evaporated milk	4029101
Fresh cheese and curd, not fermented	4061001
Processed cheese and curd, not grated or powdered	4063001
Other processed cheese and curd	4063099
Soft cheese and curd	4069003
Other cheeses	4069099
Fresh eggs	4070001
Fresh or chilled potatoes	7019099
Dried kidney beans	7133302
Grapes	8061001
Fresh apples	8081001
Fresh apricots	8091001
Fresh peaches and nectarines	8093001
Coffee, not roasted or decaffeinated	9011101
Decaffeinated coffee, not roasted	9011201
Roasted coffee, not decaffeinated	9012101
Roasted and decaffeinated coffee	9012201
Coffee husks and skins	9013001
Coffee substitutes containing coffee	9014001
Durum wheat	10011001
Other wheat	10019099
Grain barley, not for sowing	10030002
Other barley	10030099
Corn, not for sowing	10059099
Millet	10082001
Malt, not roasted	11071001
Roasted malt	11072001
Copra	12030001
Poppy seeds	12079101
Coca leaves	12119003

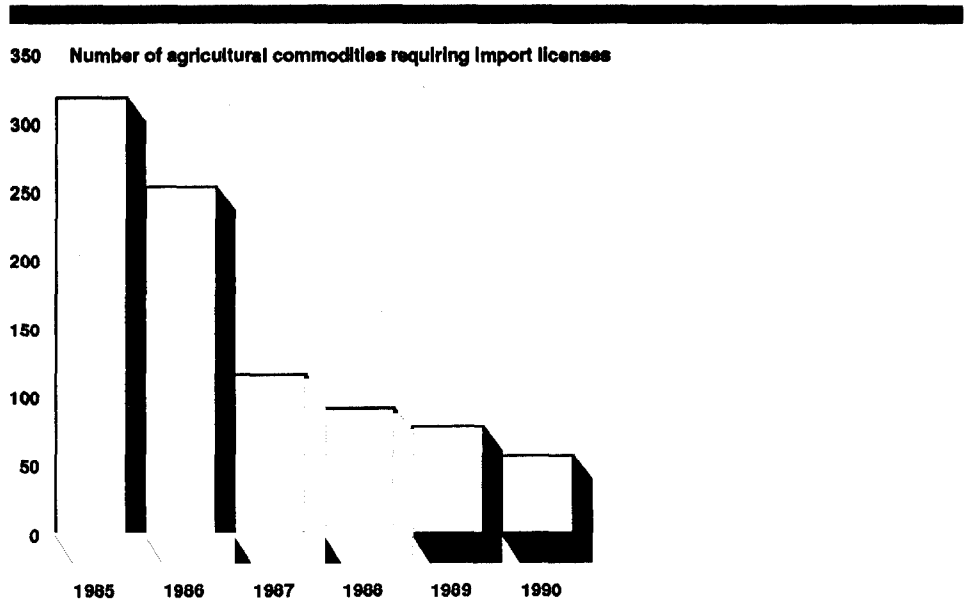
(continued)

Commodity	HTS code[a]
Sugar cane	12129201
Opium, raw or in powder	13021101
Opium, extracts	13021103
Coca extracts	13021909
Pig lard or poultry fats	15010001
Carnauba vegetable wax	15211001
Coffee or tea extracts	21011001
Tobacco, not stemmed or stripped	24011001
Tobacco stem	24012001
Tobacco, partly or wholly stemmed	24012099
Tobacco refuse	24013001
Cigars, cheroots, and cigarillos	24021001
Cigarettes containing tobacco	24022001
Other cigars, cheroots, cigarillos	24029099
Smoking tobacco for pipe use	24031001
Homogenized or reconstituted tobacco	24039101
Other homogenized or reconstituted tobacco	24039999

[a]Harmonized Tariff Schedule of the United States.
Source: Secretaria de Comercio y Fomento Industrial, Mexico.

