

# UNITED STATES-MEXICO-CANADA AGREEMENT

New International Law with Implications for Idaho

## WHY NAFTA ?

- Mexico's economic realities of the late 80's and early 90's.
- U.S. concerns about the new E.U. market overtaking the U.S. market.
- Canadian concerns about the U.S. dominating the North American market.

# WHY UPDATE NAFTA ?

- Trump's campaign promised to re-balance the trade deficit between U.S. and Mexico and Canada.
- NAFTA's age was starting to show.
  - Originally negotiated in 1994
  - Many mainstays in our modern economy did not exist:
    - The rise of E-commerce
    - Cross-border data "cloud" storage
    - Intellectual property
- Agriculture was not the impetus for an update.

## WHAT IS THE USMCA ?

- The “new” USMCA is the updated version of the the North American Free Trade Agreement
- It is a comprehensive Free Trade Agreement (FTA) between the U.S. Mexico and Canada
  - Auto part and automobile manufacturing
  - Direct foreign investment
  - Cross border parcel services (FedEx, Amazon, UPS)
  - Agriculture

## THE IMPORTANCE OF AGRICULTURE IN THE USMCA

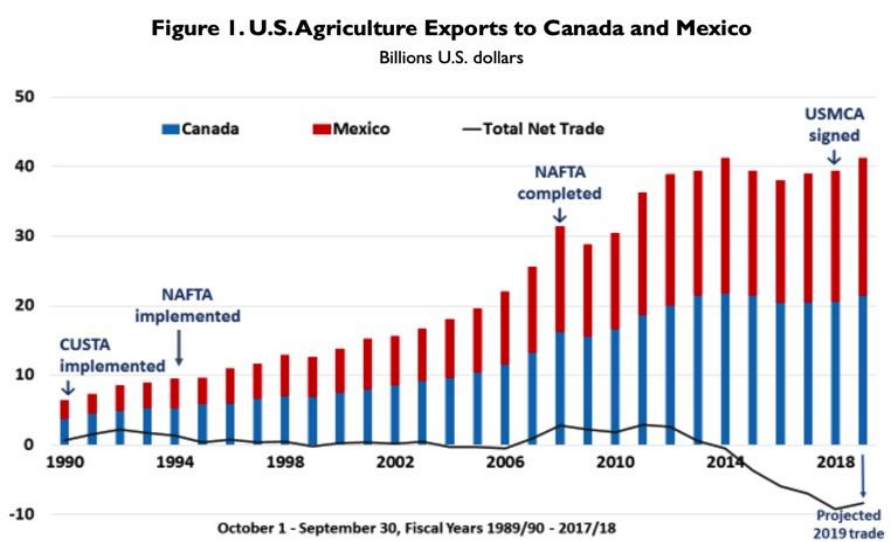
- In 2018 27 % of all U.S. Agriculture production found its way to either Canada or Mexico
  - Canada accounted for 14 % of total ag production
    - 20.2 Billion in 2018
  - Mexico accounted for 13 % of total production
    - 18.8 Billion in 2018

## THE IMPORTANCE OF THE USMCA TO AGRICULTURE IN IDAHO

- Canada consumes 26 % of all Idaho's agricultural exports
- Mexico consumes a further 20 % of Idaho's agricultural exports
- 46 % of all of Idaho's agricultural export go to either Mexico or Canada
  - China, South Korea, both consume 7 % while Japan consumes 6 %
  - The rest of the world (RoW) is at 34 %

