



Global Trade Analysis Project



# The United States-Mexico-Canada Agreement (USMCA) and Impacts for U.S. Agriculture

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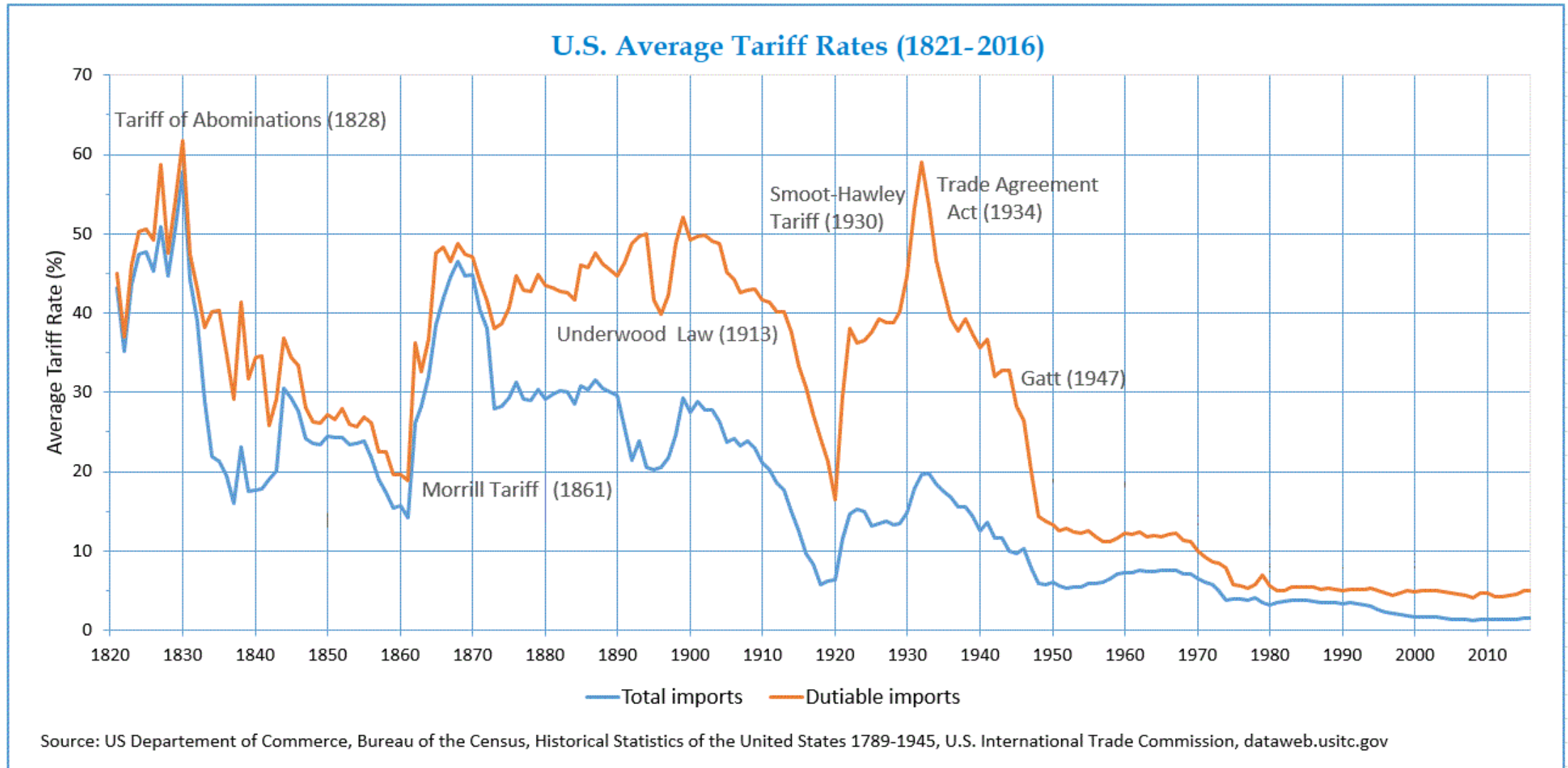
Farm Foundation Forum  
31 October, 2018, National Press Club, Washington, DC

# Introduction

- **USMCA consolidates gains of NAFTA-1.0 with modest improvements in market access**
- **Nonetheless, farmers are facing strong headwinds as U.S. trading partners react to rising U.S. tariffs**
- **Dissolution of NAFTA could be costly for U.S. agricultural interests**

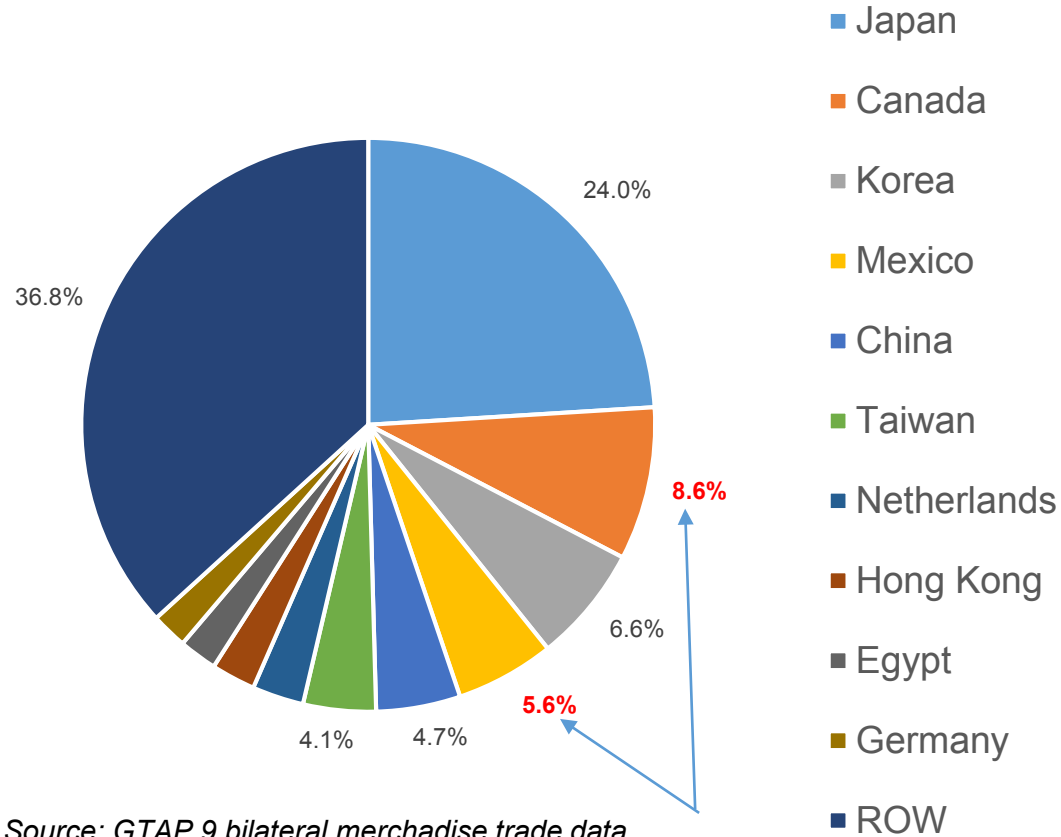
# An Historical Perspective

# Since World War II, U.S. tariffs have been on a sharp downward trajectory



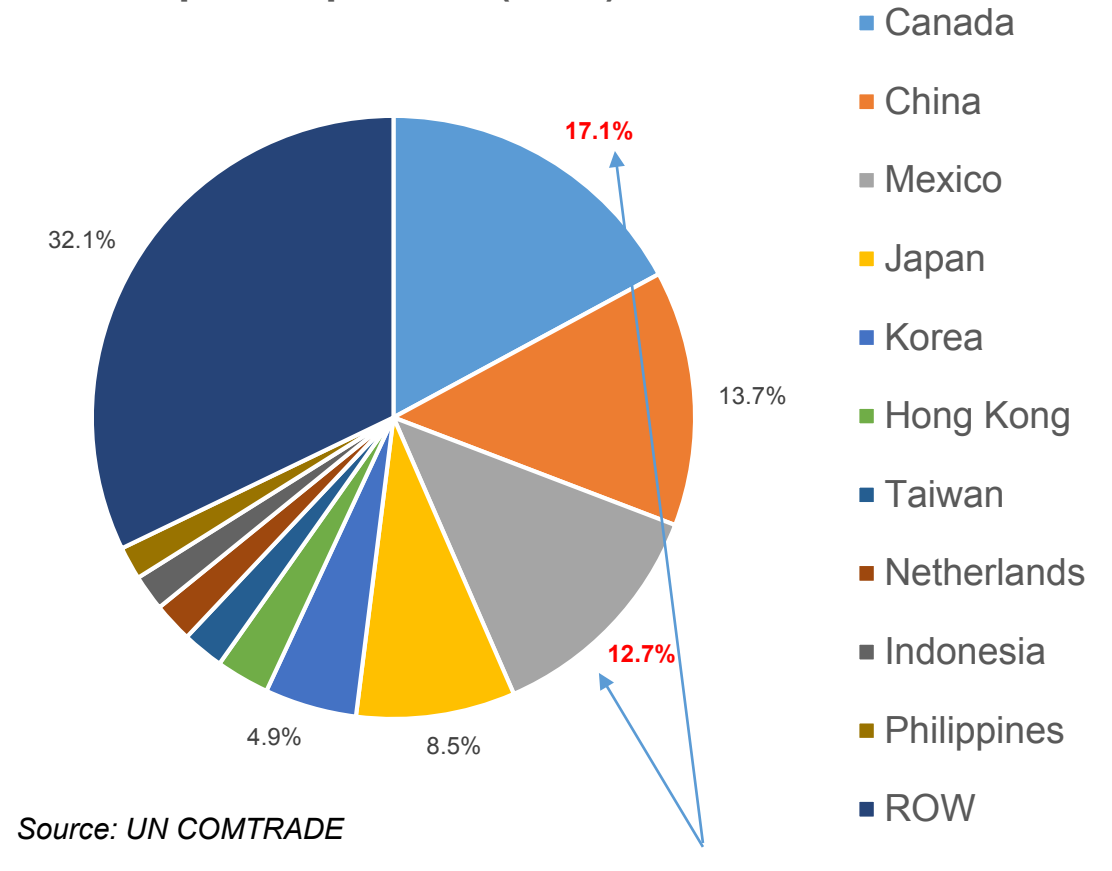
# Canada and Mexico have doubled their share in U.S. agricultural exports

Top 10 importers (1995)