Some of the commodities still subject to import licenses are among the top 10 U.S. agricultural exports to Mexico. These include corn, animal fats, milk, and dairy products. In addition, although the trend since 1986 has been to reduce the number of products subject to import licenses, import licenses were reinstated for certain agricultural commodities, such as chicken parts in 1989 and peaches and nectarines in 1990. According to USTR officials, Mexico's continued reliance upon import licenses is inconsistent with its commitments under GATT.

Figure 4.1: Mexican Import Licensing Requirements on Agricultural Commodities, 1985-1990



Source: Mexican Secretaria de Comercio y Fomento Industrial.

Although licenses are required for these products, Mexican authorities have to allow large quantities of some commodities requiring import licenses to be imported to meet internal demand, which cannot be satisfied by domestic suppliers. The Mexican government has expressed firm resolve to retain indefinitely some form of control over imports of some of these agricultural commodities for reasons of "national sovereignty." The commodities are corn, dried beans, and dairy products, which are considered dietary staples by Mexican authorities. A Mexican official explained that in the past the Mexican government has sought to limit dependence on foreign sources.

According to Mexican government officials, the current administration, under its agricultural sector modernization plan, also proposes raising domestic production of corn, beans, and dairy products. However, these officials admit that changing existing patterns of agricultural production to increase productivity will be a difficult and controversial process, and modernization will require many years. Moreover, population pressures will increase demand for foreign grains and food products. Consequently, Mexican officials expect to continue to rely on foreign sources, particularly the United States, for substantial supplies of these commodities even though they may still be subject to import licenses.

Mexican officials have indicated a willingness to eliminate import licensing requirements for other agricultural products which, unlike the commodities mentioned above, are not considered staples. However, they insist on linking removal of import licenses for some of these products to concessions on the part of the United States. Some commodities specifically noted by Mexican authorities in this regard are poultry and deciduous fruits.

In 1988 Mexico suspended import licensing requirements for fresh and frozen chickens and chicken parts. That year, U.S. exports to Mexico of these products increased to $56 million from a value of $14 million in 1987. Mexican officials complained that this increase was due primarily to U.S. dark meat chicken parts that flooded the Mexican market. According to these officials, while dark meat chicken parts command relatively low prices in the United States, there is substantial demand for them in Mexico. In 1989 Mexico reinstated import licensing requirements for these products, and U.S. exports fell by 28 percent.

Similarly, after removing import licenses on most fresh fruit crops in 1987, Mexican authorities reinstated licensing requirements on peaches, nectarines, and apricots in 1990. The value of fresh U.S. peaches, nectarines, and apricots exported to Mexico had risen from $185,000 in 1986 to $5.7 million in 1989. A Mexican official told us that the decision to reinstate import licensing for these fruits was intended to curb the dramatic increase of U.S. imports and protect domestic production. This official explained that licenses are only required for these fruits on a seasonal basis. He compared the seasonal licensing regime to higher U.S. seasonal tariffs on fruit and vegetable imports during peak marketing periods.

Mexican officials contend that they are committed to eliminating import licensing, even though they intend to retain some form of control over imports of certain staples. They note they have been moving in that direction since 1986. However, they argue that they have been forced to maintain import licenses on certain products and reinstate licensing requirements for others because the United States has been unwilling to open its market to certain Mexican agricultural products. These officials say they cannot ask Mexican poultry and deciduous fruit producers to accept U.S. competition if they are not allowed to compete in U.S. markets. Other Mexican officials insist that U.S. sanitary restrictions on these products are not free of political considerations and that the United States must make concessions if it expects Mexico to open its markets. A USTR official said Mexico's continued reliance upon import

licenses is contrary to commitments under GATT, and the United States has called upon Mexico to unconditionally eliminate its remaining import licenses. He stressed that in the pursuit of trade liberalization the United States will not compromise health and safety standards.