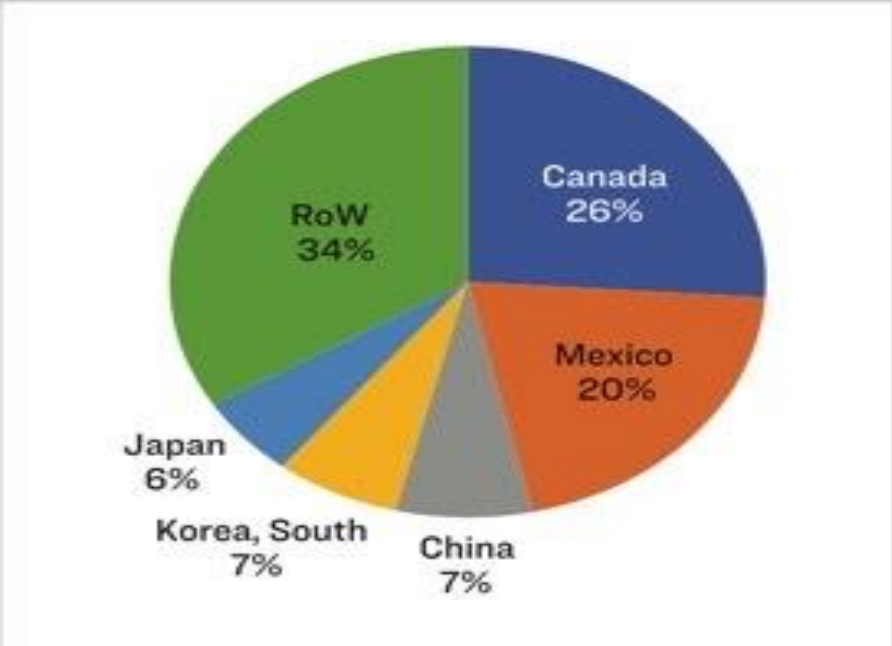
# CLEVER CHARTS AND GRAPHS

## GROWTH OF U.S. AG EXPORTS TO CANADA AND MEXICO



**Source:** U.S. Census Bureau Trade Data, BICO-HS10, from [fas.usda.gov/gats](https://fas.usda.gov/gats), accessed March 5, 2019.  
**Notes:** Net trade = U.S. exports of agricultural products to Canada and Mexico minus U.S. imports of agricultural products from those countries. Data are not adjusted for inflation.

## TOP DESTINATIONS FOR IDAHO'S AG PRODUCTS



# UNITED STATES AND MEXICO

- Under the NAFTA most tariffs were removed from agricultural products.
  - The tariffs that remained were phased out over a 14-year period.
- By 2009 ALL tariffs on agricultural products had been removed.
- Under the USMCA the U.S. and Mexico will continue to enjoy zero tariffs on agricultural product.
  - Continued market access is a crucial aspect of the new agreement.