Source: GTAP 9 bilateral merchandise trade data

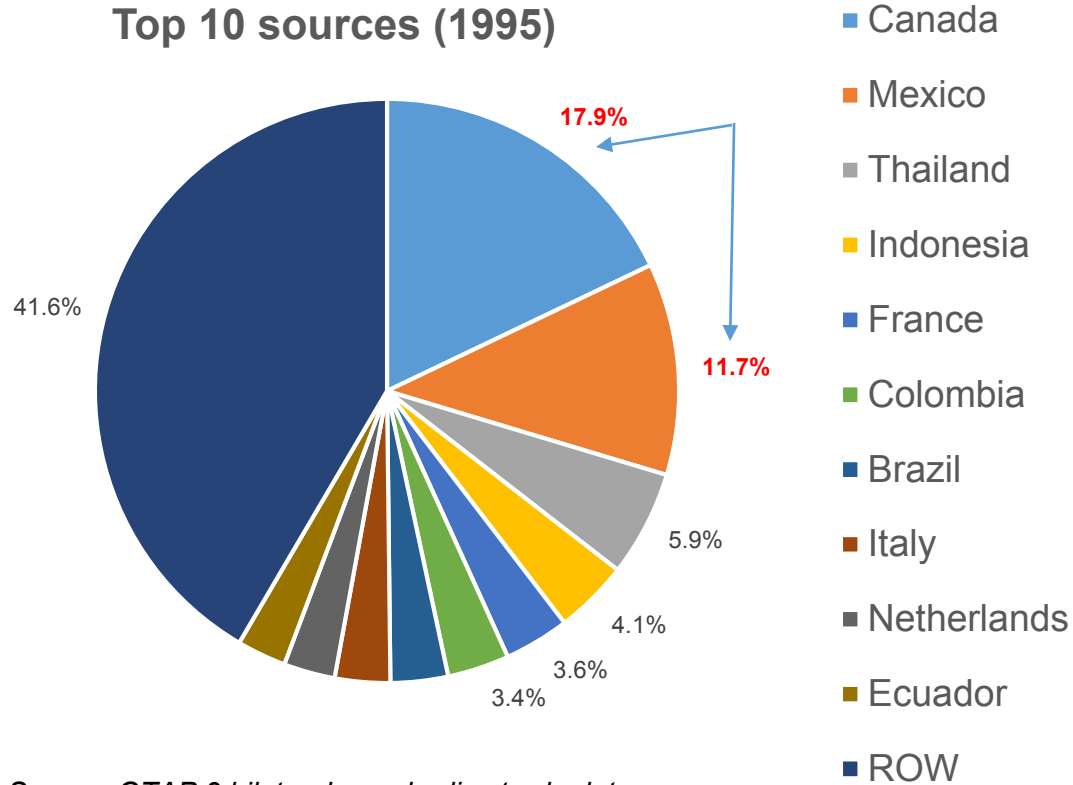
Top 10 importers (2017)



Source: UN COMTRADE

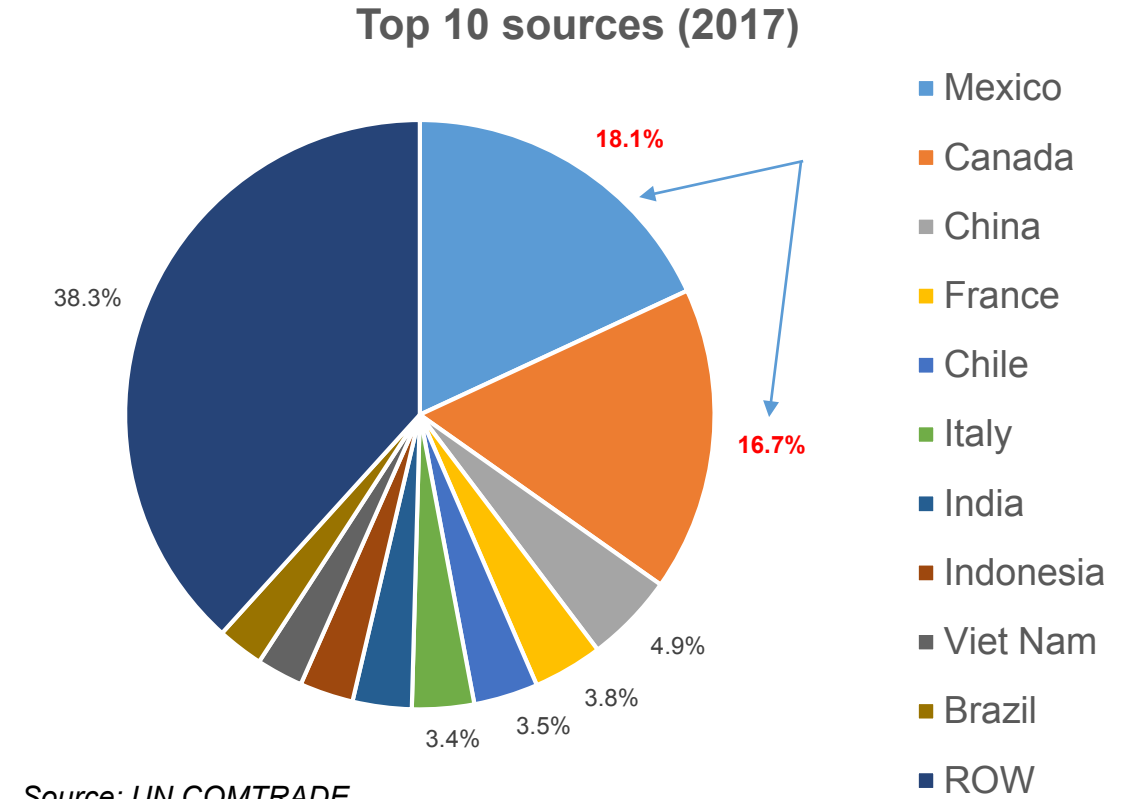
# Mexican exports have gained market share, but Canada less so

Top 10 sources (1995)



Source: GTAP 9 bilateral merchandise trade data

Top 10 sources (2017)



Source: UN COMTRADE

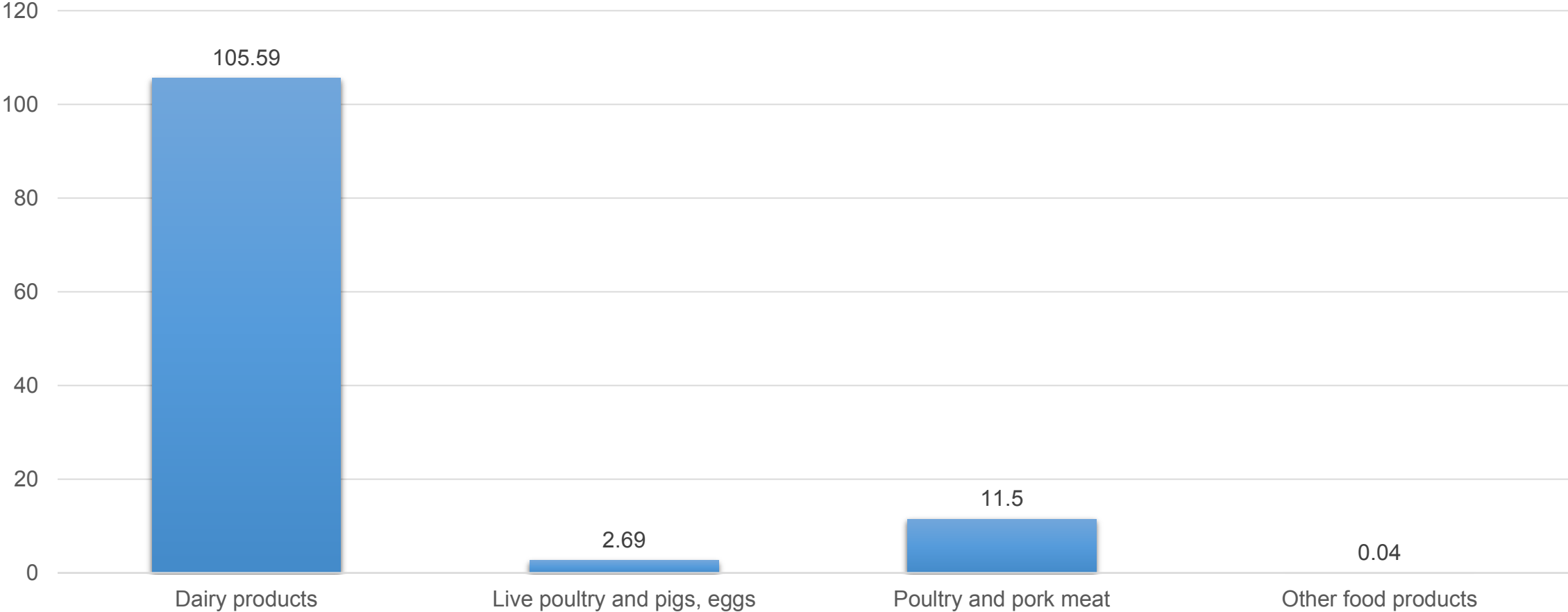
# The United States-Canada-Mexico Agreement (USMCA)

# What's in the agreement

- **Consolidates NAFTA 1.0**
- **Main market access changes**
  - Auto content for duty free access is raised to 75% from the existing 62.5%
  - 45% of the auto content must be produced in factories where workers are paid at least \$16/hour
  - Expanded import quotas in Canada for dairy and poultry products
- **A variety of other changes not directly linked to market access, for example:**
  - Extension of copyright protection from 50 to 70 years
  - New measures for the digital economy: no duties on music and e-books, protection for internet companies
  - Improved transparency in import and export licensing

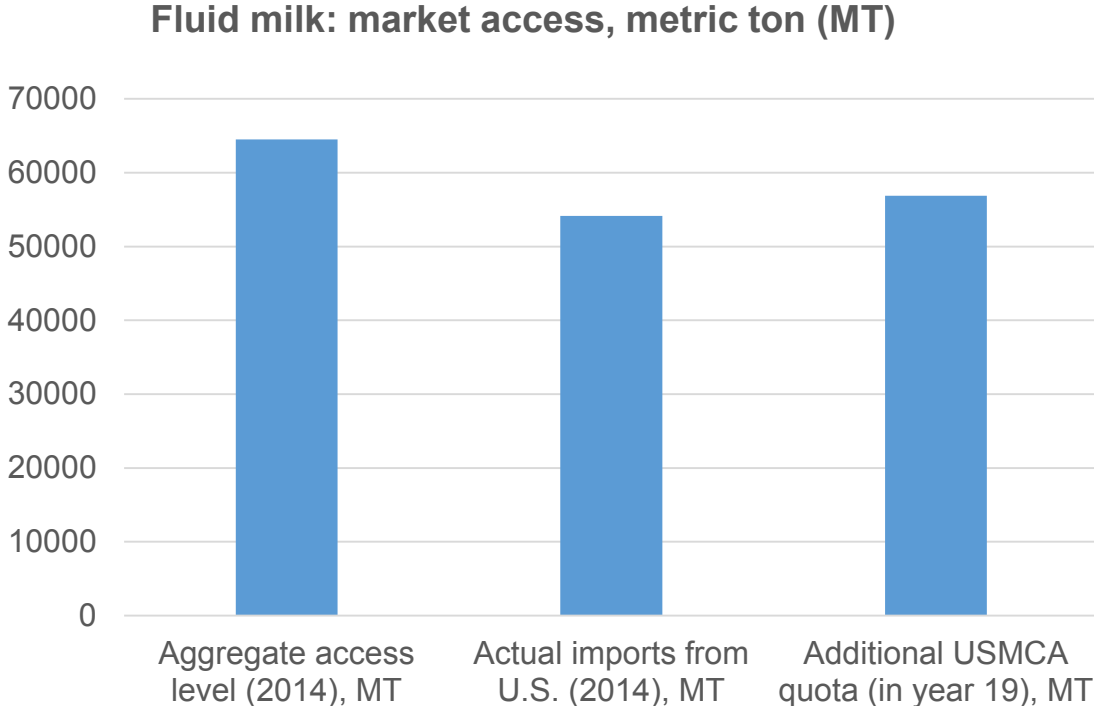


# New market access measures in agriculture, estimated changes in quotas, percent

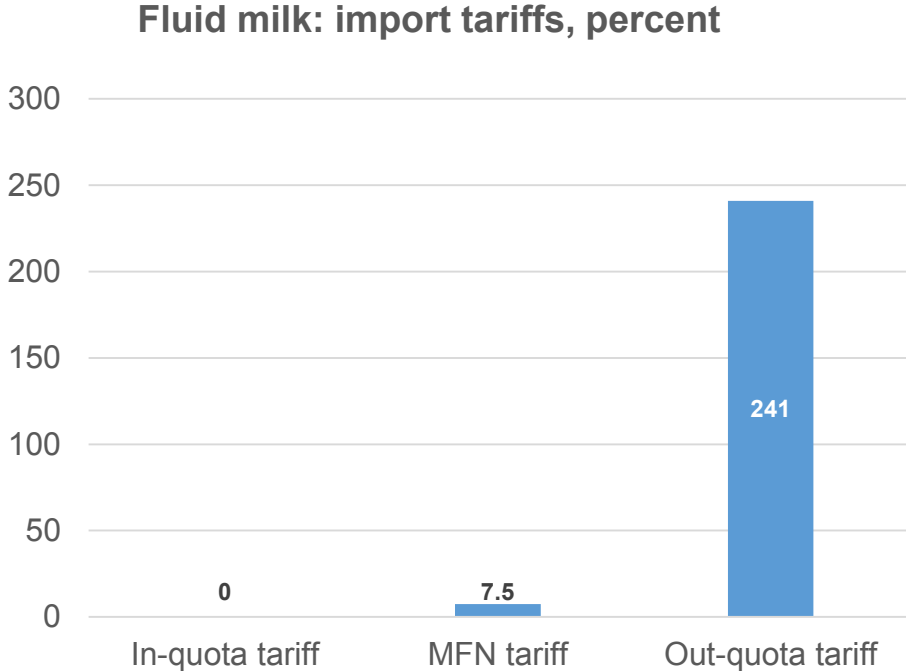


Source: authors' estimates based on USTA (2018a; 2018b)

