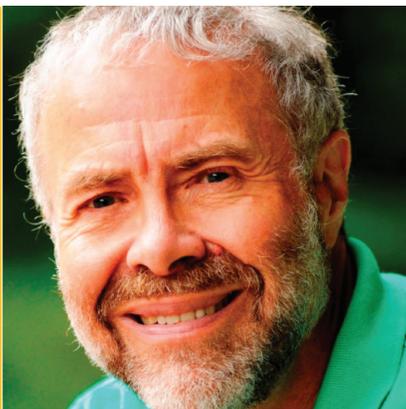


# Canadian Agriculture and NAFTA Renegotiation



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After many decades of new trade negotiations to reduce trade barriers, and trade agreements where we try to anticipate the effects of reduced protection, it is a new challenge to anticipate shifts in the reverse direction. However, in some ways this challenge is not so new. Many times countries change policies or regulations that have the effect of adding protection to a sector. Exporters to that country then have to anticipate the effects of reduced exports and various losses, but on a commodity-by-commodity basis. In this latter situation, the case will often end up in some dispute settlement process, such as at the WTO, whereas the renegotiation or dismantling of a trade agreement would be outside those legal challenges, assuming the changes do not violate existing WTO rules.

In this case of Trump's declared interest in renegotiating or dismantling NAFTA, we discuss four issues, despite the unusual level of uncertainty about intention and actions. The first is what does this administration really want to do? To what extent does it wish to break up NAFTA? The second is what will be the likely responses faced in moving from plan to action, from domestic lobbies, civil servants and advisors, all bringing different information to the decision process. A third issue is what are some changes that could be introduced, and fourth, what would be the effects on Canada of those moves? We leave aside possible Canadian responses.

At a minimum, it seems clear that there will be changes to NAFTA. But NAFTA is largely three bilateral agreements, one between the US and Mexico, one between Mexico and Canada, and the third between the US and Canada. That latter agreement is the CUSTA, the Canada-US Trade Agreement. The language so far has emphasized Mexico, so it is plausible that the focus of the new administration will be on that bilateral. However, it is difficult to believe that in 'renegotiating NAFTA' the CUSTA will be unaffected.

Much has been made of the idea that Trump does not wish to break up NAFTA, that this will only be the result if his partners do not negotiate, but that he wishes to show his prowess in renegotiating the agreement to make it better for the US. Given the large gains in Canada and Mexico, this tactic is a good illustration of the hold-up problem, where Canada and Mexico would be willing to make a number of deals to prevent the larger loss of abandoning the whole agreement. However, it is also entirely possible that Trump will make only minor changes and even some that would be beneficial to all three countries.

If Trump moves strongly to abandon NAFTA, it is quite likely that pressures will mount from all groups and sectors in the US who have gained from the NAFTA, trying to convince the administration of the foolishness of such a move. This would involve more than the obviously affected sectors where US



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exports have grown from NAFTA. It would include firms importing intermediate inputs whose lowered costs have increased their exports and their domestic market competitiveness, to say nothing of the resultant lowering of their output prices. It would also include those firms and organizations that make use of general NAFTA provisions such as for the in-migration of needed short-term skilled and professional labour.

***“The most prominent defensive interests for Canada would be in the area of dairy sector policies.”***

What kind of changes might be anticipated that would affect Canadian agriculture? The most prominent defensive interests for Canada would be in the area of dairy sector policies. NAFTA only ‘exempts’ dairy from the agreement but offers no additional protection. There are dairy interest groups within the US who might like to take the opportunity of renegotiating NAFTA to achieve the kind of opening up of the Canadian dairy market to imports that were largely not achieved in the TPP negotiation. But more likely would be an aggressive stance against any efforts by Canada to export nonfat solids, even though these may be in a real economic sense without subsidy, if current planning within the industry comes to fruition. These trade policy challenges in dairy are potentially serious, quite independently of changes to the NAFTA (or CUSTA). They will have to be addressed by Canada unilaterally and will likely be more significant than any changes in NAFTA.

Other Canadian commodities, typically on an export basis, could potentially face losses if the NAFTA is broken up. It would be presumed that without NAFTA (and CUSTA), we would revert to MFN tariffs, which in many cases are zero

but in some others would represent an added barrier and export reductions. The scale of exports to the US for red meats, \$1.4 billion for pork and \$2 billion for beef and veal, plus another \$1.7 billion in live cattle and hogs give some indication of what is at stake and the market integration that has occurred. Although pork exports are well diversified by country, the beef sector is not, and has just recovered from the reduced exports arising from the COOL dispute. Given the relatively modest changes in tariffs when the NAFTA was adopted, any NAFTA changes likely will be overshadowed by exchange rate changes or ad hoc regulatory challenges like COOL.

In grains, the general situation is similar. NAFTA is judged ([https://www.ers.usda.gov/webdocs/publications/wrs991a/32066\\_wrs-04-14-2000\\_nafta\\_commodity\\_supplement\\_002.pdf](https://www.ers.usda.gov/webdocs/publications/wrs991a/32066_wrs-04-14-2000_nafta_commodity_supplement_002.pdf)) to have had small effects on barley and other course grain items, even though total trade values are fairly substantial at \$0.6 B (2012-2015 average, barley, malt, and oats). Wheat is the largest cereal crop export to the US at \$1.1 B ((2012-2015 average, wheat, flour and products), double the exports of course grains. Here it has also been judged (USDA, above) that NAFTA has encouraged some increase in exports with trade opening to more north-south traffic due to locational advantages, but that these trade flow changes are much smaller than those due to weather and exchange rate changes.

***“... fears from some changes in NAFTA can easily be exaggerated.”***

Without addressing each commodity in detail and just touching the major ones, fears from some changes in NAFTA can easily be exaggerated. Agricultural trade flows will very likely be dominated by exchange rate changes, weather, and opportunistic trade remedy or regulatory interventions, rather than NAFTA changes.

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