Inadequate Infrastructure and Border Processing Problems

According to U.S. census data, commercial traffic across the U.S.-Mexican border grew by at least 70 percent during the 1980s. The limited border processing facilities make this growth difficult to accommodate. As trade has grown, agricultural commodities have faced increasing competition from manufactured goods for limited infrastructure and administrative resources. This competition has led to problems such as processing delays for truck traffic, an embargo on grain shipments by rail, and overcrowding at livestock holding pens. Recently, however, both the U.S. and Mexican governments have undertaken steps to expedite the processing of border commercial traffic.

Delays in Vegetable Shipments

During the 1980s Nogales, Arizona, emerged as the main entry point for Mexican horticultural exports to the United States, transported primarily by trucks. Processing facilities and roads leading from the U.S. Customs station on the U.S. side of the border have been and are being expanded to accommodate increased trade. However, on the Mexican side of the border the existing highway is too narrow to accommodate increased levels of truck traffic. Spokesmen for Mexico's leading fruit and vegetable growers' association said the Mexican state of Sonora plans to widen and improve the existing highway on the Mexican side. However, during the peak produce import season, trucks awaiting U.S. Customs and other inspections at Nogales must still wait in long queues which, according to some local officials, can extend for as far as 3 miles.

Some shippers suggested that U.S. Customs and other agencies should assign additional inspection personnel to Nogales during the peak produce import season. A study by the U.S. Customs Service in 1989 noted that the Nogales work load was experiencing tremendous growth. The study proposed that additional inspectors would be needed to reduce length and number of delays.

Shortages of Rail Cars

In 1988 shortages in rail cars led to a de facto embargo of grain shipments by U.S. railroads through Laredo, Texas, the principal border crossing point for U.S. grain exports to Mexico. According to U.S. railroad officials, the shortage was due to long delays in returning U.S. rail

cars from Mexico to the United States. The rail cars were kept in Mexico and used for storage because of insufficient grain storage facilities in Mexico.

Since 1988, some U.S. railroads have negotiated leasing arrangements with Mexican railroad authorities, providing additional rail cars and locomotives to Mexico to ease the shortage. Nevertheless, the 1988 embargo appears to have had an adverse impact on U.S. grain shipments by rail. According to a USDA official, in 1990 there was a significant shift from rail to ocean transport for U.S. grain shipments to Mexico. This shift may be due to the higher cost of rail compared to ocean transport, but it is also linked to the 1988 grain embargo. The cost savings of ocean transport is about $5 per metric ton. Rail transport, however, affords U.S. grain exports a quality advantage since there is less handling and less likelihood of damage to the grain than in ocean transport. Consequently, shifting to ocean transport may undercut the competitive advantage the United States enjoys over other grain exporters in the Mexican market.

Difficulties in Meeting New Mexican Requirements on Livestock Holding Pens

Until 1990, Texas livestock exporters were able to use a number of privately owned and operated holding pens to quarantine animals waiting shipment to Mexico. However, as U.S. exports of live animals for slaughter increased, the Mexican government adopted stricter requirements for holding pens where health inspections take place. Early in 1990, Mexican authorities began requiring that livestock entering Mexico from Texas pass health inspection at pens that met certain minimum standards, including (1) covered inspection areas with impervious floors and electrical lighting, (2) chutes adequate to hold the animals during inspections, and (3) rest rooms with showers for inspection personnel. According to Texas exporters, only five pens operated by the State of Texas Department of Agriculture met these requirements.

According to Texas livestock exporters, the Mexican government's requirement represents a serious impediment to their export operations. Exporters list a number of problems associated with the use of state holding pens. They say the state holding pens were constructed to accommodate a limited number of animals destined for breeding stock and are not suited to handle large numbers of slaughter animals. According to exporters, the current procedure allows commingling of breeding stock and slaughter animals, posing potential health problems. They also said that ear-tagging of animals bound for export, another Mexican government requirement, cannot be undertaken at state pens.