# Example of dairy product quota at the HS6 level: fluid milk

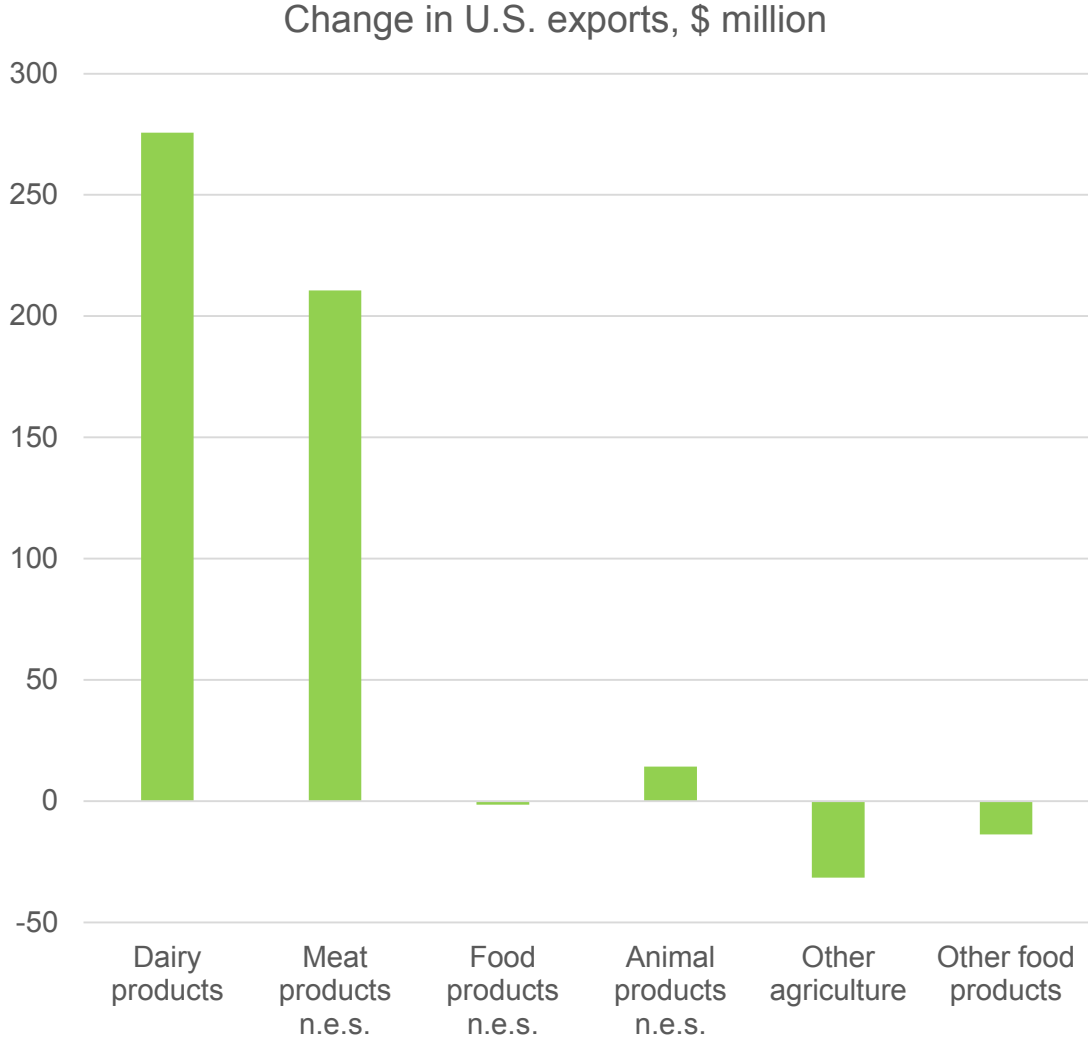
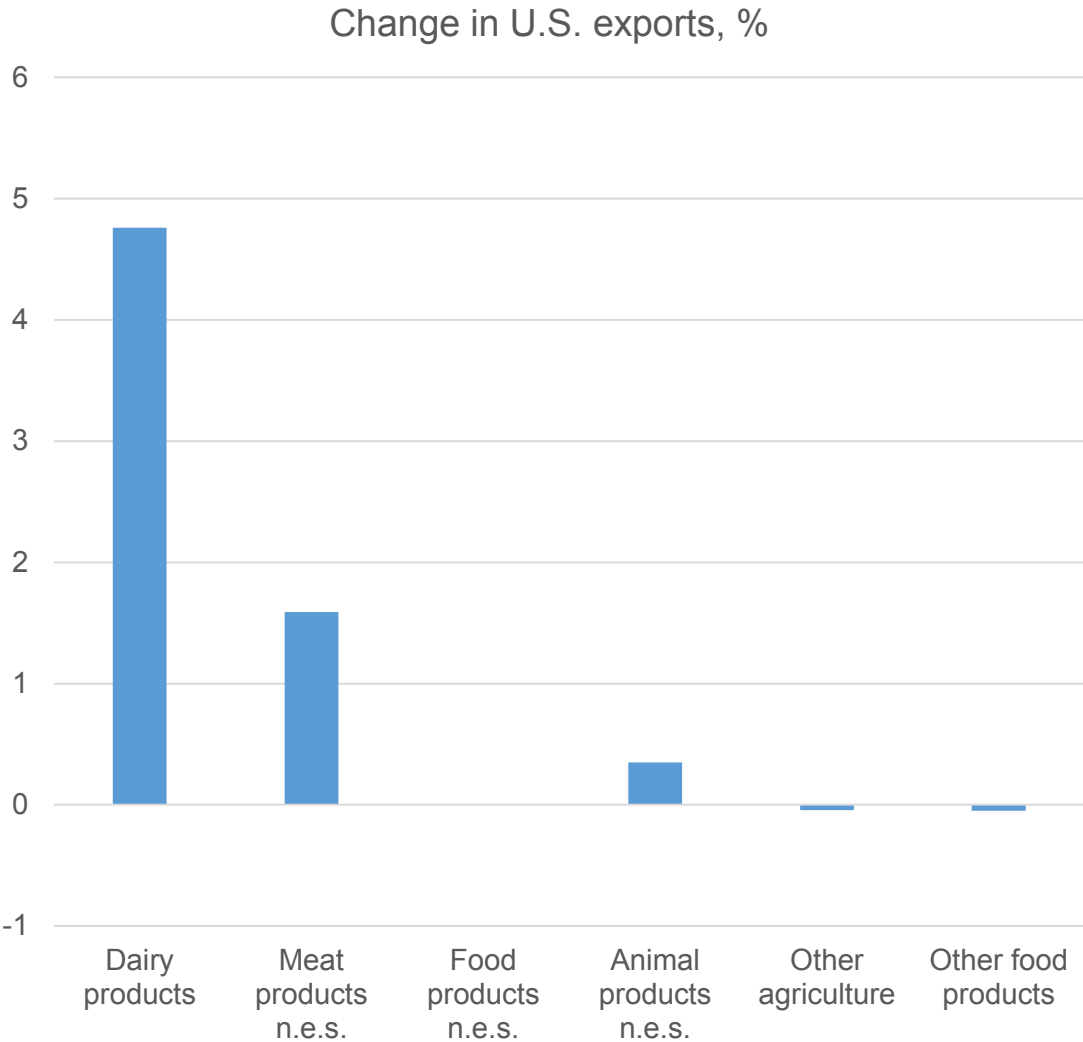


