



United States Department of Agriculture

Key Issues in North American Agricultural Trade Policy

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The NAFTA renegotiations:

A unique moment for agricultural economists

- From a historical standpoint: A chance to reflect on NAFTA, its provisions, and their impact
- From a policy standpoint: A unique combination of new and ongoing issues and of differing viewpoints
- From an academic standpoint: Intersection with many economic disciplines, including trade economics, labor economics, game theory, and industry- and country-specific studies

In this presentation, I will review some of the literature on NAFTA's impact on the North American economy, summarize the objectives of the NAFTA countries in the current renegotiations, and examine specific objectives in the areas of market access and dispute resolution.

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NAFTA's impact on the North American economy

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Trade liberalization and regulatory coordination under NAFTA have facilitated growth in intrarregional agricultural trade

When adjusted for inflation, total intrarregional agricultural trade in 2017 was 239 percent larger than in 1993 and 475 percent larger than in 1989

Since 2014, little growth in total U.S.-Canada agricultural trade and U.S. agricultural exports to Mexico, but U.S. agricultural imports from Mexico have continued to grow

Since 2014, the United States has had an agricultural trade deficit with Canada and Mexico

Zahniser (2017): Five factors explain much of this deficit: (1) lower commodity prices, (2) citrus greening, (3) continuing growth of Mexican produce exports, (4) further expansion of Canadian rapeseed sector, and (5) end of Mexican sugar re-export program.