Consequently, animals must undergo an additional loading and unloading step, which increases the risk of injury. Exporters also complained that work hours for inspections at state pens are not flexible and do not meet their needs.

Despite the problems experienced by exporters in Texas, in October 1990 Mexican authorities extended the same requirements for inspection facilities at other states along the border. A USDA official explained that even though the exporters have legitimate concerns about the new Mexican requirements, Mexico is entitled to impose these regulations. He noted that the United States has similar guidelines for facilities used to inspect livestock on the Mexican side of the border.

Currently, USDA officials are working with Mexican authorities to find ways to resolve the problems associated with the new inspection requirements. At the October 1990 USDA/SARH technical working group meeting, Mexican representatives agreed to approve additional inspection facilities in Texas. Mexican officials also agreed to give the U.S. side more time to identify appropriate facilities that meet the new requirements in other states. By February 1991 two privately owned inspection facilities meeting Mexico's requirements had been identified by USDA and approved by Mexican authorities—one each in New Mexico and Arizona. Construction of a private facility in Presidio, Texas, is nearing completion. USDA officials expect Mexican authorities will approve this facility.

Impact of Maquiladora Development

Some exporters and importers of agricultural commodities note that the development of the maquiladora[4] industry has had an indirect impact on the movement of agricultural commodities across the border. In the past decade the number of maquiladora plants has nearly tripled, from 620 plants in 1980 to 1,850 in 1990. Some importers and exporters believe that maquiladora products and other manufactured goods increasingly compete with agricultural commodities for border processing and inspection services. They argue that agricultural commodities should be given preference over manufactured goods at border processing points because fresh vegetables, live cattle, and other agricultural commodities are perishable or can be injured while waiting their turn for processing at the border.

[4]The maquiladora program was established by the Mexican government in 1965 to generate economic development along Mexico's economically depressed northern border. Under the program, plants may import raw materials, components, and machinery free of Mexican import duties with the stipulation that plants export most of their output.

U.S. Customs officials explained that presently there is no overall policy giving preferential treatment to agricultural commodities at border entry points. However, they said that in practice they make every effort to process perishable agricultural commodities ahead of manufactured items once the items are within Customs' jurisdiction. One Customs official noted that in the past this treatment has not been a major problem since the bulk of agricultural commodities does not come in at the same border entry points used by manufactured goods.

New Procedures Expedite Processing

While U.S. and Mexican government administrative requirements are frequently blamed for congestion and delays along the border, both governments have introduced new procedures to ease congestion and expedite processing of commercial traffic. A recent development on the Mexican side has been a pilot preclearance procedure known as "despacho previo." This procedure expedites the movement of both rail and truck traffic by requiring the processing of paperwork and the payment of applicable fees in advance of the actual border crossing. While there is enthusiasm for the program, U.S. railroad officials say the pilot needs to be adopted at rail crossings all along the border.

In addition, Mexico has implemented a random selection procedure, or "sistema aleatorio" for inspections of import shipments. The requirement for inspections is determined by chance, through a random red and green light process. The new system expedites processing by requiring inspections for only a limited percent of total shipments. According to Mexican authorities, the new procedure also minimizes the chances of arbitrary charges or inspections.

The United States has also adopted a procedure to expedite processing of import shipments, known as "line release." Line release is an automated processing system allowing import cargo with consistent problem-free manifests and invoices to bypass standard Customs' and other regulatory agencies' inspections. Few agricultural commodities benefit from the line release system at this time because they are subject to APHIS sanitary inspections. Currently, APHIS officials are considering extending line release treatment to a number of new items.