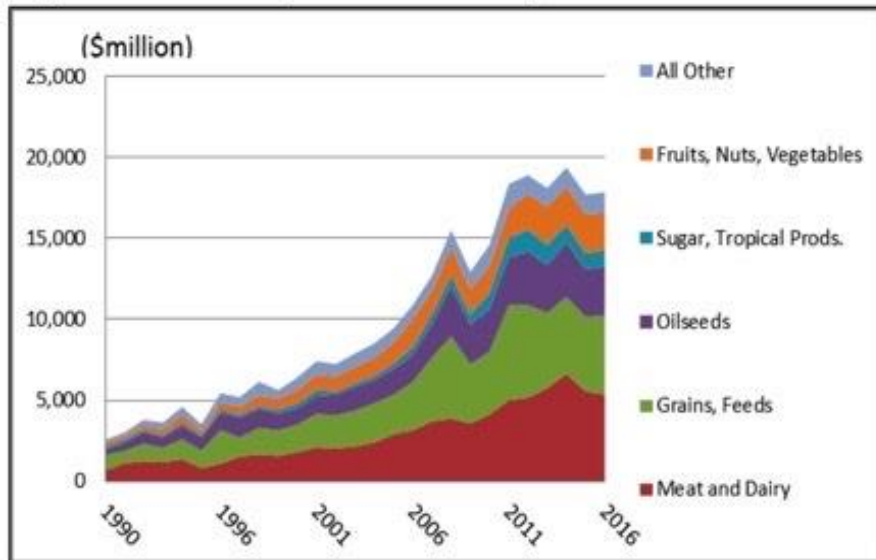


# IDAHO AND MEXICO: WE PRODUCE WHAT THEY WANT

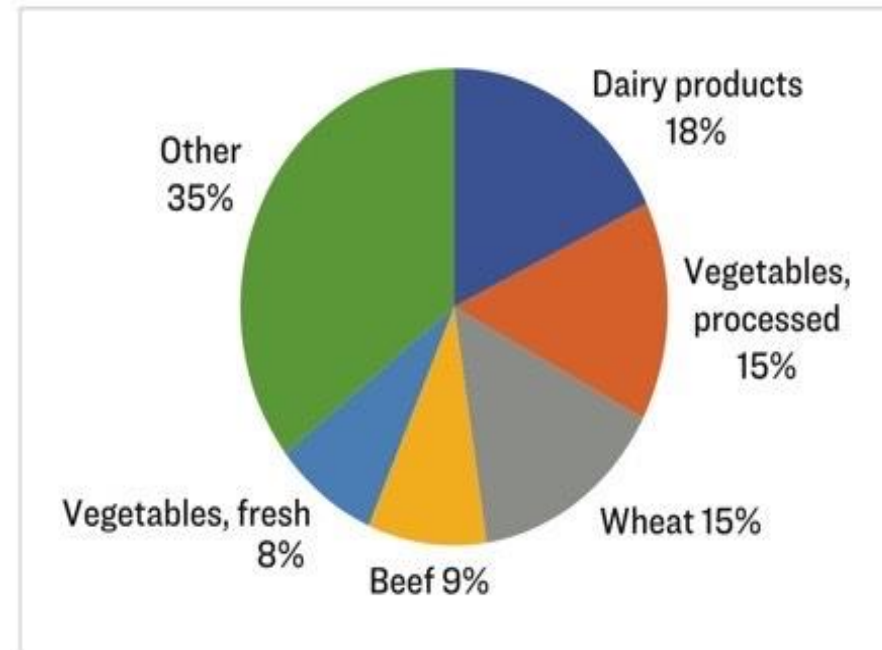
## TOP PRODUCTS CONSUMED BY MEXICO

## IDAHO'S EXPORTS BY CATEGORY

**Figure 3. U.S. Exports to Mexico, 1990-2016**

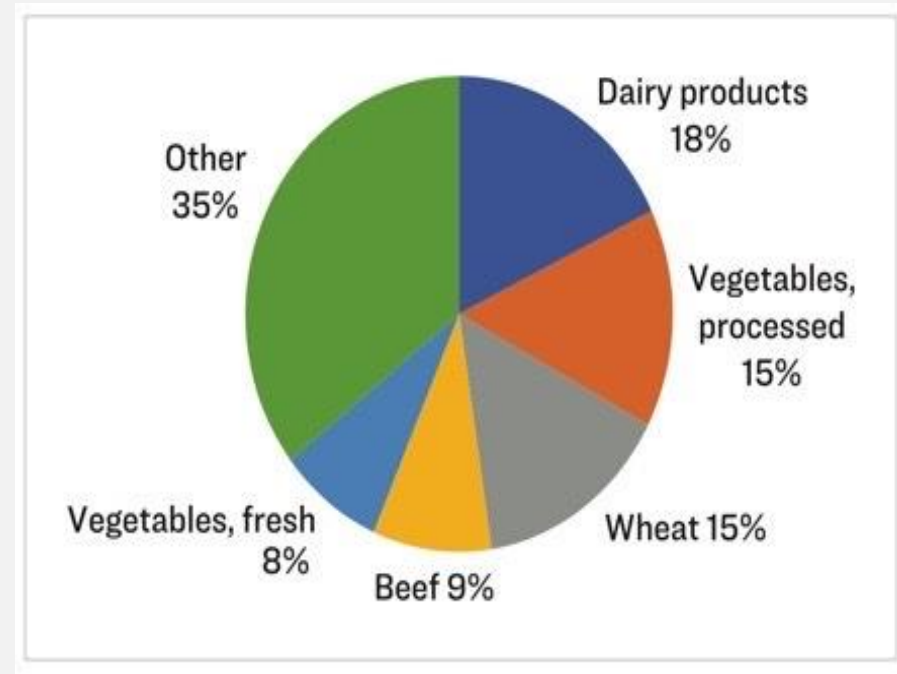
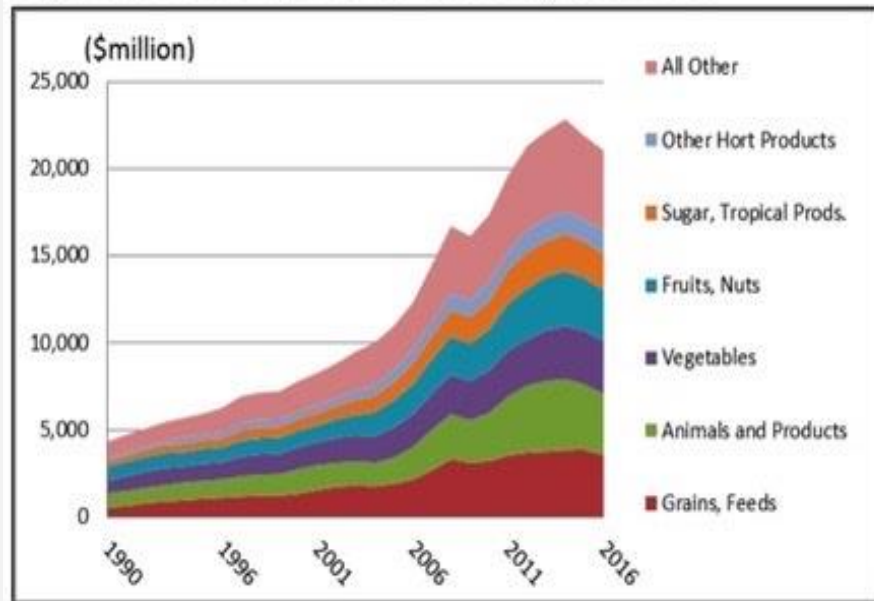


**Source:** CRS using USDA data for “Agricultural Products” as defined by USDA. Data are not adjusted for inflation.



# IDAHO AND CANADA: MORE OF WHAT THEY WANT

**Figure 2. U.S. Exports to Canada, 1990-2016**



## UNITED STATES AND CANADA:

### BARRIERS TO TRADE

- Tariff-Rate-Quota (TRQ)
  - Allows for the importation of products into Canada at reduced or tariff free rates.
  - When the import quota is met, future imports are subject to substantial, often prohibitive tariff rates. (many in excess of 200%)
- Canadian Dairy Supply Management System
  - “Class 7” price restrictions
- Discriminatory Wheat Grading
  - Prohibits fair grading of all foreign wheat in Canada
- Canadian Wheat Variety Registration System (VR)
  - A cumbersome process that restricts wheat varieties grown and sold in Canada

# TARIFF RATE QUOTAS: U.S. v. CANADA

## UNDER NAFTA CANADA MAINTAINED TRQ'S ON:

- Dairy
  - Fluid milk, skim milk
  - Cheese, cream
- Poultry
  - Meat chickens and Turkeys
  - Egg products
  - Broiler hatching eggs