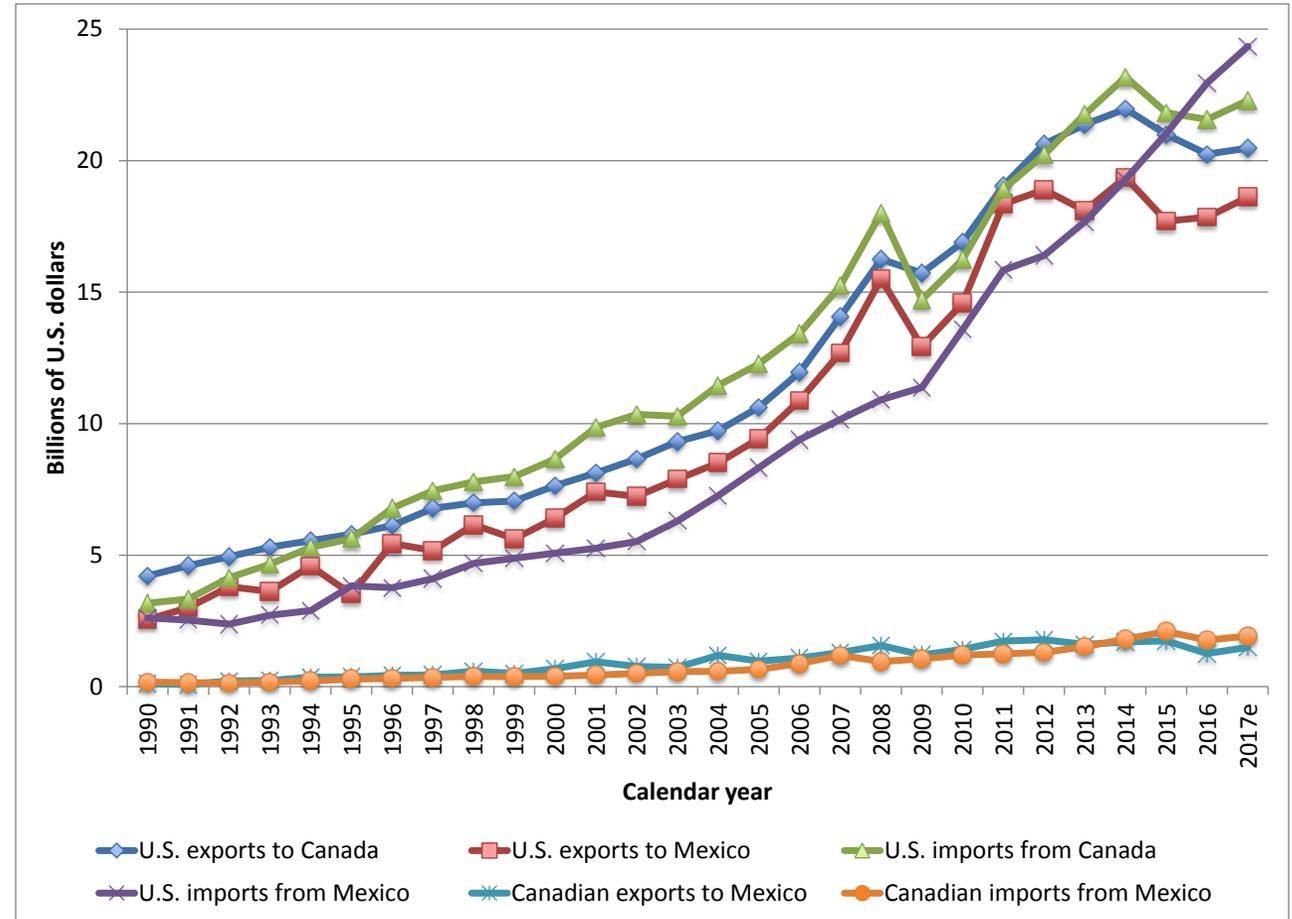


Chart depicts agricultural trade (as defined by USDA) in nominal terms.

Trade values for latest 12 months reported (December 2016 to November 2017) used as estimate for 2017 trade values.

Sources: U.S. Census Bureau data, as compiled by USDA, Foreign Agricultural Service; and Statistics Canada data, as compiled by IHS Markit.

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Intraregional trade in nonagricultural products also has grown during the NAFTA period

Intraregional trade in nonagricultural products grew from \$349.7 billion in 1995 to \$916.6 billion in 2016, an increase of 85 percent in real terms.

Intraregional nonagricultural trade:

- Much larger than intraregional agricultural trade—by a factor of roughly 11 in 2016
- Has grown at a slower rate than intraregional agricultural trade
- Appears to fluctuate more widely in response to changes in macroeconomic growth, the exchange rate, and commodity prices.

