

The Tough NAFTA Choices Facing North American Agriculture - Big or Small Deal?

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US Negotiating Objectives and Sensitivities

Export Interests

- In general US agriculture very satisfied with CUSTA/NAFTA
- For grains/oilseeds, beef/pork “do no harm” is the overwhelming concern
- However, for dairy (and to a much lesser extent poultry /eggs) greater access/predictability and disciplines on ingredient pricing in Canada are paramount
- Small number of technical barrier concerns, e.g. wheat grading, discriminatory wine listing practices by provinces, GI protection for cheeses
- Shared interests in updating Sanitary/Phytosanitary regimes and harmonizing technical regulations

US Import Sensitivities

- Sugar dominates - volume and price undertakings forced on Mexico, TRQ's against Canada
- Cane/beet producers/processors very powerful lobby, domestic sugar program incompatible with free trade
- Historically, dairy imports extremely sensitive although US now net exporter
- Some US regions/commodities (Florida, tomatoes, strawberries) pressing for fruit and vegetable seasonal AD, CV, largely, but not exclusively, against Mexico

Market Access Negotiating History

- Pre-Canada/US FTA – reduced/harmonized many tariffs in successive GATT rounds
- US insisted on maintaining QR' s in CUSTA but later recognized deal with Mexico not possible unless all QR' s phased-out
- Despite NAFTA duty free access, A/D and CV threats used to force Mexico to agree to de facto VER' s on sugar and tomatoes

Canada's Defense of Supply Management(SM)

- US CUSTA position enabled SM status quo in NAFTA
- Canada argued Uruguay Round would determine SM access, not NAFTA
- UR converted QR's into TRQ's, Canada last to agree
- Like US sugar (and dairy), Canadian dairy/poultry not compatible with free trade, need ongoing import protection to operate SM
- UR, Canada/EU FTA and TPP increased TRQ's for SM products – last minute end-game

Politics of Agriculture

- Import sensitive sectors have disproportionate political influence in both US (sugar) and Canada (dairy)
- Both countries maintain domestic support programs incompatible with free trade
- In Canada all three major political parties support SM, in US both major parties support/unwilling to reform existing sugar program

Big Deal – Major Domestic Policy Changes

- Duty free trade in sensitive products requires fundamental domestic policy changes
- Without major domestic policy reforms the best that can be expected is some form of TRQ expansion as per TPP and Canada/EU
- No indication that either country is willing to fundamentally change existing domestic policies for sensitive products

Smaller Deal – Domestic Policy Status Quo with added imports

- TRQ expansion – how much? What about growth?
- Remember Canada's poultry TRQ's are tied to changes in production or consumption, chicken imports now close to 20% market share
- This is why US poultry industry is less incised about increased access
- In contrast, Canada's dairy TRQ's are fixed. In past, milk production showed little or no growth, but major increases recently (4-5% annual growth)

Why is Dairy so Difficult?

- US want (significant) increased TRQ access and certainty that it will not be nullified by subsequent compositional changes (e.g. cheese) or de facto import replacement and/ or export stimulation policies (e.g. ingredient pricing strategies)
- US particularly concerned re growing SMP exports and long term import replacement effects of pricing some Canadian SMP at or below world prices.
- Remember all export subsidies to be banned by end of 2020. WTO undertaking

Dairy Nullification/Impairment = Canada's Concern re COOL

- If US wants greater certainty re dairy export access, Canada would attach value to greater certainty re cattle/beef and swine / pork access (as well as better dairy and sugar access)
- NAFTA disciplines on reintroduction of COOL (and other potential technical barriers) preferable to exercising existing WTO authorization to retaliate?

Trade Problems a Function of Domestic Policies

- Keeping domestic prices above world levels requires ongoing import protection but some trade liberalization always possible through TRQ expansion
- Issue boils down to what share of domestic market to allocate to imports?
- Hatching egg TRQ demonstrates SM still viable with imports at 20% + market share (plus growth)
- Even with TPP and EU, dairy import access would still only represent around 10% market share

Dairy Import Leakages

- Keeping traditional products at above world prices encourages import substitution of like (subject to TRQ) or similar (but not TRQ) products
- Classic examples are milk protein concentrates and ultra-filtered milk
- Problem largely resolved through ingredient pricing strategy which enables Canada to price SMP at world competitive prices

Canada is US Second Largest Dairy Export Market

- If Canada is to maintain viable SM system retaining ingredient pricing is essential
- However US nullification/impairment concerns re dairy are understandable as are Canada's COOL concerns re cattle/hogs and products
- NAFTA renegotiation package must deal with legitimate major concerns of both parties as well as clear-up less major irritants, e.g. wine, grain grading
- All parties interested in up-dating and strengthening SPS provisions

Cannot Pick and Choose Security of Access

- Greater certainty of access requires greater disciplines on non health/safety technical regulations on a reciprocal and comprehensive basis
- Introduction of new seasonal AD, CV (and new safeguards?) for perishable fruits and vegetables would be contrary to goal of ensuring greater predictability of access
- Canadian greenhouse and potato exports potentially vulnerable to seasonal measures

Lessons Learned

- In agriculture trade negotiation sensitivities are a function of domestic farm policies.
- Domestic farm policies are extremely political. Political influence is disproportional
- The US is not perfect. Sugar is its main vulnerability, dairy access is still sensitive
- TRQ expansion inevitable but Canada can still operate SM
- So long as US and Canada maintain FTA incompatible farm policies, moderating adverse trade consequences is the only realistic FTA scenario

Concluding Comments

- As usual politics of agriculture will determine the size and scope of the agriculture package.
- Have to be wins for both parties
- Both Canada and US gain from greater predictability and security of access vis a vis technical regulations
- Supply management still able to operate until US sugar policy reformed or Canadian government decides on unilateral SM reform - both unlikely in foreseeable future
- However, in NAFTA renegotiation dairy is squarely in US cross-hairs so status quo is a non-starter and TPP-style concessions are unlikely to be sufficient