## UNDER NAFTA U.S. MAINTAINED TRQ'S ON:

- Sugar
  - “sweetened products”
- Cotton
- Peanuts

# CANADIAN DAIRY TRQs AND THE USMCA

- Under the USMCA Canada has agreed to increase market access for U.S. dairy produces
  - Many TRQs have been changed from “global WTO allocations” to U.S. specific allocations
  - TRQs generally have been increased
  - Over-quota tariffs have been reduced to Canada’s Most Favoured Nation (MFN) rates under its commitments to the World Trade Organization (WTO)
    - These rates are still quite high- upwards of 200%
- Fluid milk
  - Under NAFTA fluid milk TRQ was designated solely for cross-border retail sales (a gallon of milk from the store)
  - Under USMCA up 85% of the TRQ for fluid milk is set aside for “bulk milk” importation

CANADIAN  
DAIRY  
TRQS  
UNDER THE  
USMCA

	Tariff Rate Quotas (TRQs)	Tariff Rate, %
<b>NAFTA commitments continue:</b> Tariffs eliminated for almost all agricultural products under NAFTA		0
<b>NAFTA liberalization exemption:</b> Dairy and poultry imports into Canada	TRQs opened under WTO commitments	0 in-quota; WTO MFN over-quota tariffs
<b>Dairy, U.S.-specific TRQs, in addition to TRQs under WTO, proposed by Canada</b>		
Fluid milk TRQ begins at 8,333 MT and increases by 1% each year for 13 years after year 6	50,000 MT by year 6, 56,905 MT by year 19	0 in-quota; WTO MFN over-quota >200%
Skim milk powder TRQ begins at 1,250 MT and increases by 1% each year for 13 years after year 6	7,500 MT by year 6	0 in-quota; WTO MFN over-quota >200%
Cheese TRQ begins at 2,084 MT and increases by 1% each year for 13 years after year 6	12,500 MT by year 6	0 in-quota; WTO MFN over-quota >200%
Cream TRQ begins at 1,750 MT and increases by 1% each year for 13 years after year 6	10,500 MT by year 6	0 in-quota; WTO MFN over-quota >200%
Whey TRQ begins at 689 MT and increases by 1% each year after year 6, until year 10	4, 135 MT by year 6	0 after year 10
Other dairy products (butter and cream powder, concentrated and condensed milk, yogurt and buttermilk, powdered buttermilk, ice cream, other dairy and margarine) begins at 2,561 MT and increases by 1% each year for 13 years after year 6	15,365 MT by year 6	0 in-quota; WTO MFN over quota >200% Margarine, 0 after year 5

# CANADIAN DAIRY SUPPLY MANAGEMENT SYSTEM

- The “Three Pillars” of the supply management system
  - Production Control
    - Canadian Dairy Commission (CDC) set national production quota levels based off provincial demand.
  - Pricing Mechanism
    - The CDC sets minimum guaranteed prices via collective negotiation with farmers and provincial marketing boards.
  - Import Control
    - Restrict imports on dairy by establishing TRQs and establishing over-quota tariffs that make over-quota imports “prohibitively expensive”.

# CLASS 7 PRICING

- Production Control
  - In 2017 the CDC saw an increased demand for butter; using its authority to establish production quotas, it increased milk production to meet increased demand for butter
    - Increased butter production led to an increase in skim milk (a bi-product of butter production).
- Pricing Mechanism
  - The increase in skim milk caused the CDC to set the price level for skim milk below market prices
  - This led to an increase in Canadian global exports of skim milk, below market prices, injuring U.S. skim milk producers on the international market.
- Under the USMCA Canada has agreed to end its “Class 7” price scheme.