Source: Global Affairs Canada; UN COMTRADE

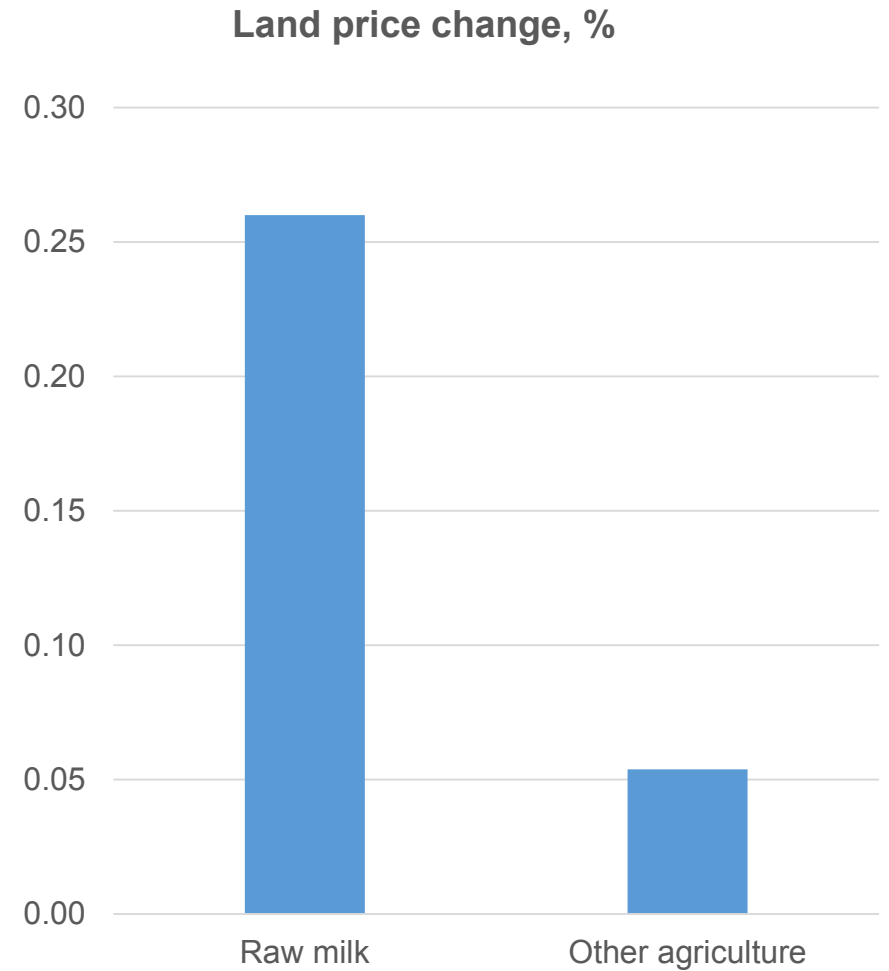
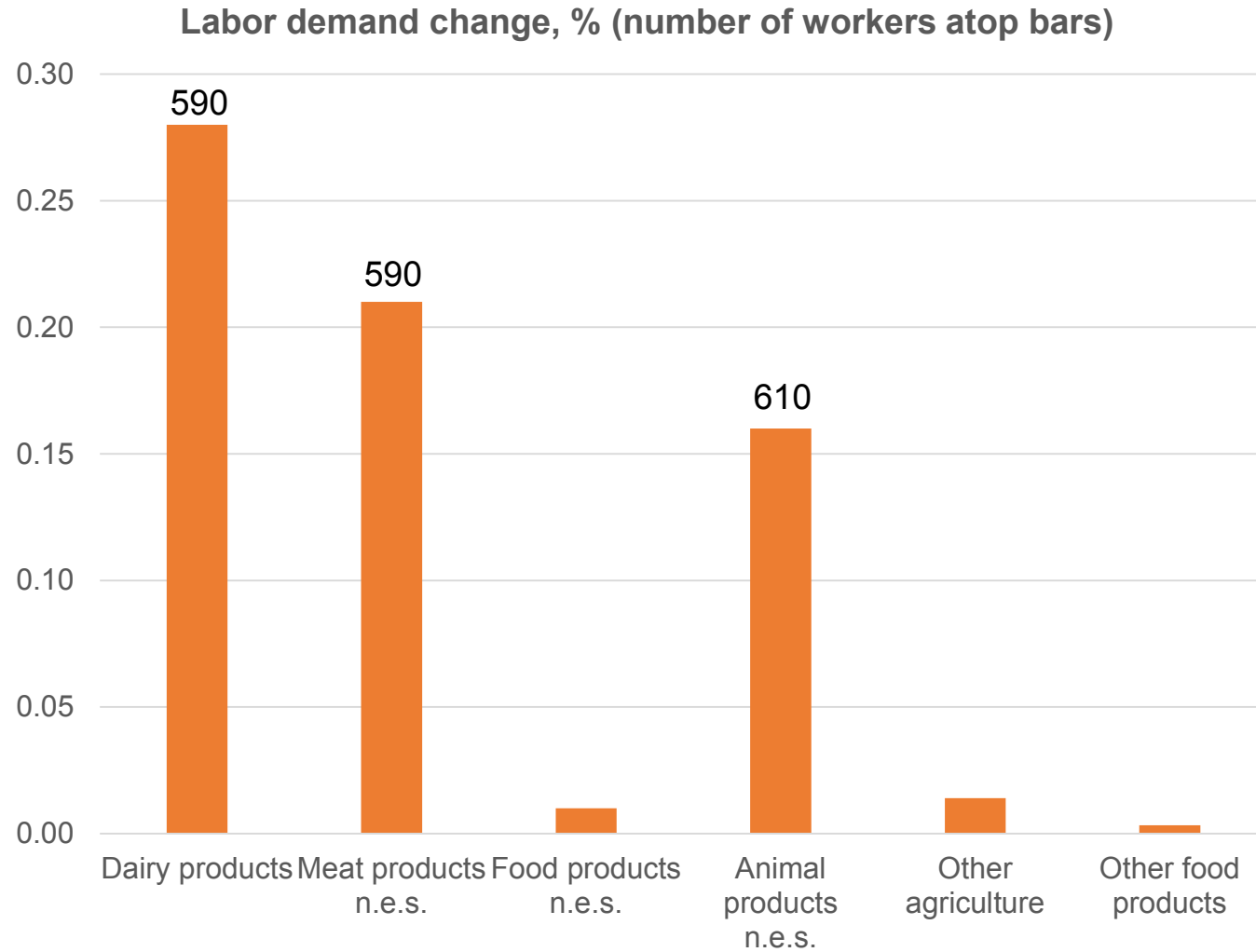


Source: Canada Border Services Agency (Custom Tariffs)

# Modest increases in U.S. agricultural exports



# And modest impacts on agricultural incomes

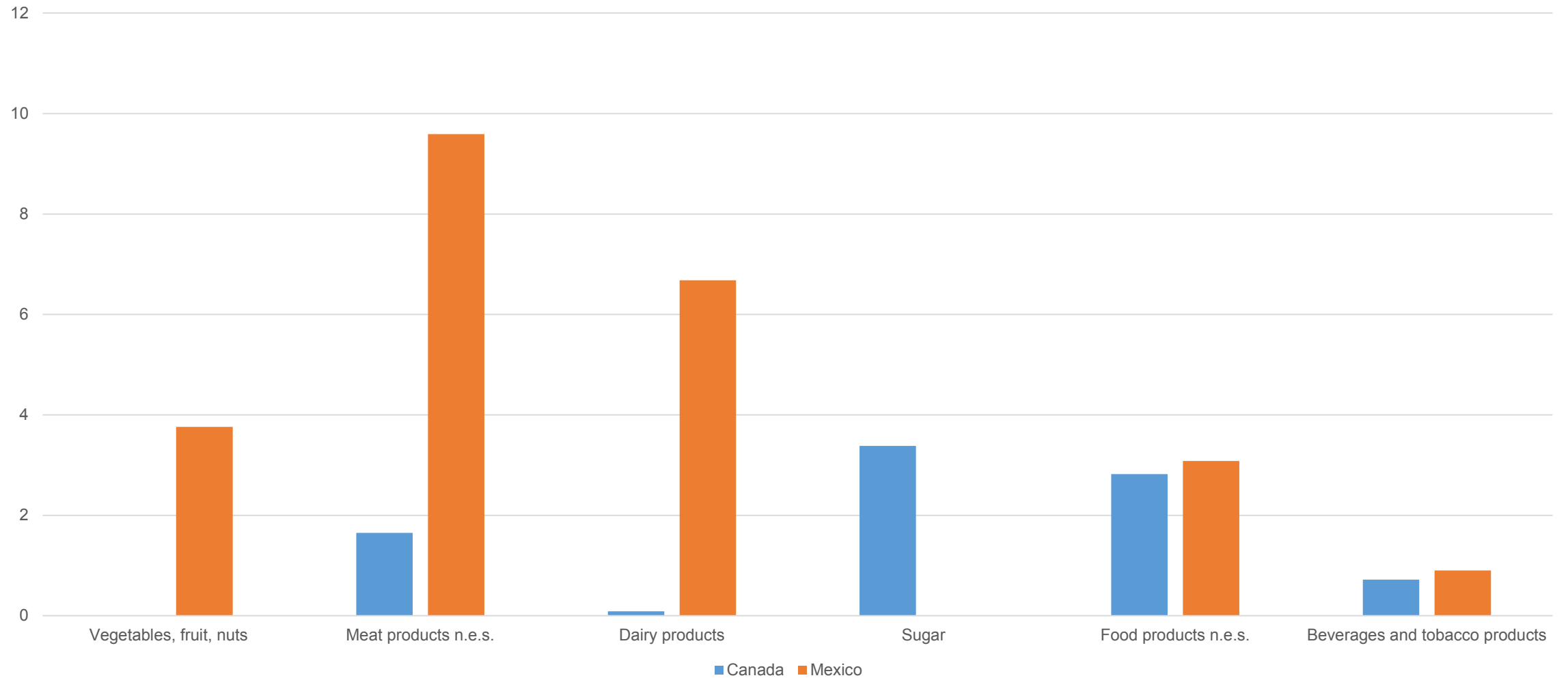


# **New trade policy environment**

**a) Canada and Mexico react to U.S. tariffs on steel and aluminum**

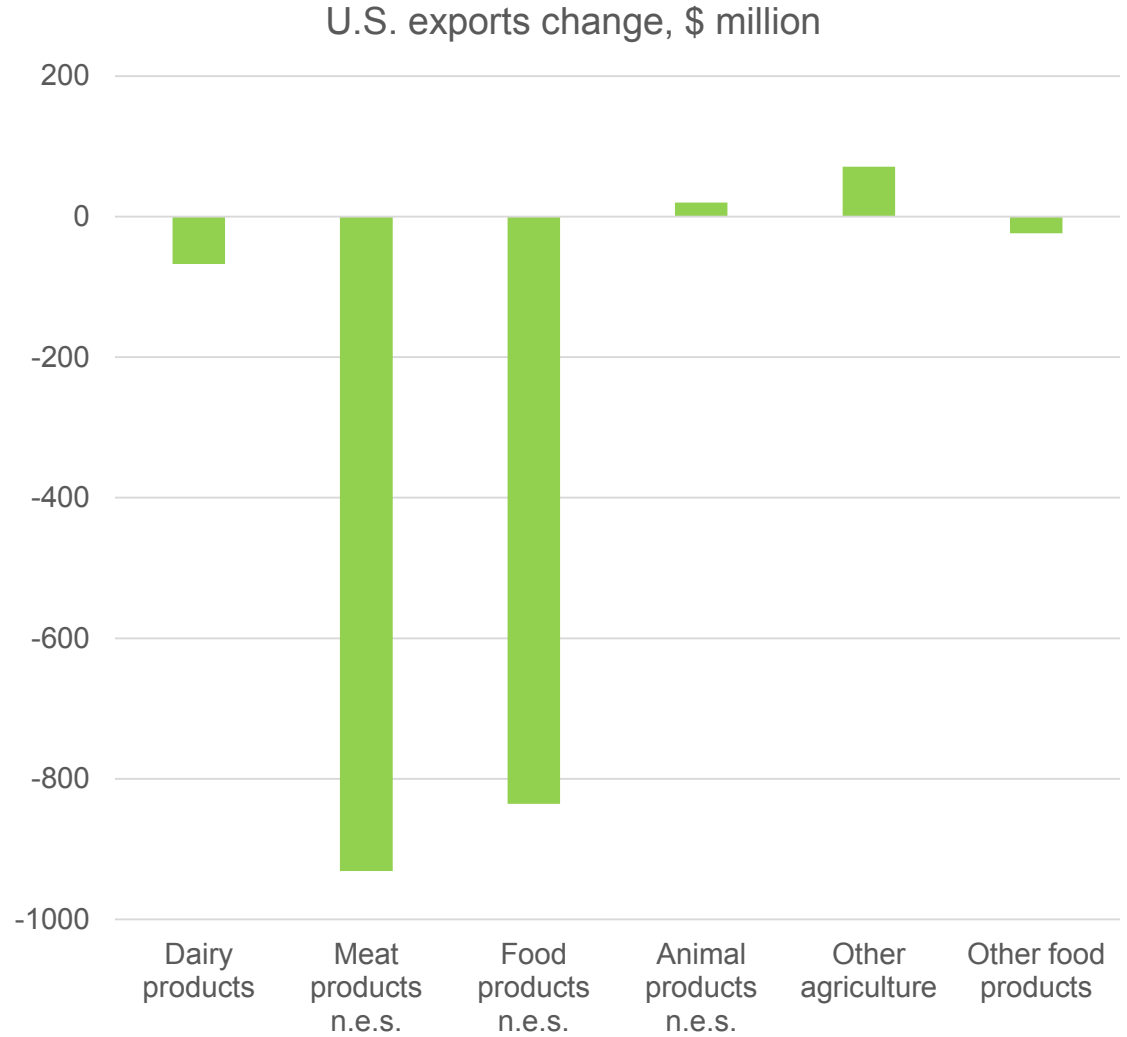
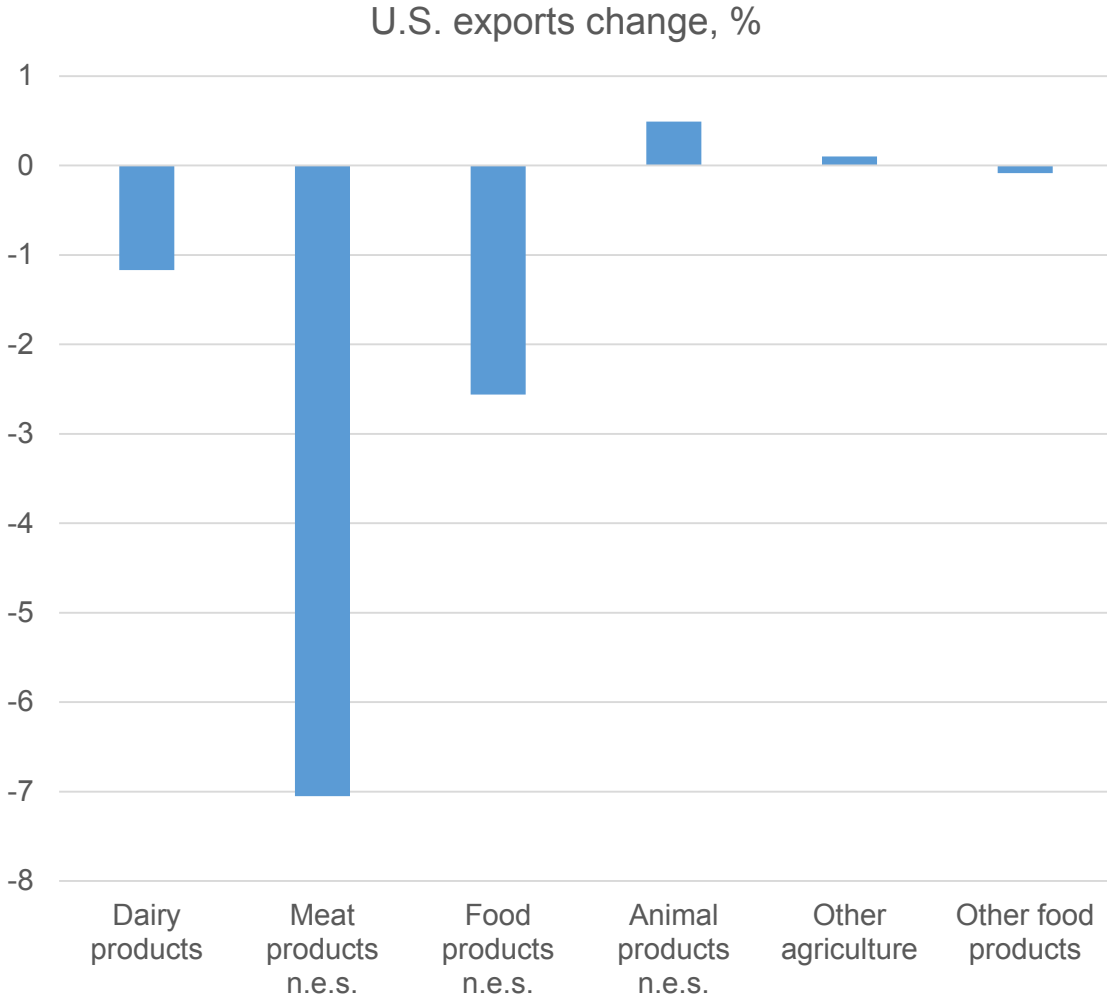
# Canada and Mexico react, target agriculture & food