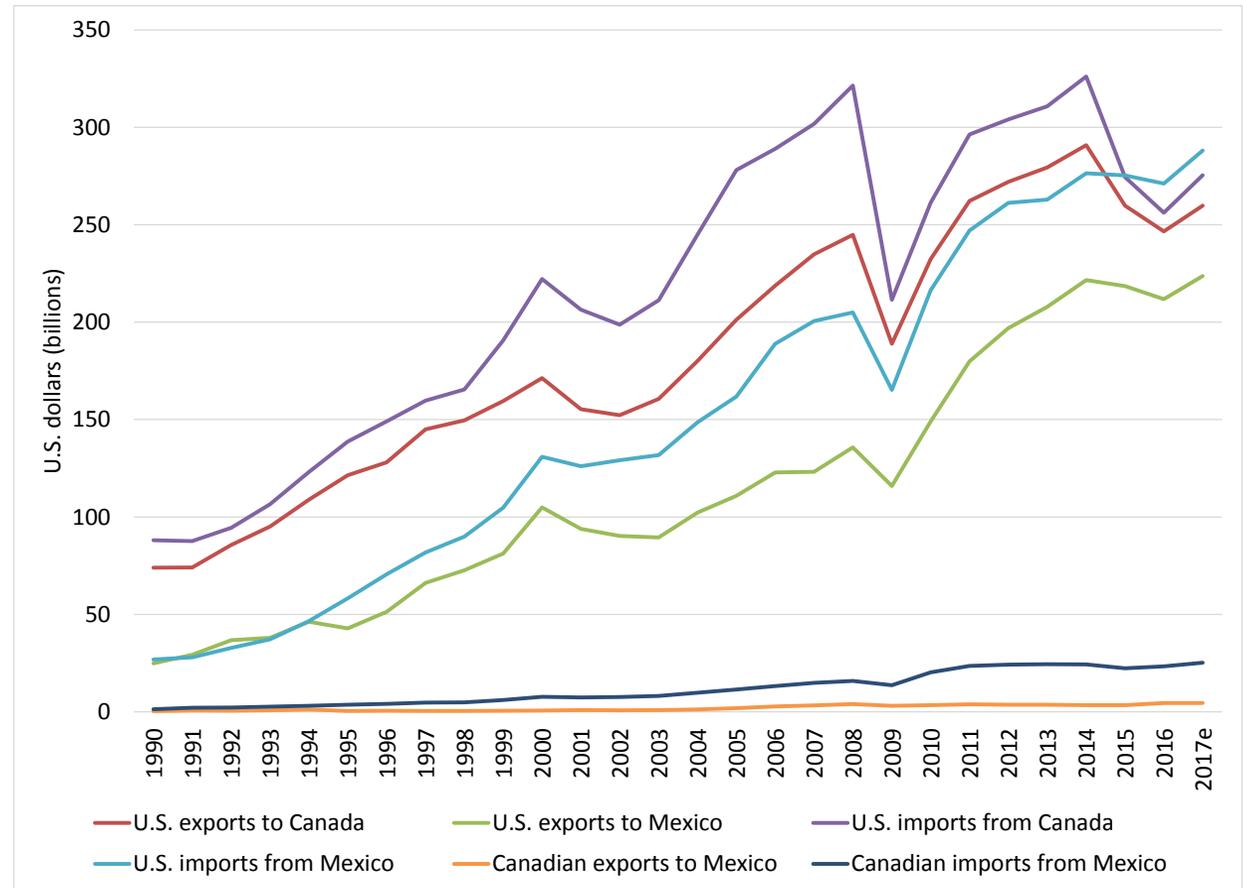


Chart depicts nonagricultural trade in nominal terms. Nonagricultural trade is obtained by subtracting agricultural trade from total merchandise trade. Trade values for latest 12 months reported (December 2016 to November 2017) used as estimate for 2017 trade values. Sources for merchandise trade data: U.S. Census Bureau data on U.S. trade; and Statistics Canada data on Canada-Mexico trade, as compiled by IHS Markit.

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Assessing NAFTA's economic effects (1/2)

A challenging task:

- Disentangling NAFTA's effects from those of other factors (automation, China's accession to the WTO)
- NAFTA's impact differs across sectors, making it difficult to develop comprehensive knowledge on this topic

For the U.S. economy as a whole, NAFTA's impact is found to be small, as trade with Canada and Mexico accounts for a small portion of U.S. GDP.

- Arnold (2003): NAFTA boosted U.S. GDP by a few hundredths of a percentage point between 1993 and 2001
- Caliendo and Parro (2015): NAFTA increased U.S. economic welfare by 0.08 percent between 1993 and 2005.
- U.S. International Trade Commission (USITC, 2016): Combined effect of all U.S. bilateral and regional free-trade agreements, as of 2012, was to increase U.S. GDP by 0.2 percent, employment by 0.1 percent, and real wages by 0.3 percent, and bilateral trade with partner countries by 26.3 percent.

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Assessing NAFTA's economic effects (2/2)

NAFTA's employment effects have differed across sectors of the U.S. economy:

- Between 1993 and 2015, the number of full-time, civilian jobs supported by U.S. agricultural exports to Canada and Mexico increased from about 175,000 to 309,000 (ERS's agricultural trade multipliers)
- Hamrick, et al. (2002) examine adjustments in the textile and apparel sectors, where employment dropped from an annual average of 1.7 million during 1990-93 to 1.4 million during 1994-99.
- USITC (2016): Bilateral and regional trade agreements as a group had a negative impact on employment levels and wages in the automotive industry. This impact is entangled with other explanatory factors such as technological advancements.
- Hakobyan and MacLaren (2016): Blue-collar workers in industries formerly protected by a high tariff against Mexican imports or whose Mexican share of imports rose quickly saw substantially lower wage growth than workers in other industries between 1990 and 2000. Methodological issues: their focus on import competition from Mexico rather than import competition overall; question of how increased market access for U.S. exports affected U.S. wages and employment was not addressed.

