Mexico: The Cost of U.S. Dumping

By Timothy A. Wise

For years developing countries have complained that rich countries undermine their agricultural development by "dumping" surplus commodities on them—that is, by exporting their grains and other products at prices below what it cost to produce them. But how much does such dumping cost farmers in developing countries? According to my new study of U.S. dumping on Mexico after NAFTA, Mexican farmers on average lost more than $1 billion per year during the nine-year period of 1997–2005, with more than half the losses suffered by the country's embattled corn farmers. The study is part of a new, multi-author report, *Subsidizing Inequality: Mexican Corn Policy Since NAFTA*.[1]

On the one hand, NAFTA disciplined Mexico's use of tariffs, which the country had relied on heavily to protect its farmers from cheaper U.S. exports. But on the other hand, the agreement did nothing to mandate reductions in the use of subsidies, which have been the U.S. government's preferred means of supporting agriculture since supply-management policies ended with the 1996 Farm Bill. That deregulation of U.S. agriculture resulted in larger surpluses of corn and other supported commodities; prices fell soon enough, and NAFTA opened the floodgates to virtually unrestricted dumping into Mexico.

And did NAFTA ever open those floodgates! As the table on the next page shows (first column from the left), U.S. exports to Mexico of eight key agricultural commodities—corn, soybeans, wheat, cotton, rice, beef, pork, and poultry—increased dramatically in the period studied: from a "low" increase of 159% for soybeans to an astonishing 707% for pork. Corn, the most sensitive product given that 3 million Mexican farm families grow it, saw increases of 413% in U.S. exports since the early 1990s.

Without exception, the United States exported these products at prices below what it cost to produce them, one of the definitions of dumping under World Trade Organization rules.[2] This is dramatically illustrated if we look at the "dumping margin," or the percentage by which export prices were below U.S. costs of production. For the nine-year period—which encompasses the years both after NAFTA and the 1996 Farm Bill were implemented, and before the speculative commodity price spikes that began in 2006—dumping margins ranged from 12% to 38% for the five crops, and between 5% and 10% for the meats, calculated on the basis of their access to below-cost feed grains (second column). U.S. corn was on average dumped at 19% below production costs.

This helped push down producer prices in Mexico. For the eight products, real producer prices fell from 44% to 67% from their pre-NAFTA levels (third column). Corn prices plummeted 66%. How did this affect Mexican production? It fell for all the crops except corn (fourth column), which saw a surprising 50% increase in production, attributed in part to small farmers' "retreat to subsistence" under the economic pressures from NAFTA (if you can't make money selling it, you'll at least have something to eat) and in part to the Mexican government's own subsidies. Production also rose significantly for meats, reflecting the rising demand for meat-based protein in the Mexican diet.

Finally, the United States' dumping-level prices over the nine-year period cost Mexican producers $12.8 billion, or $1.4 billion per year, according to my estimates (fifth column). To put these numbers in context, the annual losses are more than 10% of the value of all Mexican agricultural exports to the United States (including beer, which Mexico oddly classifies as its most important "agri-food" export). The losses from U.S. dumping surpass the total value of Mexico's annual tomato exports to the United States, widely touted as Mexico's biggest NAFTA success story in agriculture.

How did I determine the cost of U.S. dumping to Mexican producers? I simply calculated how much their prices were lowered by U.S. dumping and then estimated how much more they would have earned had they received non-dumping prices—at least high enough to cover U.S. costs of production.

Not surprisingly, corn farmers suffered the highest losses. With dumping margins of 19% and some 3 million producers affected by the import surge, losses to Mexican corn farmers totaled $6.6 billion over the nine-year period, a yearly loss of more than $700 million. These losses amount to a crushing blow to struggling smallholders.

Mexico's own agricultural policies are also part of the problem. Until 2008, the Mexican government had the right under NAFTA to impose relatively steep tariffs on high corn imports, part of the agreement's supposed transition to open borders. But it never enforced the so-called tariff-rate quota that allowed such measures, abandoning its producers to unfair competition with their highly subsidized competitors

U.S. DUMPING ON MEXICAN PRODUCERS UNDER NAFTA

	United States		Mexico		
	Export Growth[a]	Dumping Margin[b]	Producer Prices[c] (real pesos)	Production Volume[a] (% change)	Dumping Losses[b] (US$ millions)
Corn	413%	19%	-66%	50%	6,571
Soybeans	159%	12%	-67%	-83%	31
Wheat	599%	34%	-58%	-7%	2,176
Cotton	531%	38%	-65%	-3%	805
Rice	524%	16%	-51%	-8%	67
Beef	278%	5%	-45%	31%	1,566
Pork	707%	10%	-56%	40%	1,161
Poultry	363%	10%	-44%	133%	455
					Total 12,832

[a]Change from pre-NAFTA (1990–2 average) to post-NAFTA (2006–8 average)
[b]1997–2005
[c]Change from pre-NAFTA (1990–2 average) to 2005

Constant US$(2000)

Sources: Foreign Agricultural Trade System of the United States (USDA); Institute for Agriculture and Trade Policy (iatp.org); Elanor Starmer et al., "Feeding the Factory Farm: Implicit Subsidies to the Broiler Chicken Industry," GDAE Working Paper no. 06-03 (Tufts University, 2006); Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación (Mexican federal government).

to the north. The government could have counteracted U.S. dumping with such tariffs even in 2000, when dumping margins reached 50%.

Instead, Mexico resorted to agricultural subsidies. As *Subsidizing Inequality* documents, there are extreme inequalities in the distribution of Mexico's agricultural subsidies, which disproportionately help the country's largest industrialized farmers compete with their U.S. counterparts. This includes even some of the programs designed to reach small-scale farmers, such as the Procampo subsidy program—put in place as part of the transition to NAFTA to cushion losses for small-scale farmers and to help them become more competitive—had a regressive impact. *Subsidizing Inequality* shows that Procampo excluded the vast majority of the poorest farmers and allowed some of the largest farms to get two payments a year per hectare.

My research highlights just how inadequate the Procampo payments were in the face of U.S. dumping. The average payment of 858 pesos to Mexico's small-scale corn farmers was more than gobbled up by the 958-peso losses to dumping. Instead of helping Mexico's farmers compete, Procampo payments partly compensated for U.S. dumping.

Given how sluggishly the Mexican economy has performed under NAFTA, these losses are crushing for farmers and for Mexico. An estimated 2.3 million people have left agriculture in a country desperate for livelihoods.[3] And that figure masks an even more depressing reality: Since 1991, some 5 million family farm members stopped depending on farm income, according to the 2007 agricultural census. The only agricultural employment sector in Mexico that grew was seasonal labor. Many rural migrants simply headed north, where the jobs were.

Recent food price spikes have reduced the problem of dumping for the time being, but they have increased Mexico's growing food import bill. Indeed, food dependency has risen dramatically since the early 1990s. Mexico now imports almost half of its basic grains, including more than one third of its corn. This has prompted new demands in Mexico for the country to regain its lost self-sufficiency in corn production.

Thus far there is little sign the Mexican government will either make its own agricultural support programs fairer or improve their efficacy. And there is no indication that U.S., Mexican, and Canadian officials will even discuss a renegotiation of NAFTA's agricultural provisions. Until we see substantive policy changes, small-scale farmers in Mexico will continue their uphill battle on the tilted playing field opened up by NAFTA.

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NOTES

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