Industry Reaction to Further Trade Liberalization

Although recent experience suggests that trade liberalization has benefited both the United States and Mexico, further steps ultimately leading to a free trade agreement are expected to address the diverse concerns of the agroindustrial sector. Movement toward a free trade agreement will inevitably find some U.S. industries facing more competition while others will increase their exports and profits. For example, some U.S. poultry and grain industry representatives say they could significantly increase their exports to Mexico if tariffs are reduced or eliminated altogether. On the other hand, U.S. tomato and broccoli growers express concern that they could face stiffer competition from lower-priced Mexican produce if tariffs are phased out.

Certain practices or requirements continue to restrict U.S. agricultural exports to Mexico despite the fact that most tariffs have been lowered since Mexico's accession to GATT in 1986. U.S. producers are concerned that these barriers to trade may still be maintained despite a free trade agreement. The principal Mexican trade barrier affecting U.S. agricultural industries is Mexico's import licensing system. The following sections discuss various U.S. agricultural industries' concerns with trade barriers and trade liberalization.

Fresh Produce

U.S. fresh fruit and vegetable growers are primarily concerned about having a "level playing field" in trade with Mexico. The U.S. fresh produce industry wants equitable trade regulation and reciprocity in trade negotiations. U.S. growers argue that they are already burdened with strict U.S. labor and environmental laws and regulations, which the Mexican horticultural industry does not face. They believe that eliminating tariffs without first addressing these discrepancies would threaten their economic well-being and competitiveness. A growers' association representative emphasized that tariffs should only be phased out gradually and that regulatory practices and requirements on both sides of the border should become more harmonized.

Representatives for vegetable growers and shippers indicate that wage discrepancies and immigration laws should be addressed under a free trade agreement if the U.S. produce industry is to remain competitive. Growers note that they are engaged in a labor-intensive industry and must pay minimum wages amounting to many times the prevailing wage in Mexico. In attempting to equalize conditions, a major growers' association has proposed allowing a free flow of low-cost labor between the two countries. Representatives of U.S. tomato growers argue that a free trade agreement will exacerbate problems they feel were created by the

Immigration Reform and Control Act of 1986. They believe that it is inconsistent national policy to limit the lawful entry of Mexican farm laborers under the act while simultaneously seeking under a free trade agreement to lower tariff rates on Mexican produce harvested by the same low-cost labor.

Compliance with strict U.S. environmental and safety regulations, which generally have no equivalent or are not enforced in Mexico, is also a major concern of fruit and vegetable growers. Growers' spokesmen argue that to maintain a "level playing field," a free trade agreement must seek to harmonize standards and regulations on agrochemical use in the two countries. U.S. growers question the current trend toward increased restrictions on domestic use of pesticides and other agricultural chemicals while enforcement of U.S. import laws may fail to detect the use of some restricted materials on foreign produce entering the United States.

U.S. vegetable growers' representatives also note that they are subject to laws and must pay taxes at local, state, and national levels to support a system of social services in the United States that has no counterpart in developing countries such as Mexico. According to representatives of U.S. onion growers, this tax burden includes payments for immigration and eligibility-to-work documentation, the Federal Insurance Compensation Act, and federal and state unemployment benefits. They argue that free trade negotiations need to address the artificial competitive advantage enjoyed by their Mexican competitors, who are not subject to these tax and regulatory burdens.

Other issues raised by U.S. fruit and vegetable producers include Mexican government subsidies and infringement of patent rights. Representatives of U.S. vegetable associations claim the Mexican government provides irrigation, fertilizers, and pesticides for Mexican growers at subsidized rates. The U.S. strawberry industry complains that Mexico does not recognize plant variety patent rights. They argue that Mexican growers compete with the U.S. strawberry industry using varieties which they neither helped develop nor pay royalties to use.

U.S. fruit and vegetable producers generally support free trade as long as they are allowed to compete in the marketplace on a fair and equal basis. Otherwise, industry officials warn, producers may be faced with the choice of shutting down their operations or relocating to Mexico.