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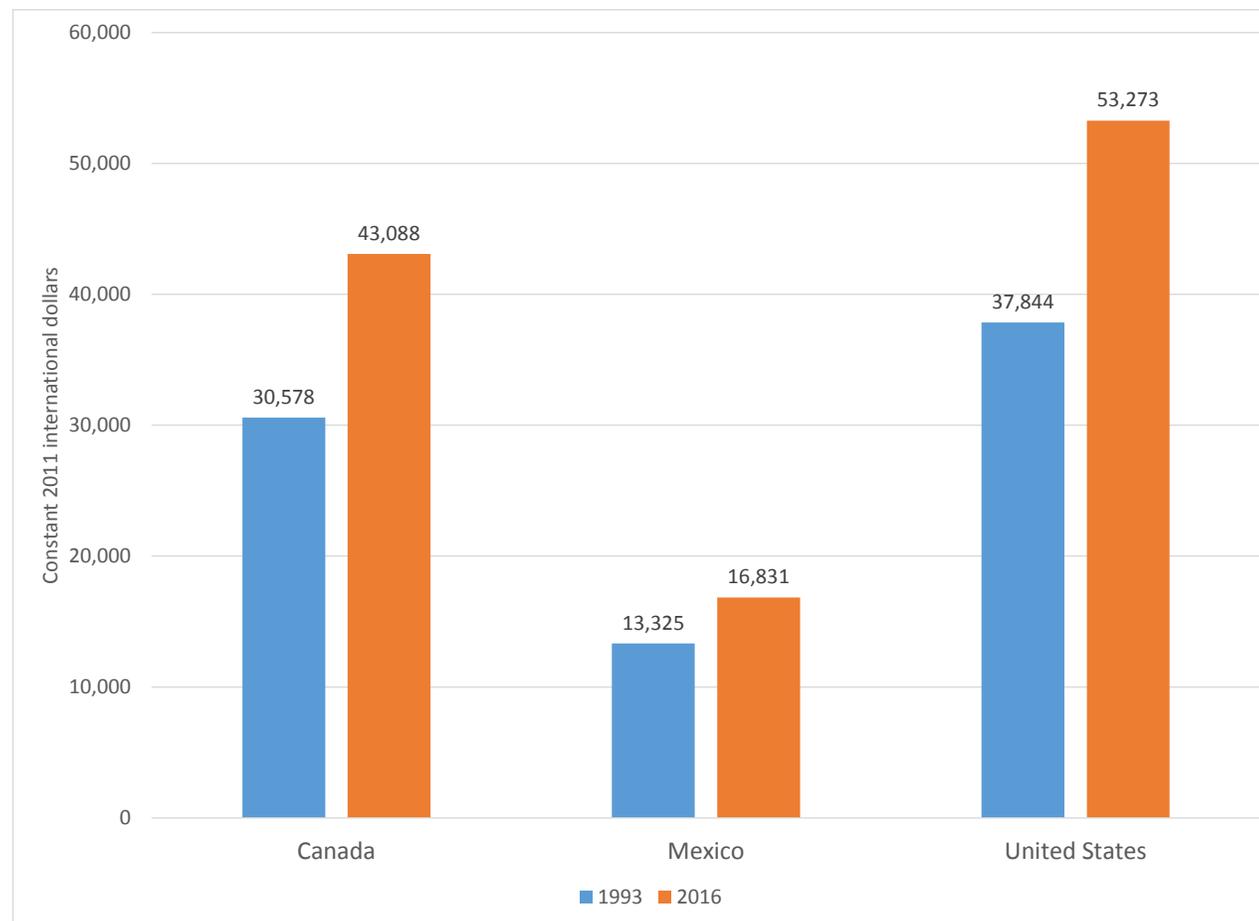


A widening gap in real per capita income between Mexico on the one hand and Canada and the United States on the other

Econometric analysis by Gandolfi, Halliday, and Robertson (2017) of the U.S.-Mexico wage differential between 1988 and 2011 finds little evidence of wage convergence.

Some observers believe that Mexico's economy has underperformed during the NAFTA period but point to explanatory factors other than NAFTA (see, for instance, Hanson, 2005).

Persistent wage gap may heighten the possibility that high-paying jobs in the production of traded goods are moved from the U.S. (or Canada) to Mexico.



Source: World Bank.

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Objectives of the NAFTA renegotiations

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Public consultation and openness

Each NAFTA country invited public comments to support the definition of NAFTA renegotiation objectives

- United States: June 14, 2017 deadline (extended once); 12,000 comments; public hearings on June 27-29, 2017
- Canada: July 18, 2017 deadline
- Mexico: June 26-July 26, 2017, done online, 613 responses, <https://www.gob.mx/se/articulos/reporte-de-la-consulta-publica-via-internet-sobre-la-modernizacion-del-tlcan?idiom=es>

Each NAFTA country announced its objectives to the public

Extensive press coverage of the renegotiations

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U.S. stated priorities

Office of the U.S. Trade Representative (USTR) published on its website an 18-page document entitled *Summary of Objectives Covering the NAFTA Renegotiation*.