Canadian and Mexican retaliatory tariffs, percentage point increase



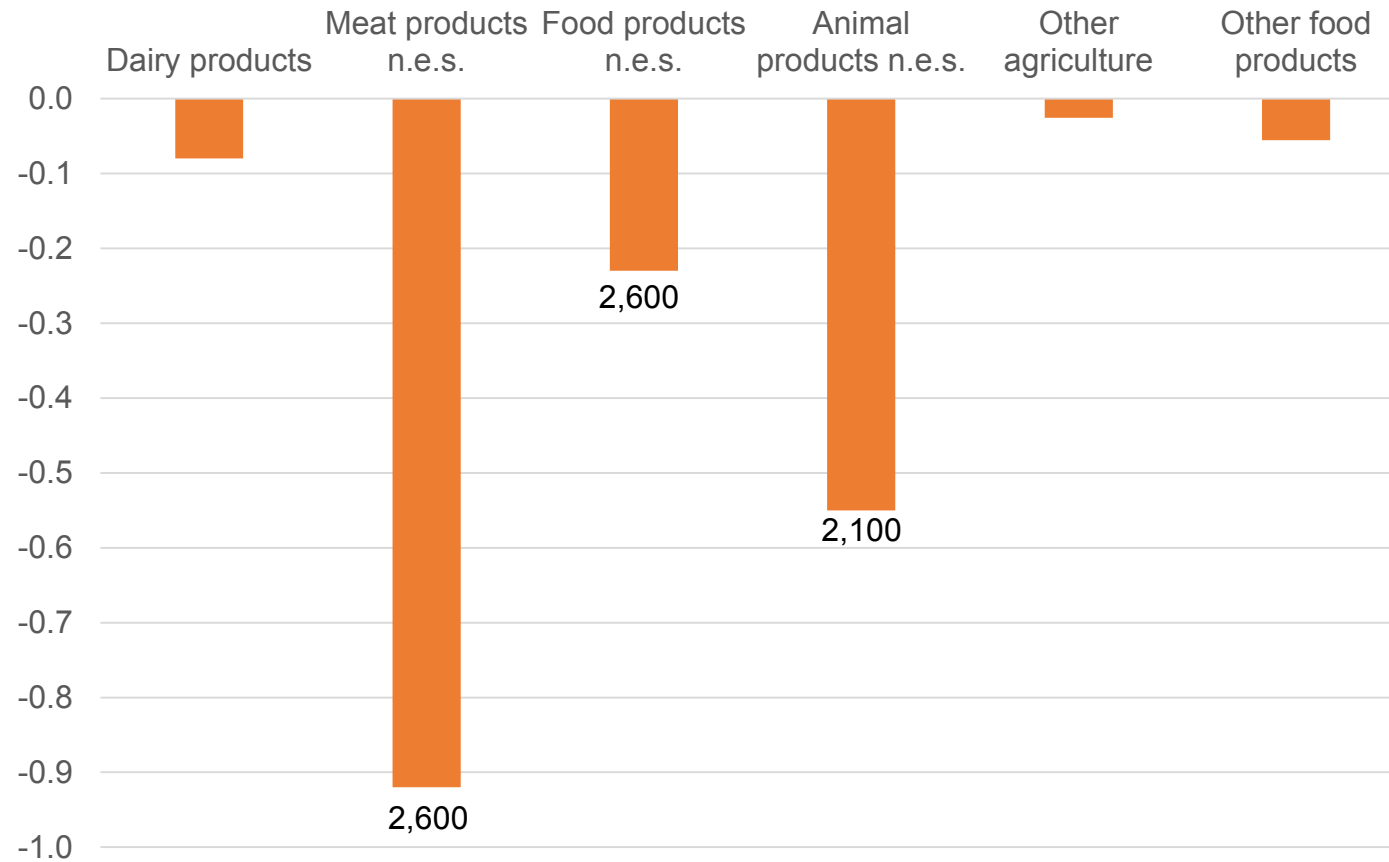
Source: based on data provided in Li (2018)