Some issues have already surfaced in bilateral discussions. For example, the USDA/SARH technical working group on plant and animal health is exploring alternatives to current pesticides and fumigants used in agricultural production in both countries. Similarly, according to a USTR official, patent rights infringement is also a priority in trade negotiations between the United States and Mexico. Nevertheless, many of the concerns raised by representatives of U.S. fruit and vegetable growers are related to U.S. domestic policies and will be difficult to address in international negotiations.

Grains and Oilseeds

Throughout the 1980s, grains and oilseeds were among the top U.S. agricultural exports to Mexico. U.S. grain and oilseeds producers welcome the development of the trade liberalization process, since they expect that greater access to Mexican markets will increase their exports. They also support free trade negotiations because they believe free trade will bring greater stability to their markets in Mexico. The principal concern, according to a major U.S. grain association, is the elimination of the cumbersome Mexican import licensing requirements. Representatives of the U.S. grain industry also mention inadequate infrastructure in Mexico, such as the lack of adequate grain storage facilities, as an impediment to increased trade. They suggest that if import license requirements were eliminated and U.S. grains were allowed free access, there would be more incentives to invest in the development of Mexican infrastructure to accommodate higher levels of trade.

Cattle

Representatives of the U.S. cattle industry expressed support for free trade negotiations between the United States and Mexico, calling for open markets and easy access to those markets. They have two principal concerns regarding Mexican exports to the United States. First, cattle producers would like to see more predictability and stability in the flow of cattle imports from Mexico, which currently arrive during a few months. Secondly, there is concern about Mexico's ability to meet U.S. animal health standards. Under a free trade agreement, U.S. cattle producers will continue insisting on strict adherence to USDA animal health and meat inspection requirements for imports from Mexico.

Beer

Representatives of the U.S. beer industry believe that further trade liberalization with Mexico will significantly increase their own export sales. Between 1985 and 1987, the Mexican import tariff on beer was reduced from 100 percent to 20 percent, making U.S. exports much more

attractive to Mexican consumers. Efforts by the Mexican government to restructure the Mexican beer quota system in January 1988 also made the market more accessible for U.S. exporters.

While the 20-percent duty remains a trade barrier, the U.S. beer industry was hopeful the current GATT negotiations will successfully conclude with the implementation of proposals for a reduction in beer tariffs. The industry considers it reasonable to expect that the Mexican tariff on beer will be gradually reduced to zero over a number of years. Representatives of the U.S. beer industry also note that Mexican beer is a world-class competitive product, implying that it should not be granted any special treatment under a free trade agreement.

Dairy Products

While dairy products figured among the top U.S. agricultural exports to Mexico during the 1980s, representatives of the U.S. dairy industry expressed concern over current import practices involved in trading with Mexico. Some of the major problems include excessive Mexican government regulation, credit difficulties, and extended liability for products after reaching Mexico. Industry spokesmen also raised questions regarding the prospects of increased Mexican dairy exports to the United States.

A representative of the U.S. dairy industry complained about delays caused by numerous inspections, the need to obtain approvals from various officials, and excessive documentation required by Mexican authorities. U.S. dairy exports to Mexico are usually sold through the Mexican government national food purchasing agency. The sale of dairy products is a complex market transaction, involving many agents, brokers, and officials. Examples of paperwork and documentation required by Mexican authorities include certificates of origin, health, and weight, USDA grading, and various invoices. According to industry spokesmen, differences in business practices between the United States and Mexico, as well as frequent turnover in Mexican government personnel, have made learning about import regulations and obtaining necessary approvals a lengthy and laborious effort.

Dairy exporters also raised concerns over credit, payments, and liability for exported products after they have reached Mexico. Industry spokesmen said that because of past problems with payments, exporters must be careful to assure themselves that funds are available in U.S. banks prior to delivery of products to Mexico. There is also the risk that a product may be rejected after it is in Mexico. Under a clause in the

Mexican government purchasing contract, U.S. exporters are subject to extended liability even after the product has been in Mexico for several months. Exporters said they find it difficult to verify the validity of rejections of their product by Mexican authorities. Even if the product is rejected on a legitimate basis, exporters do not know what to do with the rejected product. According to one U.S. industry representative, there is fear that Mexican authorities may seize a rejected product and related transportation equipment. Another dairy spokesman said that there have been delays in the past in returning trucks.