- Required by Bipartisan Congressional Trade Priorities and Accountability Act of 2015
- First version issued in July 2017
- Updated version issued in November 2017
- Covers 22 topics, ranging from trade in goods to currency
- At the top of the list, under the topic “Trade in Goods,” “Improve the U.S. trade balance and reduce the trade deficit with the NAFTA countries”
- Many topics are related to agricultural trade: Trade in Goods, Sanitary and Phytosanitary Measures, Customs, Trade Facilitation, Technical Barriers to Trade, Good Regulatory Practices, Investment, Labor, Environment, Trade Remedies, Dispute Settlement
- This presentation will focus on trade in goods, trade remedies, and dispute settlement

Source: USTR (2017, <https://ustr.gov/sites/default/files/files/Press/Releases/Nov%20Objectives%20Update.pdf>).

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Mexico's stated priorities

A blog posted by Mexico's Secretariat of Economy on August 2, 2017, on its NAFTA website outlines the "Priorities of Mexico in the Negotiations for the Modernization of the Treaty of North American Free Trade"

- Strengthen the competitiveness of North America
- Advance toward inclusive and responsible regional trade
- Benefit from the opportunities of a 21st century economy
- Promote certainty in trade and investment in North America

Some details for each of these priorities

Source: México, Secretaría de Economía, <https://www.gob.mx/se/articulos/prioridades-de-mexico-en-las-negociaciones-para-la-modernizacion-del-tratado-de-libre-comercio-de-america-del-norte?idiom=es>

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Canada's stated priorities

Description of some “core objectives” in address by Canada’s Foreign Affairs Minister on August 14, 2017.

- Modernize NAFTA—emphasis on the technology sector and on “reap[ing] the full benefits of the digital revolution”
- Make NAFTA “more progressive”—adding strong labor standards, enhanced environmental provisions, chapters on gender rights and indigenous people; reforming the Investor-State Dispute Settlement process to ensure that governments have an unassailable right to regulate in the public interest
- Cutting red tape and harmonizing regulations
- A freer market for government procurement
- Easier movement of professionals
- “Uphold and preserve the elements in NAFTA that Canadians deem key” (dispute resolution regarding antidumping and countervailing duties, cultural preservation, supply management)

Source: Global Affairs Canada (2017, https://www.canada.ca/en/global-affairs/news/2017/08/address_by_foreignaffairsministeronthemodernizationofthenorthame.html).

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Market access

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Tariff and quota elimination

NAFTA eliminated almost all tariffs and quotas governing intraregional trade—one of the agreement’s signature achievements.

- U.S. objectives include keeping the “existing reciprocal duty-free market access” for both industrial and agricultural goods
- Mexican objectives include “maintaining the preferential access for Mexican goods and services in the markets of the NAFTA countries. In particular, to facilitate the access of agricultural products, searching for clear rules, expedited procedures, and the elimination of trade barriers.”
- Additional U.S. objectives: Eliminate remaining Canadian tariffs on U.S. dairy, egg, and poultry products and “to eliminate unjustified measures that unfairly limit access to Canada’s markets and unfairly decrease market access opportunities in third countries for U.S. dairy products, such as cross subsidization, price discrimination, and price undercutting.”

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A small but growing literature on the possible effects of a hypothetical end to NAFTA

Several researchers have used simulation modeling to explore the possible economic effects of a hypothetical withdrawal from NAFTA:

- Walmsley & Minor (2017), several other works are known to be underway but are still at the preliminary stage
- As a group, these studies suggest that a U.S. withdrawal from NAFTA would result in a decline in each NAFTA country's agricultural sales to the other NAFTA countries

Also, Zahniser, Hertz, & Argoti (2016) use a time-series model to estimate the impact of Mexico's retaliatory tariffs in conjunction with the U.S.-Mexico trucking dispute

- The retaliatory tariffs reduced U.S. sales of the covered agricultural products to Mexico by \$984 million (22%) during the 30 months that the tariffs were in effect (March 2009 to June 2012)

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Trade remedies and dispute resolution

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NAFTA's dispute resolution mechanisms

