



Trade Basics

May 2019

The North American Agricultural Market

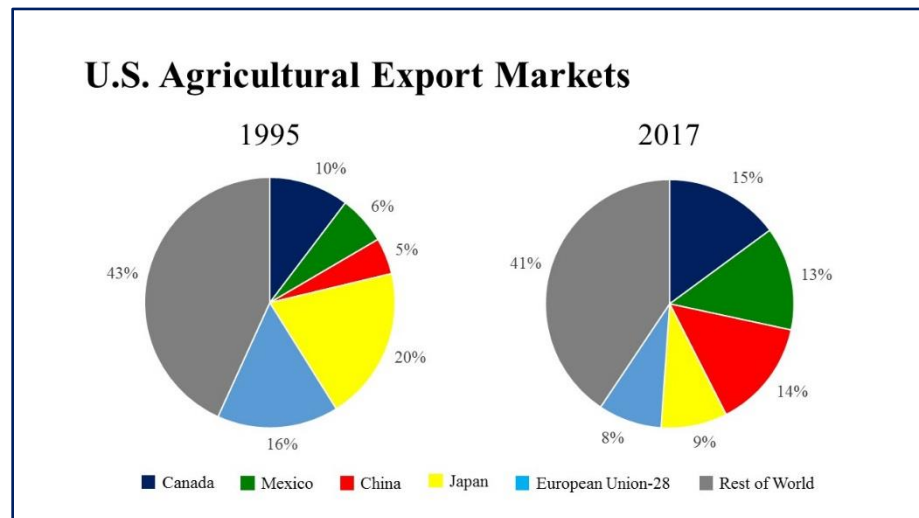
By Megan J. Provost

The North American Free Trade Agreement (NAFTA) is a leading example of the profound effects that regional trade reforms can have on a sector. NAFTA significantly increased agricultural trade and investment among the United States, Canada, and Mexico and, while some negative impacts have occurred in the sector, largely benefited farmers, ranchers, and consumers throughout the region. NAFTA's improved market access, increased market integration, and other significant trade policy provisions were key factors in those gains. The food and agricultural sector expects these benefits to continue under the newly negotiated United States-Mexico-Canada Agreement (USMCA).

agreement on market access for agricultural products as part of NAFTA. All three of the North American countries protected their import-sensitive agricultural segments in NAFTA with longer transition periods, tariff-rate quotas, and, for certain products, special safeguard provisions. NAFTA's launch and entry into force on Jan. 1, 1994, began a 14-year process in which the three countries gradually removed thousands of barriers to intraregional trade, including those on all agricultural products traded between Mexico and the United States and nearly all agricultural products traded between Canada and the United States and between Canada and Mexico. Canada's long-standing position internationally and within NAFTA was not to

Market Access

Improvement in North American intraregional market access began on Jan. 1, 1989, with the implementation of the United States-Canada Free Trade Agreement (CFTA). Those improvements were incorporated into NAFTA. Mexico and the United States reached a separate bilateral



consider full trade liberalization of its dairy, poultry and egg sectors—which are governed by supply management regimes and protected by high over-quota tariffs. The USMCA provides additional in-quota access for these products, which should allow for a small increase in trade.

With the implementation of NAFTA, U.S. exporters saw a significant shift in the destinations of agricultural products. Canada is now the largest importer of U.S. agricultural products, while Mexico is now the third largest importer, behind China.

Market Integration

With a few exceptions, agricultural trade within the North American region is now completely free of tariff and quota restrictions. This means that the agricultural sectors of the three countries became much more integrated, as evidenced by increasing trade in a wider range of agricultural products, substantial levels of cross-border investment, and changes in farmer production and consumer consumption. The U.S. Department of Agriculture (USDA) defines “market integration” as “the extent to which one or more formerly separated markets combined to form a single market. Integration is visible in increased cross-border flows of goods, services, capital, and labor.” It is important to note that trade in goods does not consist solely of final consumer goods, but also includes intermediate inputs and raw materials. This market integration also encourages greater institutional and policy cooperation and coordination among the North American governments and agribusinesses further expanding bilateral trade.

This North American agricultural market integration enables agricultural producers and consumers in the region to leverage their relative strengths and to respond more efficiently to changing economic conditions. For producers, it offers expanded production areas for risk mitigation and opens new markets for the sale of

their products; however, it also opens the door to new competition from producers in locations that were formerly isolated by tariff and quota barriers. For consumers, the unified market provides access to new varieties of food products and off-season supplies of fresh produce. Greater competition along the food supply chain typically makes food more affordable, thereby expanding consumer purchasing power.

Other Key Provisions

NAFTA, and the new USMCA, address much more than just tariffs and quotas for the agricultural sector. The two agreements contributed to the elimination of a number of non-tariff measures affecting agricultural trade among the parties.

- **Domestic Support** – Both agreements encourage the parties to move toward domestic agricultural support policies that have minimal trade or production distorting effects.
- **Export Subsidies**—Likewise, the North American countries agree to work to eliminate export subsidies worldwide as part of the agreements, as well.
- **Geographic Indications (GIs)**—Under the USMCA, the parties agree to new disciplines on naming food products after regions, establishing important procedural safeguards for recognition of new GIs, including strong standards for issuances of GIs that would prevent U.S. producers from using common names.
- **International Standards**—The agreements encourage trading partners to adopt international and regional standards, though the agreements explicitly recognize each country’s right to determine the necessary level of protection. This flexibility permits each country to set more stringent standards, as long as they are scientifically based.
- **Licensing**—Prior to the implementation of NAFTA, the single largest barrier to U.S. agricultural exports to Mexico was Mexico’s

import licensing system. With NAFTA, this system was largely replaced by tariffs or quotas, which have since been eliminated.

- Sanitary and Phytosanitary (SPS) Measures— Both agreements recognize the right of each member country “to adopt, maintain or apply any sanitary or phytosanitary measures necessary for the protection of human, animal or plant life or health in its territory,” though the agreements impose disciplines on the development, adoption, and enforcement of these SPS measures.

While there have been challenges in some individual segments and regions, the farm sectors in all three countries found that integrating their

markets to take advantage of differences in resources and climate can better meet consumer demand and reduce costs. Imported Canadian hogs and Mexican cattle are being fed to market weight in the United States, while American pork and beef products are sold in Mexico and Canada. Mexican grapes are filling seasonal niches in the United States, while Mexico imports more U.S. pears than any other country. A recent study commissioned by Farm Foundation and conducted by Purdue University found that the new USMCA would expand agricultural trade with Canada by \$450 million per year. However, for the agricultural sector, the benefits of NAFTA have largely already been realized through market integration and other non-tariff measures.

About the Author: Megan Provost is the Vice President of Policy and Programs at Farm Foundation. Prior to joining the Foundation, Provost worked for Dow AgroSciences, for a U.S. Senator, at the U.S. Department of Agriculture, and at the American Farm Bureau Federation. She has a bachelor's and master's degree in agricultural economics and a juris doctorate.

Notes from the Author: This article initially ran as part of the Association of Women in International Trade's WITT Spring 2019 Communique, available [here](#).