



Market Failure and the Environment in North America

Commentary by:

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Addressing Trade and Environment in North American Agriculture

- ILOs are an acute and worsening problem in North America
- Regulatory structure for ILOs in North America lacks strength and balance
- Alien Invasive Species are a little understood problem in North America that have enormous implications for trade and the environment
 - \$137 billion in annual damages to the US economy (Pimentel)
- Clear role for NACEC in the investigation and facilitation of a comprehensive North American regime to address these issues

Comment on Papers: Focus on NAFTA Linkages

- Cattle, Beef, and Maize trade are said to be significantly affected by NAFTA
- Some evidence suggests that Hogs, Poultry, Pork, Asian long horned beetles, and Plum Pox Virus not strongly affected by NAFTA
- Spell out and support the invasives-GMO link

Cattle and Beef

•Cattle

- Mexican tariffs immediately dropped after NAFTA
- Cattle exports from US and Canada increased eightfold to Mexico
- NAFTA accounted for 18 to 33 percent of the increase (USDA)

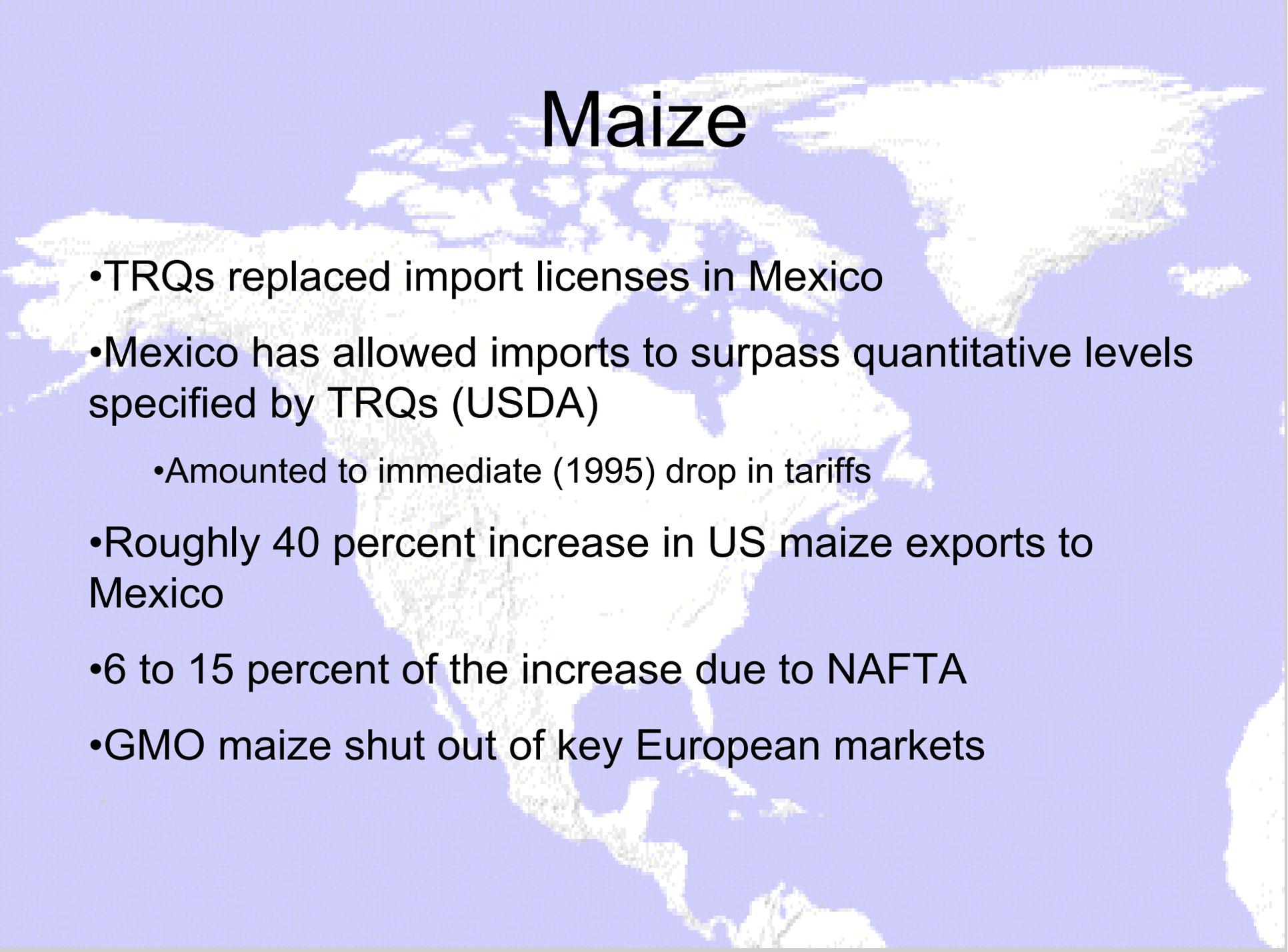
•Beef

- Mexican tariffs immediately dropped after NAFTA
- Beef exports from US and Canada increased more than twofold to Mexico
- NAFTA accounted for 6 to 15 percent of the increase (USDA)

•**Hogs, Poultry, and Pork:** negligible NAFTA impact on US, Mexican, and Canadian exports (USDA)