Chapter	Types of disputes covered	Key provisions	Agricultural examples
11	Investor-State	Arbitral panel (International Centre for the Settlement of Investment Disputes or New York Convention)	Mexican sales tax on sweetened beverages
14	Financial services	Arbitration by NAFTA Financial Services Committee or by Chapter 20's mechanism	None known
19	Antidumping (AD) and countervailing duty (CVD) measures	Final AD/CVD decision by national authority may be appealed to independent binational arbitral panel	Mexican imports of U.S. poultry meat
20	General interpretation or application of NAFTA	Arbitral panel drawn from roster of panelists; possible suspension of NAFTA trade benefits of "equivalent effect" until matter is resolved	U.S.-Mexico trucking

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NAFTA's approach to trade remedies and dispute resolution

Under NAFTA, member countries retain the right to apply their AD/CVD laws to imports from the other member countries.

NAFTA establishes a mechanism by which independent binational arbitral panels review final national AD/CVD determinations at the request of an industry.

A trilateral effort during the first decade of the 21st century to make NAFTA's dispute-resolution processes more efficient and effective

Use of suspension agreements to suspend trade remedy investigations and/or the application of AD/CVD duties (U.S. sugar imports from Mexico, U.S. fresh tomato imports from Mexico)

Road not taken:

To exempt intraregional trade from trade remedies

During the first NAFTA negotiations, Mexican negotiators had proposed that economic sectors would gradually be declared as "integrated" within the North American economy and then declared off-limits from antidumping allegations.

Knutson, Loyns, and Ochoa (2002) suggested that given that commodity prices are volatile and sometimes fall below the costs of production, the current approach to allegations of dumping is inappropriate for agriculture
Canada-Chile Free Trade Agreement exempts all bilateral trade from antidumping measures.

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Some objectives regarding dispute resolution focus on improving efficiency and transparency

Mexican objectives:

- “Modernize all the dispute settlement mechanisms ... in order to make them more agile, transparent, and efficient”
- “Improve the exchange of information among the authorities of the NAFTA countries”

U.S. objectives:

- Encourage early identification and settlement of disputes through consultation and other mechanisms.
- Establish a dispute settlement mechanism that is effective, timely, and in which panel determinations are based on the provisions of the Agreement and the submissions of the parties and are provided in a reasoned manner.
- Establish procedures to ensure that panels are composed in a timely manner and with the appropriate expertise.
- Establish a dispute settlement process that is transparent by:
 - Requiring that parties’ submissions be made publicly available
 - Requiring that hearings be open to the public
 - Requiring that final determinations by a panel be made publicly available
- Ensuring that non-governmental entities have the right to request making written submissions to a panel.

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Other objectives intersect with concerns about national sovereignty

Canadian objective regarding Chapter 11: “[E]nsure that governments have an unassailable right to regulate in the public interest.”

Several U.S. objectives:

- Preserve ability of United States to enforce rigorously its trade laws, including antidumping, countervailing duty, and safeguard laws.
- Provide mechanisms for ensuring that the Parties retain control of disputes and can address situations when a panel has clearly erred in its assessment of the facts or the obligations that apply.
- Eliminate NAFTA global safeguard exclusion so that it does not restrict ability of United States to apply measures in future investigations.
- Eliminate Chapter 19 dispute settlement mechanism (Canada seeks to retain this mechanism, and the Mexican Congress issued a non-binding resolution in support of its retention.)

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Perishable and seasonal products

U.S. objective: “Seek a separate domestic industry provision for perishable and seasonal products in AD/CVD proceedings.”

