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

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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)
- Japan: 36.8%
- Canada: 24.0%
- Korea: 8.6%
- Mexico: 6.6%
- China: 5.6%
- Taiwan: 4.7%
- Netherlands: 4.1%
- Hong Kong: 3.2%
- Egypt: 2.9%
- Germany: 2.8%
- ROW: 1.6%

Source: GTAP 9 bilateral merchandise trade data

Top 10 importers (2017)
- Canada: 32.1%
- China: 17.1%
- Mexico: 13.7%
- Japan: 12.7%
- Korea: 11.1%
- Hong Kong: 8.5%
- Taiwan: 6.5%
- Netherlands: 4.9%
- Indonesia: 4.0%
- Philippines: 3.9%
- ROW: 1.8%

Source: UN COMTRADE
Mexican exports have gained market share, but Canada less so

**Top 10 sources (1995)**

- Canada: 17.9%
- Mexico: 11.7%
- Thailand: 5.9%
- Indonesia: 4.1%
- France: 3.6%
- Colombia: 3.4%
- Brazil: 3.4%
- Italy: 3.4%
- Netherlands: 3.4%
- Ecuador: 3.4%
- ROW: 3.4%

*Source: GTAP 9 bilateral merchandise trade data*

**Top 10 sources (2017)**

- Mexico: 18.1%
- Canada: 16.7%
- China: 4.9%
- France: 3.8%
- Chile: 3.5%
- Italy: 3.4%
- India: 3.4%
- Indonesia: 3.4%
- Viet Nam: 3.4%
- Brazil: 3.4%
- ROW: 3.4%

*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

**Fluid milk: market access, metric ton (MT)**

- Aggregate access level (2014), MT
- Actual imports from U.S. (2014), MT
- Additional USMCA quota (in year 19), MT

**Fluid milk: import tariffs, percent**

- In-quota tariff
- MFN tariff
- Out-quota tariff

Source: Global Affairs Canada; UN COMTRADE

Source: Canada Border Services Agency (Custom Tariffs)
Modest increases in U.S. agricultural exports

Change in U.S. exports, %

Change in U.S. exports, $ million
And modest impacts on agricultural incomes

![Labor demand change, % (number of workers atop bars)](chart1)

- **Dairy products**: 590
- **Meat products n.e.s.**: 590
- **Food products n.e.s.**: 610
- **Other agriculture**:
  - **Animal products n.e.s.**: 610
  - **Other food products**:

![Land price change, %](chart2)

- **Raw milk**:
- **Other agriculture**:
New trade policy environment

a) Canada and Mexico react to U.S. tariffs on steel and aluminum
Canada and Mexico react, target agriculture & food

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
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

<table>
<thead>
<tr>
<th>Category</th>
<th>U.S. exports change, %</th>
<th>U.S. exports change, mn USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy products</td>
<td>-20</td>
<td>-6000</td>
</tr>
<tr>
<td>Meat products n.e.s.</td>
<td>-15</td>
<td>-5000</td>
</tr>
<tr>
<td>Food products n.e.s.</td>
<td>-10</td>
<td>-4000</td>
</tr>
<tr>
<td>Animal products n.e.s.</td>
<td>-5</td>
<td>-3000</td>
</tr>
<tr>
<td>Oil seeds</td>
<td>0</td>
<td>-2000</td>
</tr>
<tr>
<td>Other agriculture</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Other food products</td>
<td>10</td>
<td>1000</td>
</tr>
</tbody>
</table>

*Note: The charts show the percentage change and the corresponding million USD change for various agricultural products and categories.*
Oil seed shock dominates the income effects

Labor demand change, %

<table>
<thead>
<tr>
<th>Product</th>
<th>%</th>
</tr>
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<tbody>
<tr>
<td>Dairy products</td>
<td>0</td>
</tr>
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<td>Meat products n.e.s.</td>
<td>0</td>
</tr>
<tr>
<td>Food products n.e.s.</td>
<td>0</td>
</tr>
<tr>
<td>Animal products n.e.s.</td>
<td>0</td>
</tr>
<tr>
<td>Oil seeds</td>
<td>-16</td>
</tr>
<tr>
<td>Other agriculture</td>
<td>-14</td>
</tr>
<tr>
<td>Other food products</td>
<td>-12</td>
</tr>
</tbody>
</table>

Land price change, %

<table>
<thead>
<tr>
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<th>%</th>
</tr>
</thead>
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<tr>
<td>Raw milk</td>
<td>0</td>
</tr>
<tr>
<td>Oil seeds</td>
<td>-16</td>
</tr>
<tr>
<td>Other agriculture</td>
<td>-12</td>
</tr>
</tbody>
</table>

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. exporters would face stronger headwinds if NAFTA dissolves

<table>
<thead>
<tr>
<th>Category</th>
<th>Canadian Tariffs</th>
<th>Mexican Tariffs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy Products</td>
<td>180</td>
<td>180</td>
</tr>
<tr>
<td>Meat Products N.E.C.</td>
<td>160</td>
<td>160</td>
</tr>
<tr>
<td>Animal Products N.E.C.</td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td>Bovine Meat Prods</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>Food Products N.E.C.</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Wearing Apparel</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Beverages and Tobacco Products</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Vegetable Oils and Fats</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Leather Products</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Textiles</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Motor Vehicles and Parts</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Vegetables, Fruits Nuts</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Sugar</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Manufactures N.E.C.</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Wood Products</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Chemical, Rubber, Plastic Products</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Crops N.E.C.</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Metal Products</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Transport Equipment N.E.C.</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Fishing</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Significant drop in U.S. exports

Macroeconomic impacts of NAFTA dissolution, %

<table>
<thead>
<tr>
<th>GDP</th>
<th>Total exports</th>
<th>Exports to NAFTA partners</th>
<th>Total imports</th>
<th>Imports from NAFTA partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>-18</td>
<td>-18</td>
<td>-18</td>
<td>-18</td>
<td>-18</td>
</tr>
</tbody>
</table>

Source: Ciuriak et al. and Walmsley and Minor
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

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Change in U.S. real income, $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>USMCA</td>
<td>188</td>
</tr>
<tr>
<td>USMCA+Ag retaliation by Canada and Mexico</td>
<td>-779</td>
</tr>
<tr>
<td>USMCA+full suite of measures and counter-measures</td>
<td>-27,772</td>
</tr>
<tr>
<td>NAFTA withdrawal</td>
<td>-19,894</td>
</tr>
</tbody>
</table>
Thank you