# Significant hit for poultry & pig and other food, total decline in agricultural export revenue is \$1.8 billion

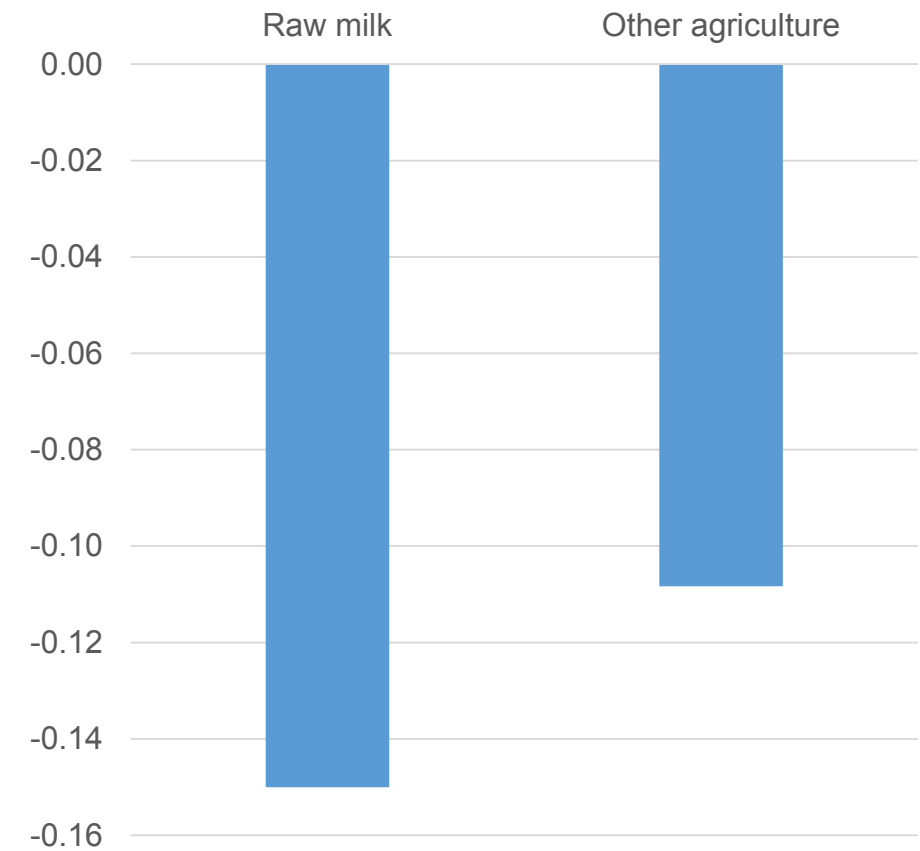


# Loss of 8,900 jobs in agriculture and food sectors, slumping land prices

### Labor demand change, %



### Land price change, %

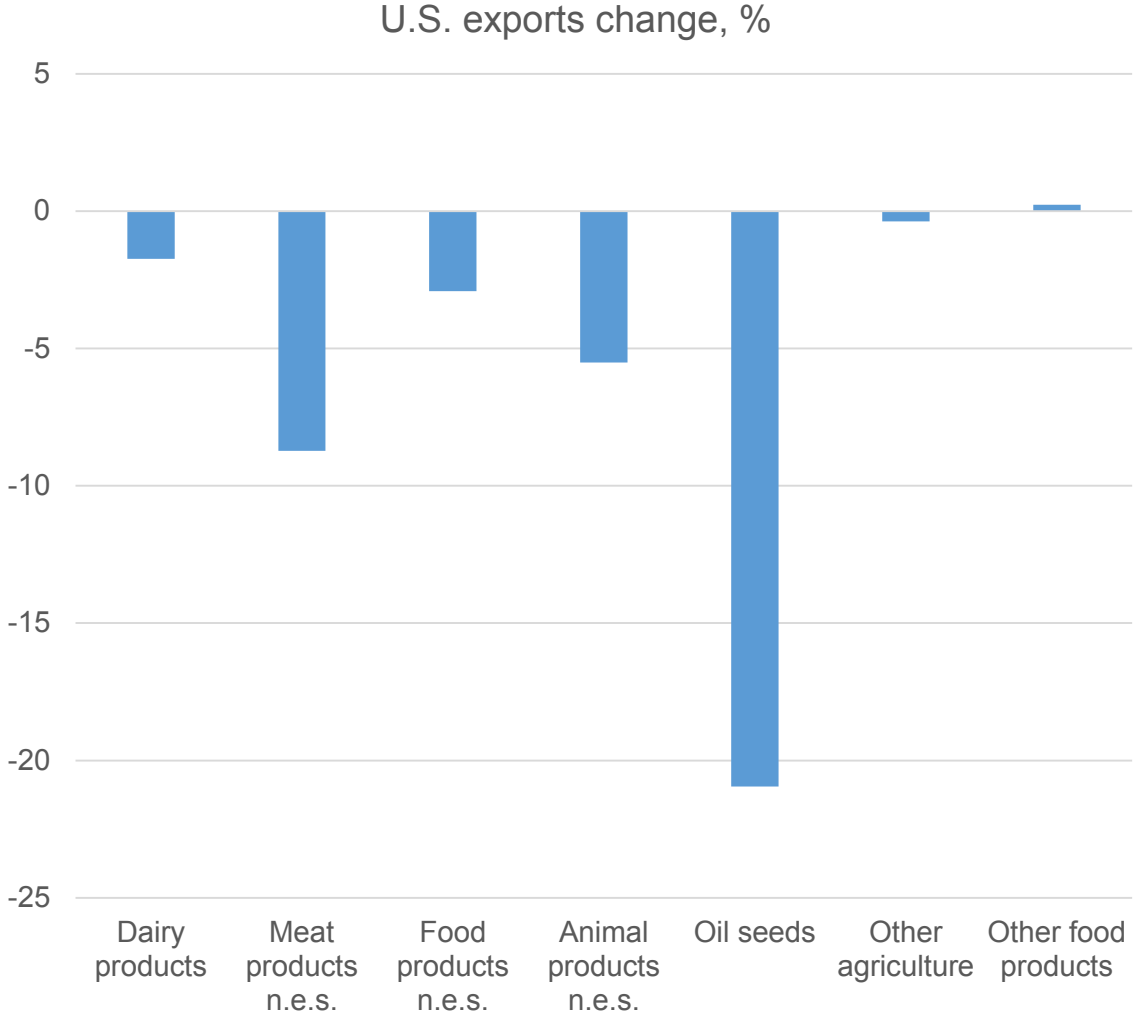




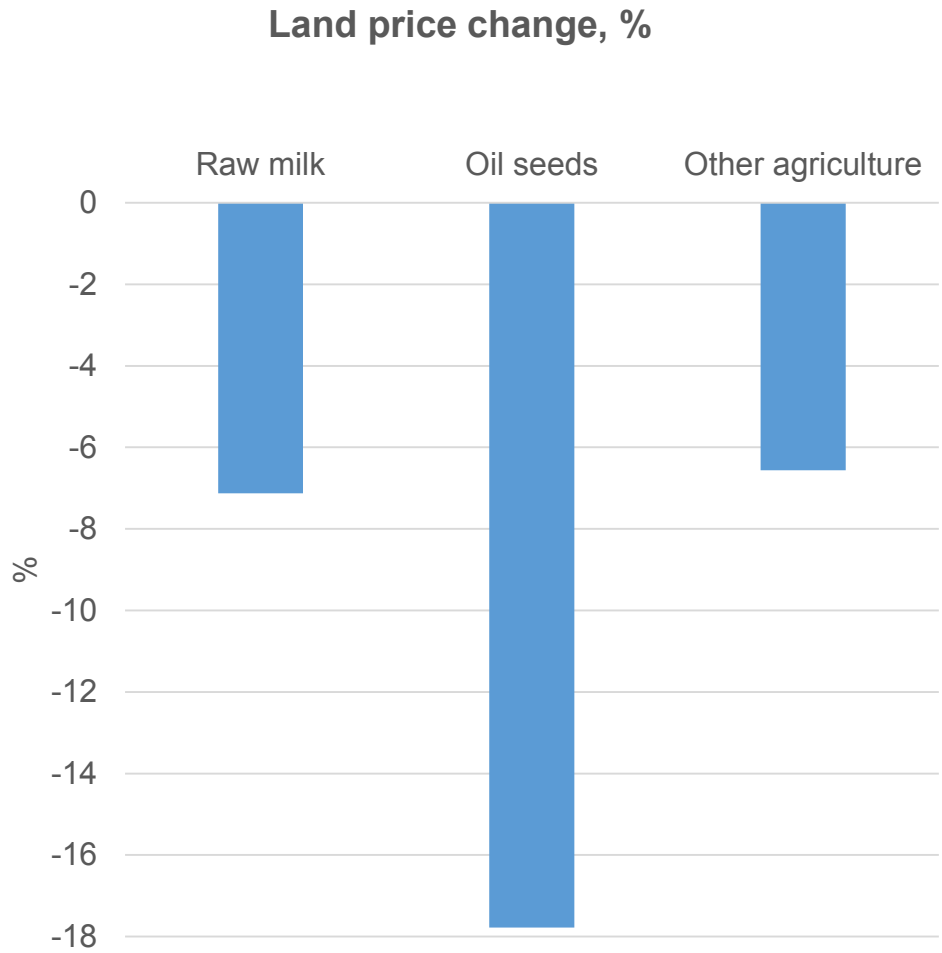
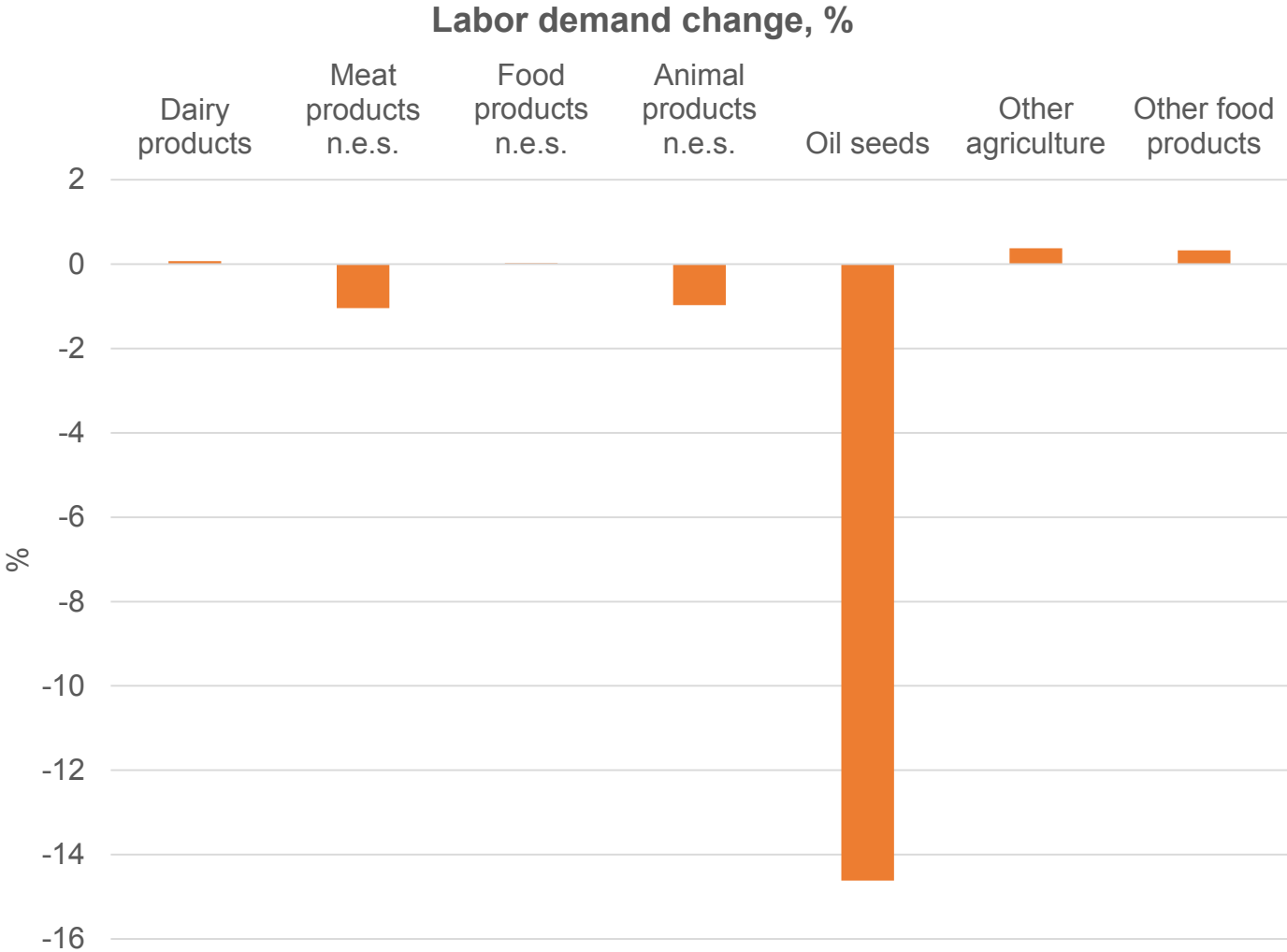
# **New trade policy environment**

**b) Full impact of current U.S. actions and retaliatory measures**

# Sharp decline in agricultural export revenue, total decline of \$8 billion



# Oil seed shock dominates the income effects



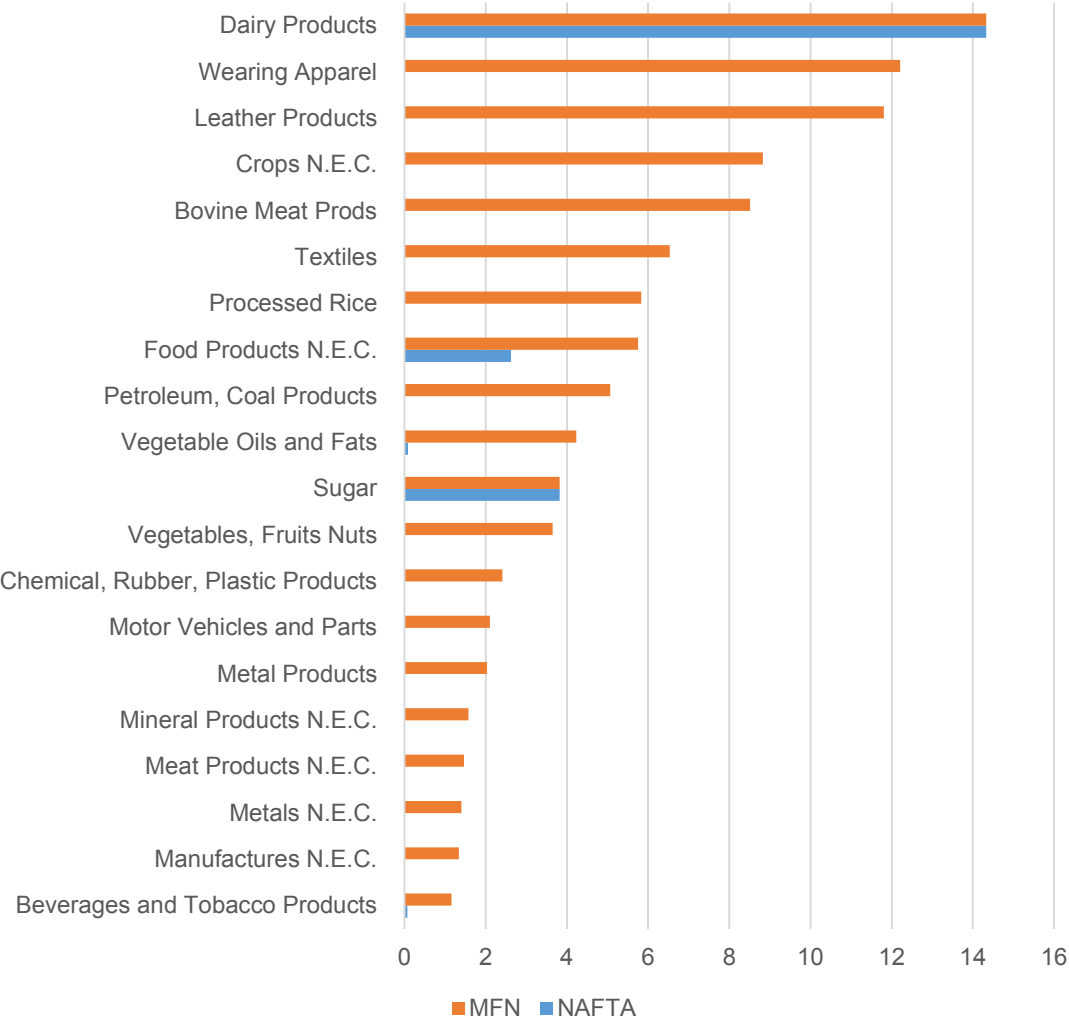
Note: 45,000 jobs lost in agriculture and food sectors.