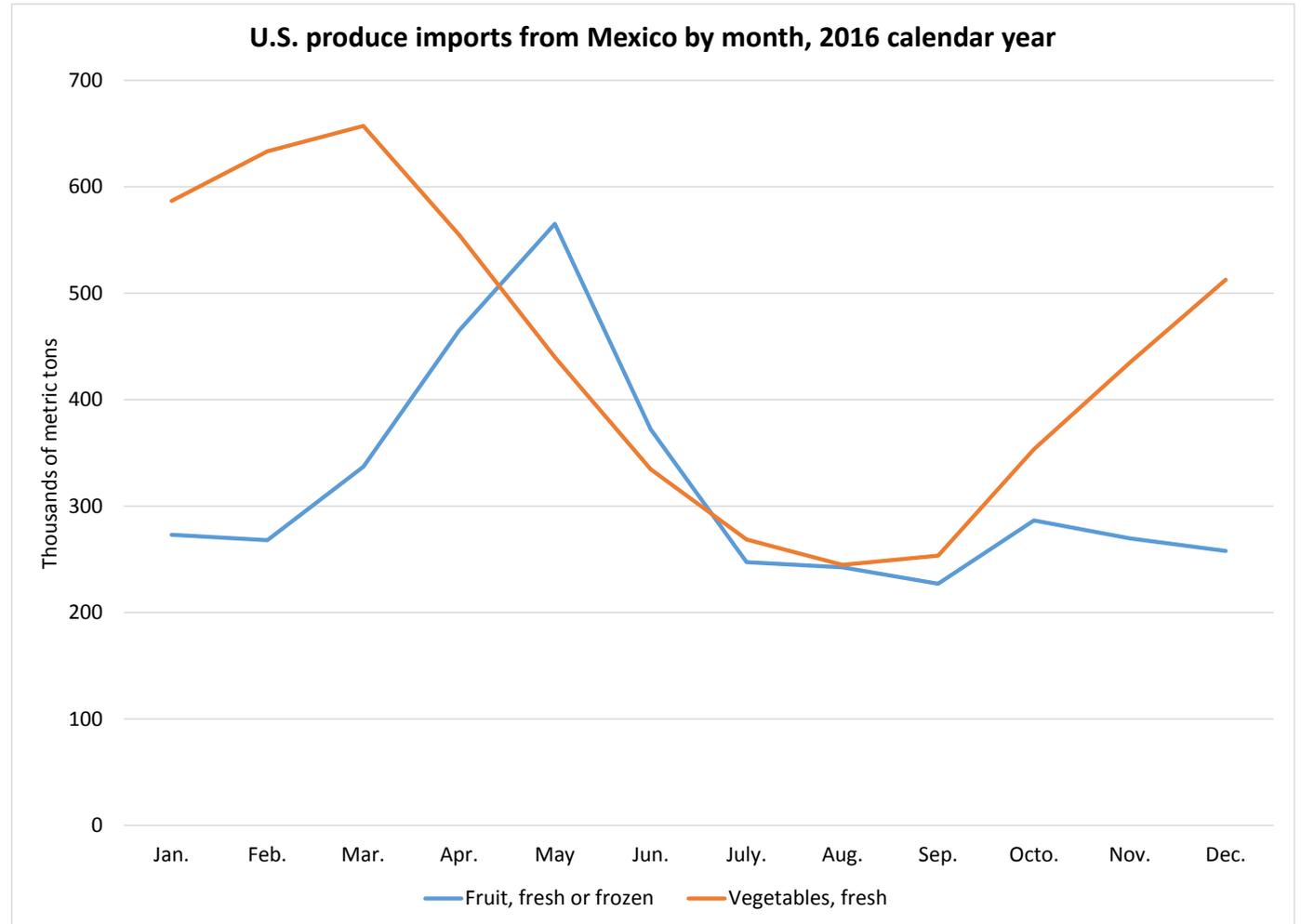
U.S. produce imports vary seasonally.

Many of the produce tariffs phased out by NAFTA varied on a seasonal basis.

Some participants in U.S. produce industry have expressed concern that AD/CVD rules are too restrictive for them to utilize these remedies:

WTO AD Agreement:

- Period of investigation may not be less than 6 months
- Limited ability to define a regional industry



Source: U.S. Census Bureau data, as compiled by USDA, Foreign Agricultural Service.

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Conclusion

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Conclusion

- The NAFTA renegotiations are unique in terms of the issues addressed, the viewpoints of the negotiating parties, the promise of an improved NAFTA, and the possibility that NAFTA could end.
- The renegotiations have been marked by a fair degree of openness.
- The economic literature suggests that NAFTA has had a large positive effect on intraregional trade and a small positive influence on U.S. GDP, but a negative effect on wages and employment in certain sectors of the U.S. economy.
- Among the issues under consideration in the NAFTA renegotiations are some of direct relevance to the agricultural and food sectors, including in the areas of market access, trade remedies, dispute resolution, and regulatory coordination.

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Questions and discussion

Thank you!

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“NAFTA Initialing Ceremony, October 1992”

Source: George Bush Presidential Library (1992, Wikimedia Commons).

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