

Renewal or Failure? - NAFTA in Perspective

MIKE GIFFORD

CAES POLICY CONFERENCE

OTTAWA, JANUARY 25, 2018

CUSTA/NAFTA Agriculture: Products of a Different Time

- ▶ CUSTA – import quotas, variable import levies, export subsidies the norm
- ▶ NAFTA – trade distortions under negotiation in Uruguay Round but UR outcome not yet clear
- ▶ Post-Uruguay Round – EU Common Agricultural Policy reformed, export subsidies to be eliminated
- ▶ Recognition that certain types of domestic policies incompatible with free trade

Evolution of US Position, Uruguay Round Disciplines

- ▶ In CUSTA US wanted to continue Section 22 import quotas
- ▶ Canada wanted to continue GATT Art. XI import quotas
- ▶ In NAFTA US wanted to eliminate all import quotas – deal with Mexico impossible without
- ▶ In NAFTA Canada said keep quotas to protect our position in Uruguay Round
- ▶ Uruguay Round “tariffied” import quotas, variable import levies, etc. into TRQ’s

Agricultural Market Access in NAFTA

- ▶ Three bilateral market access agreements
 - (1) CUSTA all tariffs eliminated, except for TRQ products
 - (2) US/Mexico all tariffs eliminated, no TRQ's (but trade remedies - sugar & tomatoes!)
 - (3) Canada/Mexico all tariffs eliminated, except TRQ products

Is NAFTA Sustainable?

- ▶ Canada insists TRQ's necessary for supply management
- ▶ US wants to remove Cdn. TRQ's, what about US TRQ's on sugar, dairy, cotton and peanuts (equivalent political pain)?
- ▶ US uses threat of anti-dump/countervailing duties to impose price and volume undertakings on sugar from Mexico – duty free in theory but in practice?

Certain Domestic Agr. Policies Incompatible with Free Trade

- ▶ US sugar program requires contingency protection to survive
- ▶ Canadian supply management requires TRQ's to survive
- ▶ Cannot maintain domestic prices above external prices without some form of ongoing import protection

Domestic Policy Reform Likely?

- ▶ Absolutely no signs that either country prepared to reform sensitive sectors
- ▶ In absence of trade friendly domestic policy reform, what is possible?
- ▶ TRQ expansion, improved disciplines on technical regulations and SPS regulations, resolve as many trade irritants as possible

Lots of Landing Areas for Pragmatic Agr. Package

- ▶ However, agriculture not only problem – extreme US demands - auto rules of origin, Article 19 dispute settlement, five year “sunset” etc.
- ▶ Possibility that negotiations break-down and US withdraws from NAFTA
- ▶ What happens?

Three Failure Scenarios if US withdraws from NAFTA

(1) *The Good*: NAFTA continues between Canada and Mexico, US reverts to CUSTA

(2) *The Bad*: US also withdraws from CUSTA, NAFTA continues between Canada/Mexico, Canada/Mexico MFN trade with US

(3) *The Ugly*: NAFTA terminated, all countries revert to MFN commitments

US Agr Has Most to Lose

10

- ▶ Canada/US MFN tariffs around 4%, a few tariff peaks
- ▶ However, Mexican MFN tariffs average over 10% with many tariff peaks
- ▶ Loss of preferences in Mexico biggest hit for US
- ▶ Mexico number one or two for US exports of beef, pork, poultry, dairy, fructose syrup, wheat and corn

Impact on Canada – Mainly Modest

- ▶ Most US tariffs low or free, a few tariff peaks, e.g. fresh mushrooms
- ▶ Better able to compete, world class red meat and oilseed plants, improved grain/oilseed handling/transportation
- ▶ Beef a special problem for both US and Canada – TRQ's almost fully allocated
- ▶ Largest difficulty for Canadian food processing, revert to pre-CUSTA branch plant problems?

Concluding Comments

- ▶ Completing CUSTA not in cards now
- ▶ TRQ expansion like Cda/EU and TPP, improved disciplines on tech regs. and SPS, resolve most trade irritants – doable
- ▶ Successful renegotiation in interest of all
- ▶ Failure bad for all, worse by far for US agriculture
- ▶ Failure - worse for agric. processing in Canada – effect on investment

Do no harm, do some good

In absence of political will for fundamental domestic policy reform which facilitates sustainable free trade, only sensible option is to settle for incremental, but nevertheless worthwhile, progress over the status quo.

Canada has EU-FTA, expects TPP-11 soon, can live with NAFTA failure but US agric. will pay a much greater price!