# NAFTA Dissolution

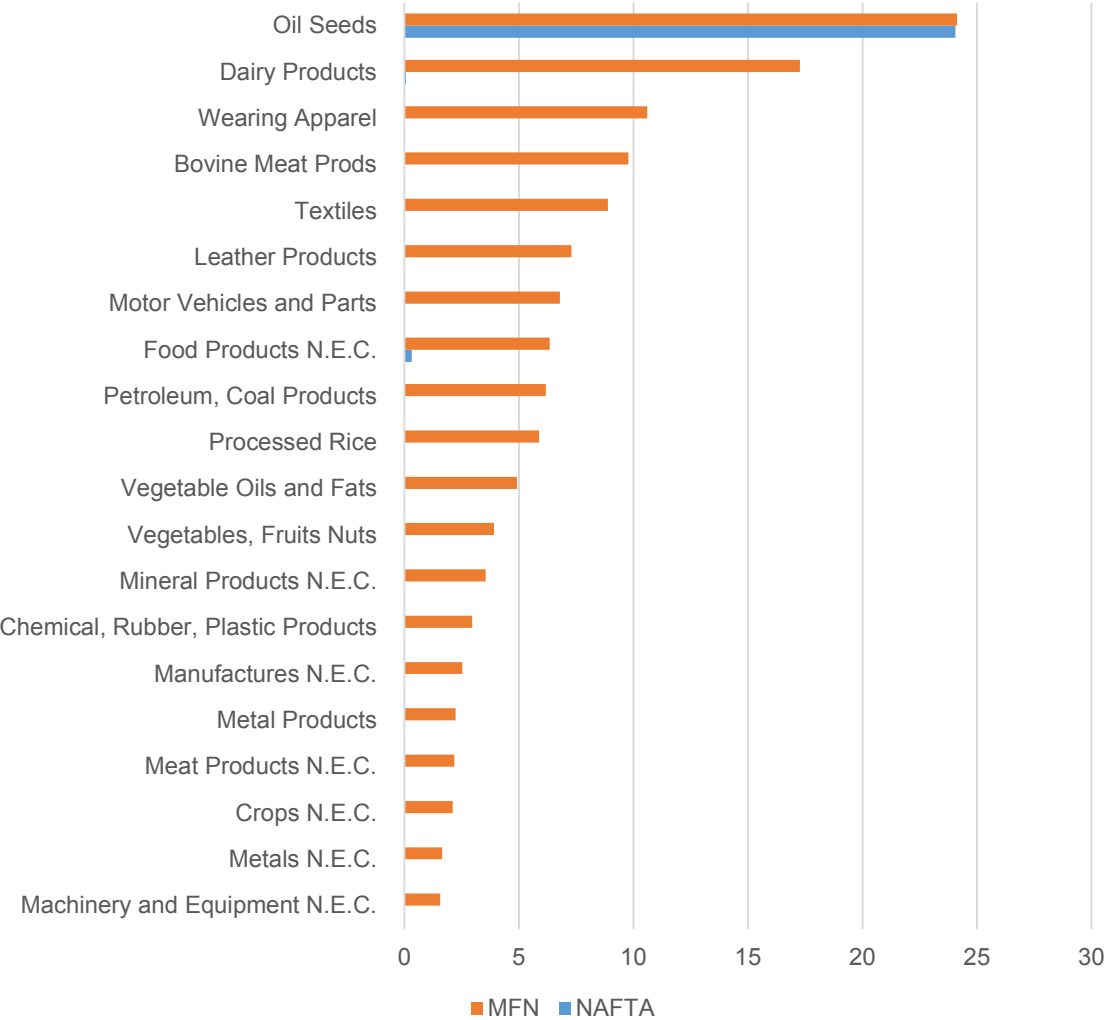
- **Reversion to most favored nation (MFN) tariff rates**
- **Uncertainty about special regimes such as dairy quotas**
- **Findings reflect work by Ciuriak et al. 2017 and Walmsley and Minor 2017**

# NAFTA has led to low agricultural tariffs, with some exceptions

### U.S. tariffs on Canadian imports



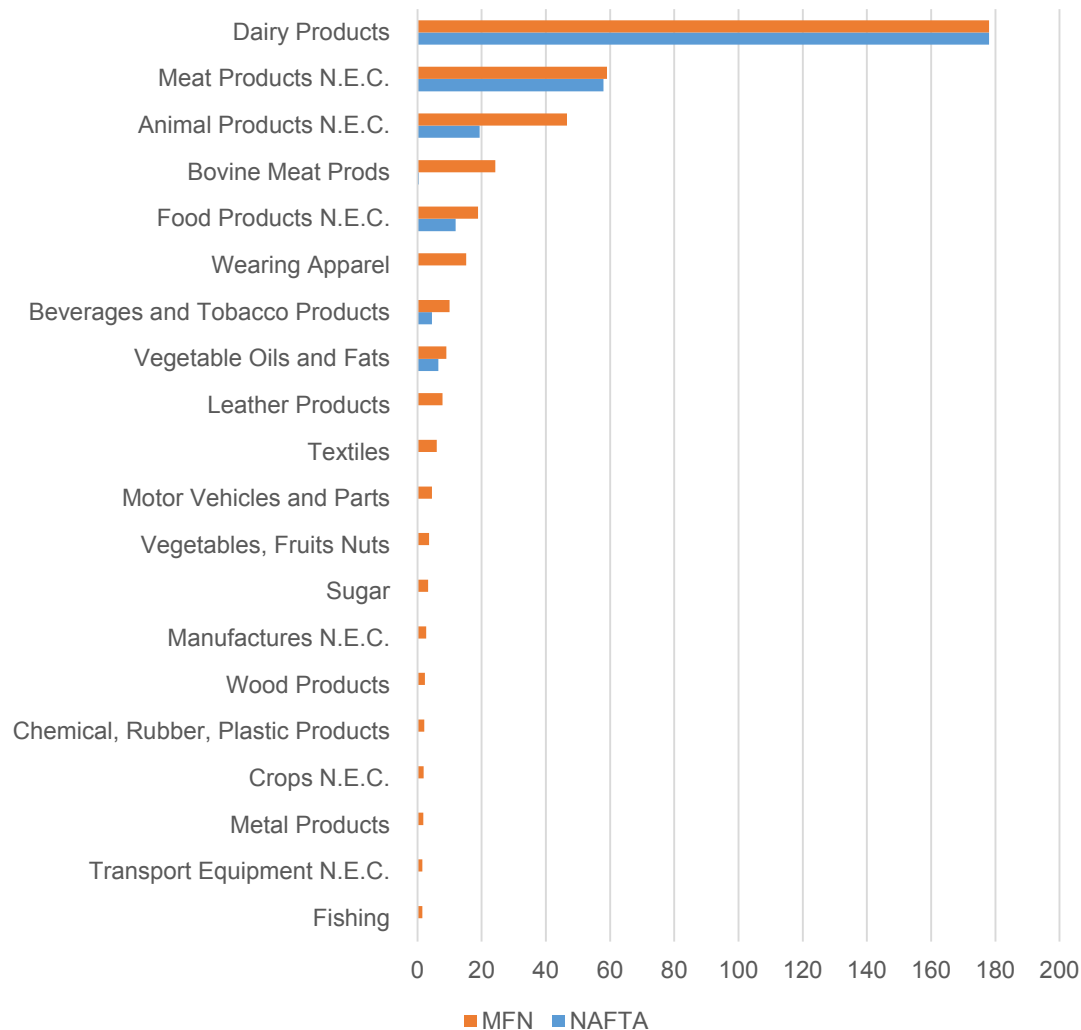
### U.S. tariffs on Mexican imports



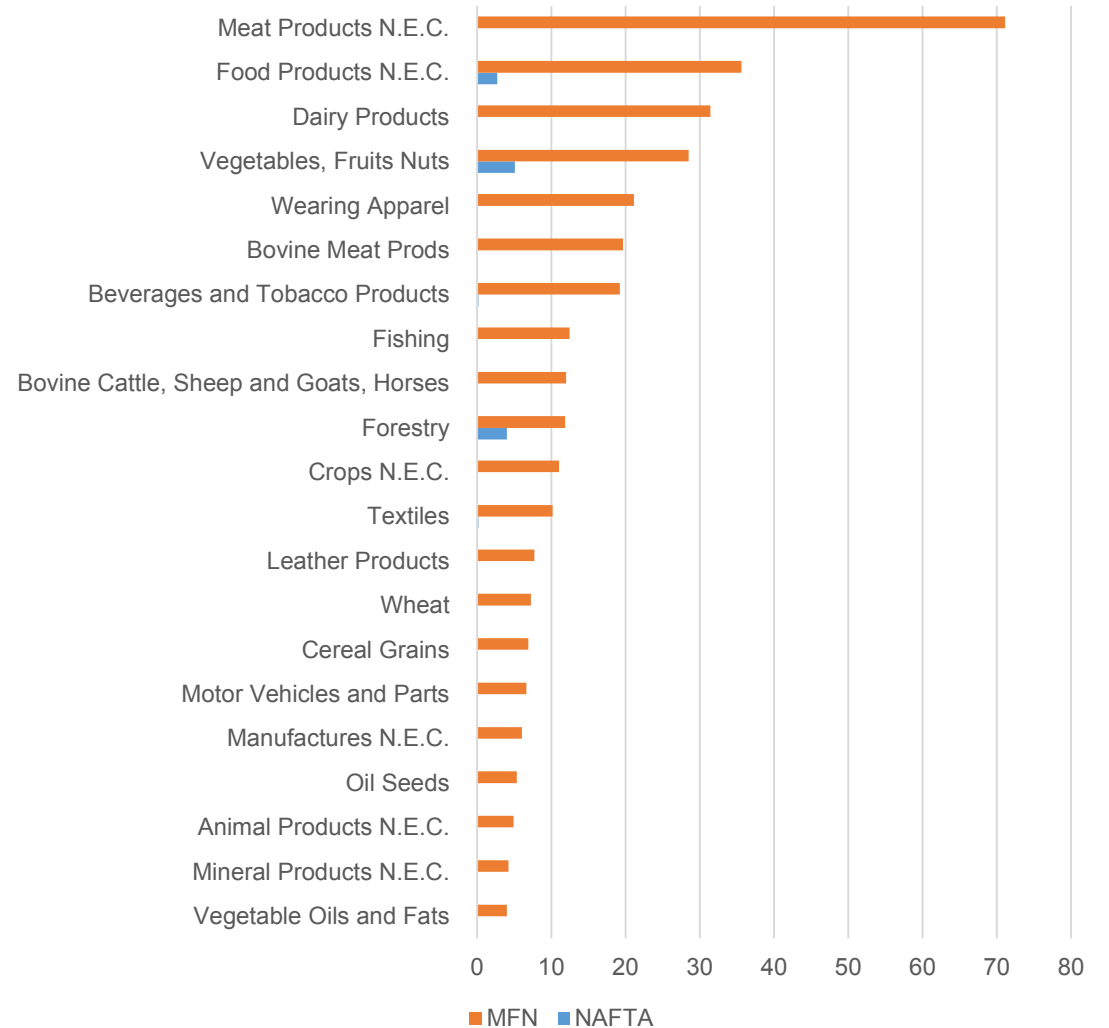
Source: Ciuriak et al. 2017.