## POULTRY TRQs

- Canada operates a supply management system for poultry that is very similar to its dairy management system.
- It uses TRQs to limit poultry imports into Canada
- Under USMCA Canada has agreed to increase TRQs for its poultry markets

CANADIAN  
POULTRY  
TRQS  
UNDER THE  
USMCA

**Poultry Products, New TRQs proposed by Canada**

Chicken meat, to increase by 1% each year for 10 years after year 6	47,000 MT in year one, reaching 57,000 MT by year 6	0 in-quota; WTO MFN over-quota >200%
Turkey meat, TRQ increase restricted to ≤ 1,000 MT after year 10	≥ 3.5% of Canada's previous year's domestic production	0 in-quota; WTO MFN over-quota >200%
Eggs and products (eggs and egg-equivalent), to increase by 1% for 10 years after year 6	1.67 million dozen in year one, reaching 10 million dozen in year 6	0 in-quota; WTO MFN over-quota >163%
Broiler hatching eggs and chick products	≥ 21.1% of Canada's domestic production for that year	0 in-quota, >200% over quota

# NON-TARIFF BARRIERS TO WHEAT

- The Canadian Grain Act (CGA) and the Canadian Grain Commission (CGC):
  - Responsible for grading grain in Canada
  - The CGC is prohibited from issuing an “inspection certificates” to non-Canadian wheat.
    - Under NAFTA U.S. grain imported into Canada was only eligible for the lowest available grade, “feed grade”.
- Canadian Wheat Varietal Registration System:
  - Cumbersome bureaucratic system of establishing wheat varieties that can be planted and sold in Canada.
  - Establishes a de facto ban on U.S. wheat, as the U.S. system outpaces the Canadian system.

# WHEAT GRADING UNDER THE USMCA

- The Canadian Grain Act (CGA) and its promulgated regulations have established an implicit ban on non-Canadian grown wheat.
  - Inspectors can only grade “*Canadian grain*”
  - And must state where the grain was grown in “*Canada*”, eastern western province
  - Foreign grains are prohibited from receiving inspection certificates.
- USMCA Article 3.A.4: Grain
  - “Each party shall accord to originating wheat imported from the territory of the other Party treatment no less favorable than that it accords to like wheat of domestic origin with respect to the assignment of quality grades...”

# CANADIAN WHEAT VARIETY REGISTRATION

- Established in 1905 in response to American seed salesmen advertising wheat seed capable of producing 100 BU per acer.
- Today it operates as a barrier to wheat importation into Canada.
  - The recommending committee (RC) established testing parameters for “merit assessment”
    - Manufactures must demonstrate their variety has “merit”
    - If the variety is found to have “merit,” it is then subjected to registration testing and must undergo 2-3 years of field trials to determine if the variety conforms to specifications of the designated variety
- Varieties not registered are not authorized for sale in Canada

## CANADIAN WHEAT VARIETY SYSTEM: THE END RESULTS

- The Canadian wheat VR lags behind the U.S.'s system
  - Almost none of the wheat currently grown in the U.S. is found on the Canadian VR
    - Canada has approximately 340 wheat varieties, while the U.S. has thousands
    - Of the 340 varieties only 56 are of U.S. origin
    - Of these 56 only 20 are currently grown by U.S. farmers
    - Of those 20 currently grown in the U.S. only 2 are grown by northern states
  - Wheat exports to Canada account for 0 % of U.S. exports to Canada

**Table 3. Major U.S. Agriculture Exports to Canada**  
Millions U.S. dollars, selected October 1-September 30 fiscal years

	1990	1995	2009	2016	2017	2018	% Share of Total U.S. Ag Exports, FY2018 <sup>a</sup>
<b>Total agriculture</b>	3,730	5,895	15,541	20,392	20,442	20,569	14
<b>Total consumer oriented</b>	2,565	4,361	11,835	16,374	16,291	16,127	24
Prepared food	126	487	1,355	1,904	1,891	1,876	31
Fresh vegetables	463	755	1,472	1,868	1,850	1,834	72
Fresh fruit	520	578	1,353	1,639	1,594	1,555	33
Snack foods	147	337	1,042	1,333	1,346	1,360	51
Tree nuts	59	82	256	596	639	674	8
Pork and pork products	26	49	521	782	797	763	12
Dairy products	29	67	329	589	672	627	11
Beef and beef products	270	379	629	765	789	768	9
Poultry meat and products	111	165	433	527	468	428	10
Eggs and products	26	32	70	119	92	120	20
Wine and beer	47	79	334	589	593	588	26
Nonalcoholic beverages	74	197	757	1,178	1,093	1,078	54
Corn	69	115	300	153	107	263	2
Soybeans	63	17	121	99	134	163	1
Rice	45	62	177	149	148	165	10
<b>Wheat</b>	<b>0</b>	<b>0</b>	<b>12</b>	<b>15</b>	<b>19</b>	<b>20</b>	<b>0</b>
Pulses	8	6	41	70	139	79	13
Live animals	73	128	92	114	176	280	33
Sugar and sweeteners	126	129	252	418	412	389	27
Distillers grains	1	2	117	95	109	121	5