A spokesman for the U.S. dairy industry expressed concern that a free trade agreement would adversely affect U.S. import quotas and the U.S. price support system. Another industry representative questioned whether U.S. dairy producers would be interested in having greater access to the Mexican market if it also meant opening up domestic markets to Mexican dairy products. Although Mexico is a major importer of U.S. liquid and powdered milk, exports of certain Mexican dairy products, such as cheese and yogurt, might increase substantially under free trade conditions.

U.S. dairy industry spokesmen suggested free trade negotiations should seek to minimize the role of government officials in Mexico's current system for purchasing dairy products. They believe risks of exporting would be reduced if there were direct access to the consumer or end user. They also proposed setting comparable standards and regulations in the two countries to facilitate trade.

Poultry

Although free trade between the two countries may entail some negative repercussions for the U.S. poultry industry, spokesmen for U.S. poultry producers view Mexico as a potential market rather than as a competitive threat. Under free trade conditions, U.S. producers expect to benefit from Mexican demand for less expensive poultry products. Mexico offers a large market for dark poultry meat and other inexpensive poultry cuts that are not in high demand in the United States. On the other hand, if they can overcome existing sanitary problems, Mexican poultry producers should be able to increase exports of higher-grade items to the United States, where they command higher prices than in Mexico. U.S. producers fear that cheaper labor rates in Mexico might give a competitive advantage to their Mexican counterparts. According to one U.S. industry spokesman, the liberalization of trade with Mexico is a multifaceted situation with possible negative and positive outcomes.

Nonetheless, producers feel that overall trade liberalization will have positive results for the U.S. poultry industry.

Wine

U.S. wine exports to Mexico have significantly increased since 1986 as a result of the suspension of import licensing requirements and lower duties. However, a representative of U.S. wine exporters complained that the cumbersome Mexican registration and certification process continues to impede access for U.S. wine exports. Wine industry spokesmen reported that the Mexican registration process for wines takes approximately 3 to 4 months and involves the ministries of health, commerce, and agriculture and the Mexican consular office in the United States. The process entails submission of numerous legal documents, photographs, samples, laboratory test results, and payment of related fees. They compare it to the same U.S. process for importing wines, which generally takes 1 week.

Deciduous Fruits

Representatives of U.S. deciduous fruit growers generally support the concept of free trade. They call on Mexico to demonstrate its commitment to free trade by removing existing import licensing requirements. Representatives of the U.S. deciduous fruit industry also stress that any agreement with Mexico must not compromise U.S. health and environmental laws and regulations.

While statistics indicate that Mexico's recent elimination of import licenses on peaches and nectarines (1987) and pears (1989) has led to significant increases in U.S. exports of these commodities, licenses are still required for apples and table grapes. According to one spokesman for U.S. deciduous fruit growers, the increased import of pears since the removal of import licenses suggests U.S. apple sales to Mexico could reach $50 million annually if licensing requirements were removed. However, instead of eliminating the remaining licensing requirements on deciduous fruits, Mexico reimposed import licenses on peaches, apricots, and nectarines in 1990, albeit on a seasonal basis. A representative of U.S. deciduous fruit growers believes that prior to entering into free trade negotiations, Mexico should demonstrate its commitment to liberalized trade by removing existing import licensing requirements.

An industry representative also urged that any agreement with Mexico ensure that strict U.S. plant health requirements continue to be met. He pointed to the recent infestation of the Mediterranean fruit fly in California as an example of the critical need for plant health protection.

Similarly, he stressed that U.S. pesticide residue standards on agricultural commodities should not be compromised by an agreement on free trade with Mexico.

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