# U.S. exporters would face stronger headwinds if NAFTA dissolves

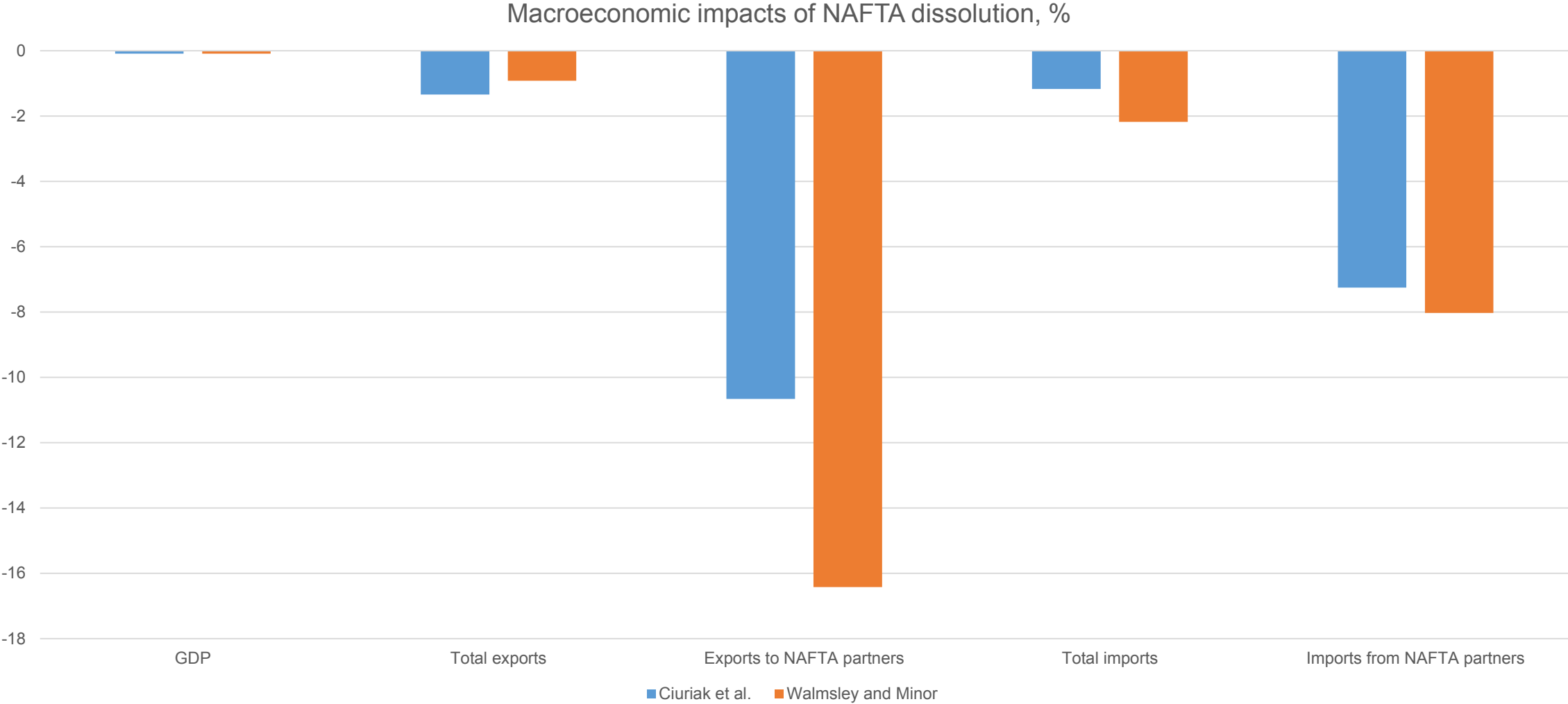
## Canadian tariffs on U.S. imports



## Mexican tariffs on U.S. imports



# Significant drop in U.S. exports

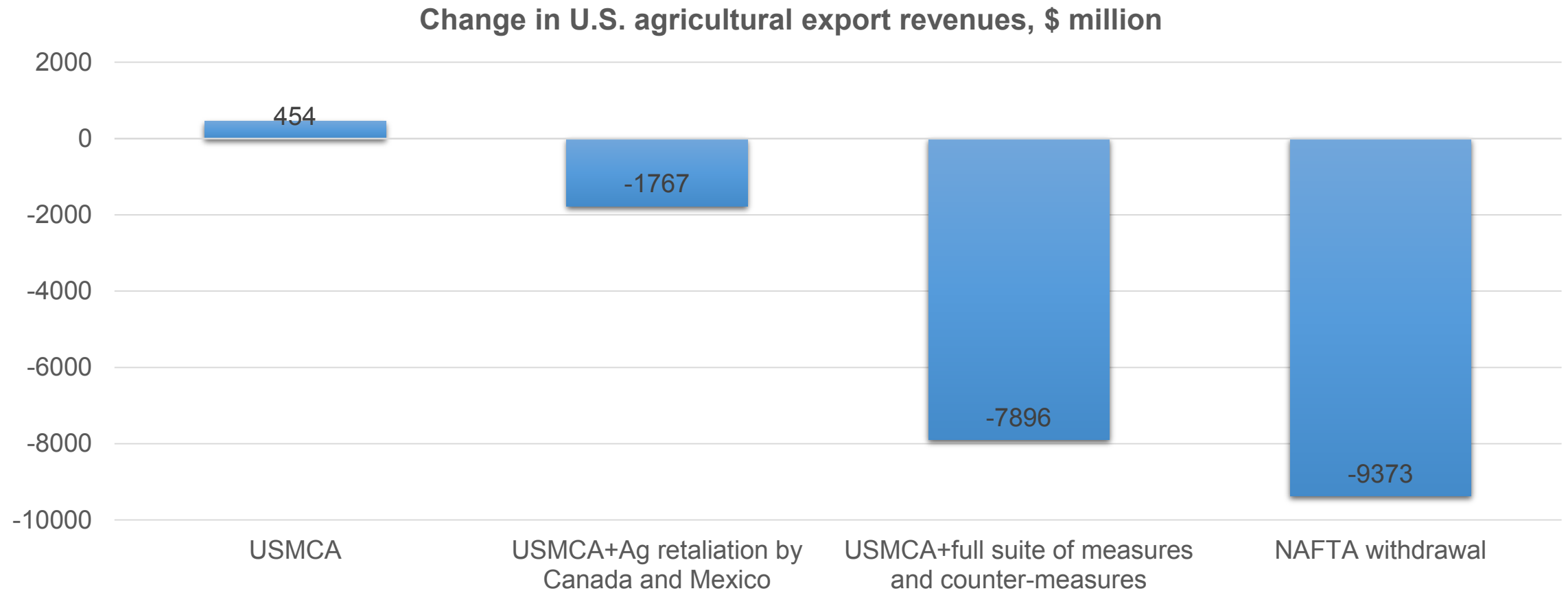


# Concluding remarks

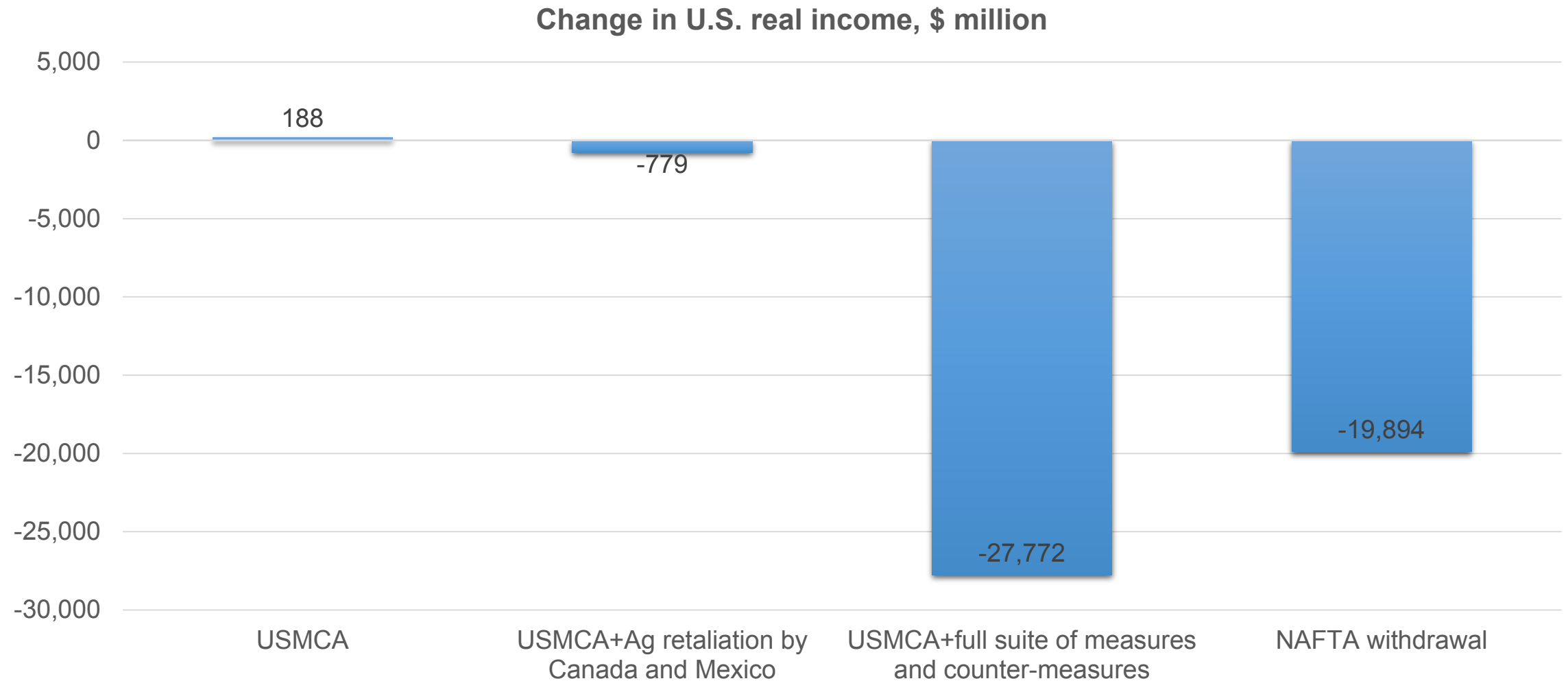
- **Results are subject to a number of assumptions, though likely to be robust**
  - Results reflect long-term impacts after adjustment
  - Results ignore adjustment costs
  - Results assume standard investment behavior, however:
    - A different tariff environment in NAFTA could impact investment and changes to the deep supply chains
    - A volatile tariff environment could dampen the appetite for investment
- **USMCA consolidates the gains from NAFTA-1.0 and increases market access for some agricultural sectors**
- **However, recent actions by the U.S. could end up harming farming interests that are targeted by retaliatory actions**
  - Lower agricultural exports
  - Job losses and a reduction in land values



# In summary: current policies will lead to agricultural export losses, USMCA notwithstanding



# And will lead to real income losses



Thank you