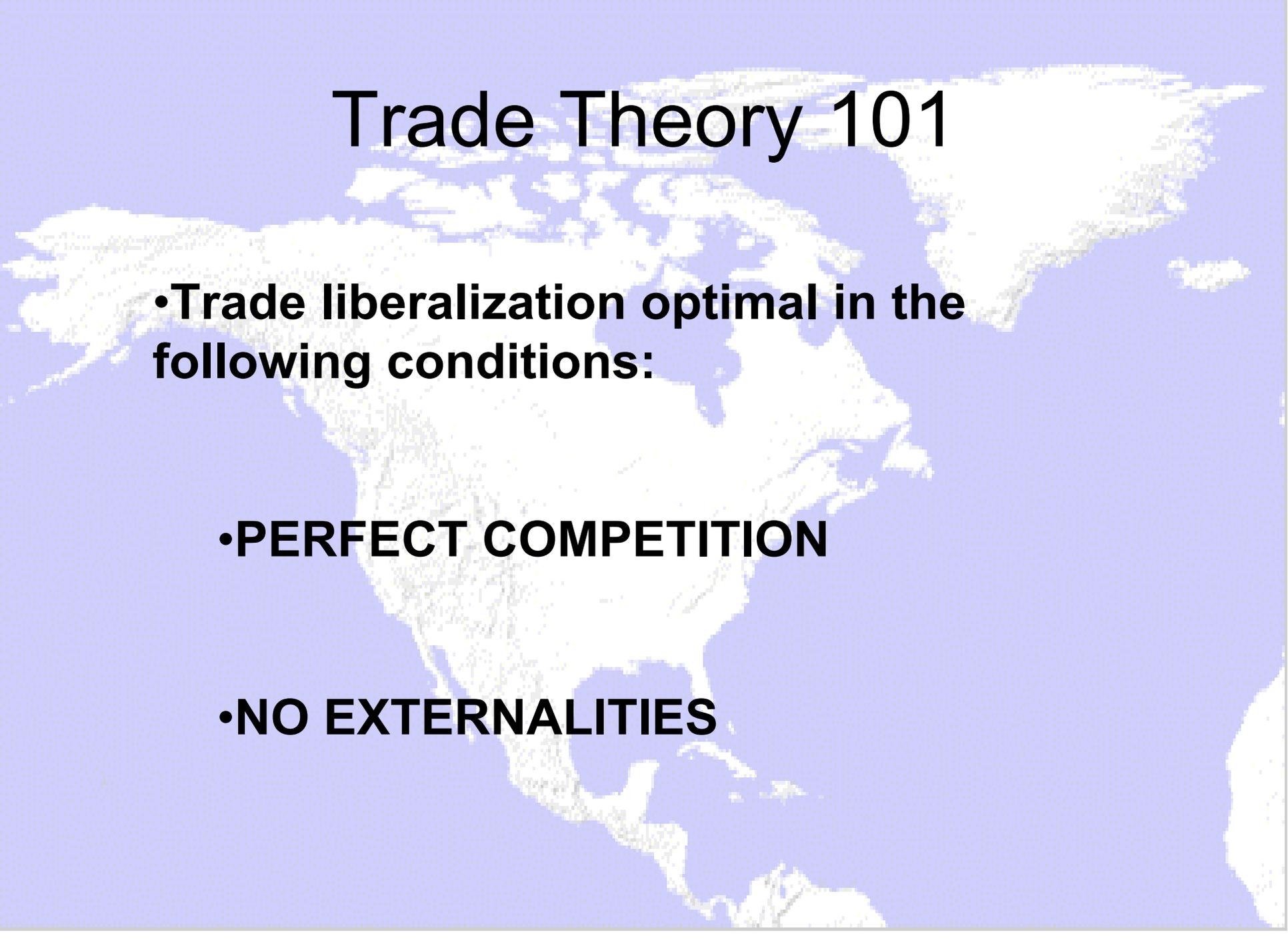
•**Focus on Cattle and Beef ILOs?**

Maize



- TRQs replaced import licenses in Mexico
- Mexico has allowed imports to surpass quantitative levels specified by TRQs (USDA)
 - Amounted to immediate (1995) drop in tariffs
- Roughly 40 percent increase in US maize exports to Mexico
- 6 to 15 percent of the increase due to NAFTA
- GMO maize shut out of key European markets

Trade Theory 101



- **Trade liberalization optimal in the following conditions:**

- **PERFECT COMPETITION**

- **NO EXTERNALITIES**

Market Failures and NAFTA

	Imperfect Competition		Environmental Externalities	
	US-CA	Mexico	US-CA	Mexico
Cattle and Beef	4 firms, 81%market	Small(er) holders	ILO	
Maize	3 firms, 80%market 20%dumping?	Small(er) holders	Chem&Water Intensive Invasives	Agro- biodiversity

Implications of 3 Papers



- NAFTA has distorted trade toward more environmentally degrading agricultural practices in US-Canada cattle, beef and corn
- Underscore the need to internalize externalities before trade liberalization
- Highlight the need to put in place strong North American policies for Cattle, Beef, and Maize with respect to environment as soon as possible
- Implications for trade talks in the Americas

CEC

- Importance of information gathering, research, and transparency regarding the effects of NAFTA
- Underscores that assessments of trade should address mitigation and alternative policies.
- CEC should establish a dialogue and capacity building process similar to their PRTR process for beef and cattle ILOs
- CEC should provide a forum for dialogue and research on invasives with the goal of establishing a regional action plan
- FTAA negotiators should require that market failures addressed before liberalization