Source: U.S. Census Bureau Trade Data, BICO-HS10, accessed from fas.usda.gov/gats March 5, 2019.

Notes: Data are not adjusted for inflation. As defined by USDA, consumer-oriented products includes meats, fruit, vegetables, processed food products, beverages, and pet food.

a. "% share" reflect the Canadian market share of total global U.S. exports in each category.

**Table 4. Major U.S. Agriculture Exports to Mexico**  
Millions U.S. dollars, selected October 1-September 30 fiscal years

	1990	1995	2009	2016	2017	2018	% Share of Total U.S. Ag Exports, FY2018 <sup>a</sup>
<b>Agricultural products</b>	2,671	3,720	13,325	17,618	18,608	18,845	13
<b>Total consumer oriented</b>	553	1,156	5,135	8,073	8,326	8,590	13
Fresh vegetables	11	30	145	111	110	148	6
Fresh fruit	31	89	361	510	543	616	13
Snack foods	27	40	181	293	292	306	12
Tree nuts	10	20	144	265	251	358	4
Pork and pork products	71	104	719	1,283	1,521	1,421	22
Dairy products	75	130	657	1,186	1,350	1,346	24
Beef and beef products	102	164	933	1,021	969	1,036	13
Poultry meat and products	50	183	574	948	923	950	22
Eggs and products	8	15	30	173	172	169	28
Wine and beer	10	17	100	185	186	189	8
Nonalcoholic beverages	6	40	77	131	127	123	6
Corn	528	355	1,586	2,541	2,588	2,835	25
Soybeans	217	413	1,362	1,366	1,607	1,667	8
<b>Wheat</b>	<b>46</b>	<b>116</b>	<b>595</b>	<b>528</b>	<b>923</b>	<b>619</b>	<b>12</b>
Cotton	39	186	390	334	401	372	6
Rice	62	73	346	258	289	261	16
Live animals	85	66	77	113	135	119	14
Sugar and sweeteners	92	58	301	614	623	697	48
Distillers grains	0	3	252	357	361	422	18

Source: U.S. Census Bureau Trade Data, BICO-HS10, accessed from fas.usda.gov/gats 5 March 2019.

Notes: Data are not adjusted for inflation. As defined by USDA, consumer-oriented products includes meats, fruit, vegetables, processed food products, beverages, and pet food.

a. "% Share" reflect the Mexican market share of total global U.S. exports in each category.

# U.S. WHEAT EXPORTS TO CANADA AND MEXICO

## CLOSING:

- All agricultural products between the U.S. and Mexico will continue to enjoy no tariffs
- The overwhelming majority of agricultural product between U.S. and Canada enjoy zero tariffs
  - Areas that maintained tariffs saw an increase TRQs that will lead to increased market access for U.S. producers
- Wheat grading system was improved; however, its impact will likely be limited by Canada's VR system
- Maintaining and expanding markets for U.S. agriculture are increasingly important as U.S. population growth slows
- As the relationship between China and U.S. evolves, having redundant supply chains and alternative markets is of increasing importance.
- USMCA will likely serve as a template for future bi-lateral agreements
- The USMCA creates new international law that should measurably benefit Idaho's agriculture