

**“Free Trade Agreements:
Why They Matter to U.S. Agriculture”**

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U.S. Free Trade Agreements: Current Status

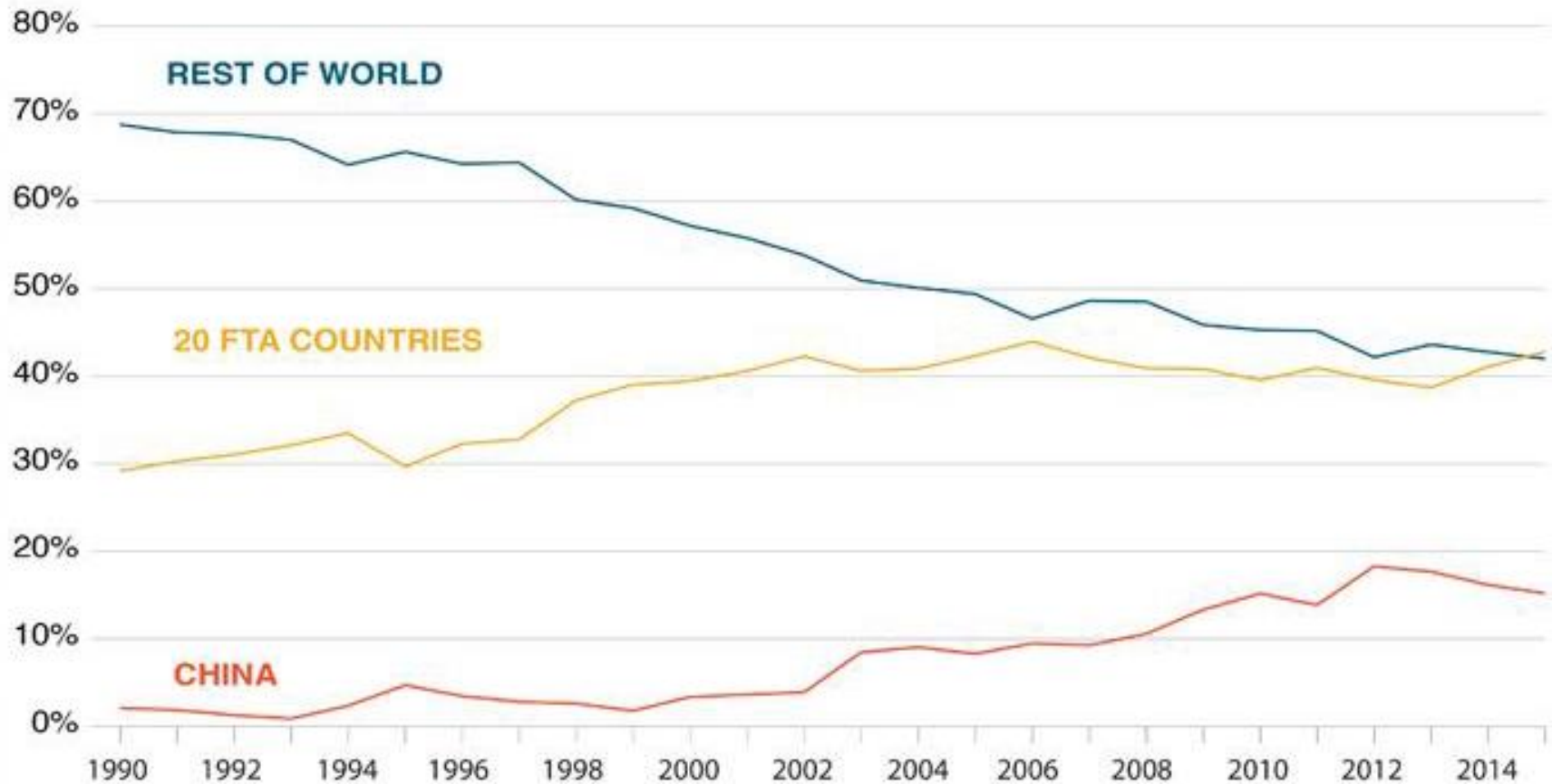
- Free trade agreements (FTAs): bloc of countries cooperating to reduce trade barriers, members maintaining their own external (WTO) tariffs
- To date U.S. is member of 14 FTAs, e.g., NAFTA (1994) CAFTA (2005), and KORUS (2012)
- Account for 20 trading partners, e.g., Australia, Canada, Chile, Colombia, Mexico, Morocco, Peru, Singapore, and South Korea
- TPP not ratified, and TTIP on hold

FTAs and U.S. Agricultural Trade

- FTA partners represent 10% of global GDP and 6% of world population
- By 2015, partners accounted for 43% of U.S. agricultural exports compared to 29% in 1990
- Under FTAs, U.S. agricultural exports have enjoyed either immediate tariff reduction, tariff phase-out, or improved market access via tariff-rate quotas (TRQs)
- 1990-2015 - increased share of U.S. exports to FTA partners for all major products

FTAs and U.S. Export Growth

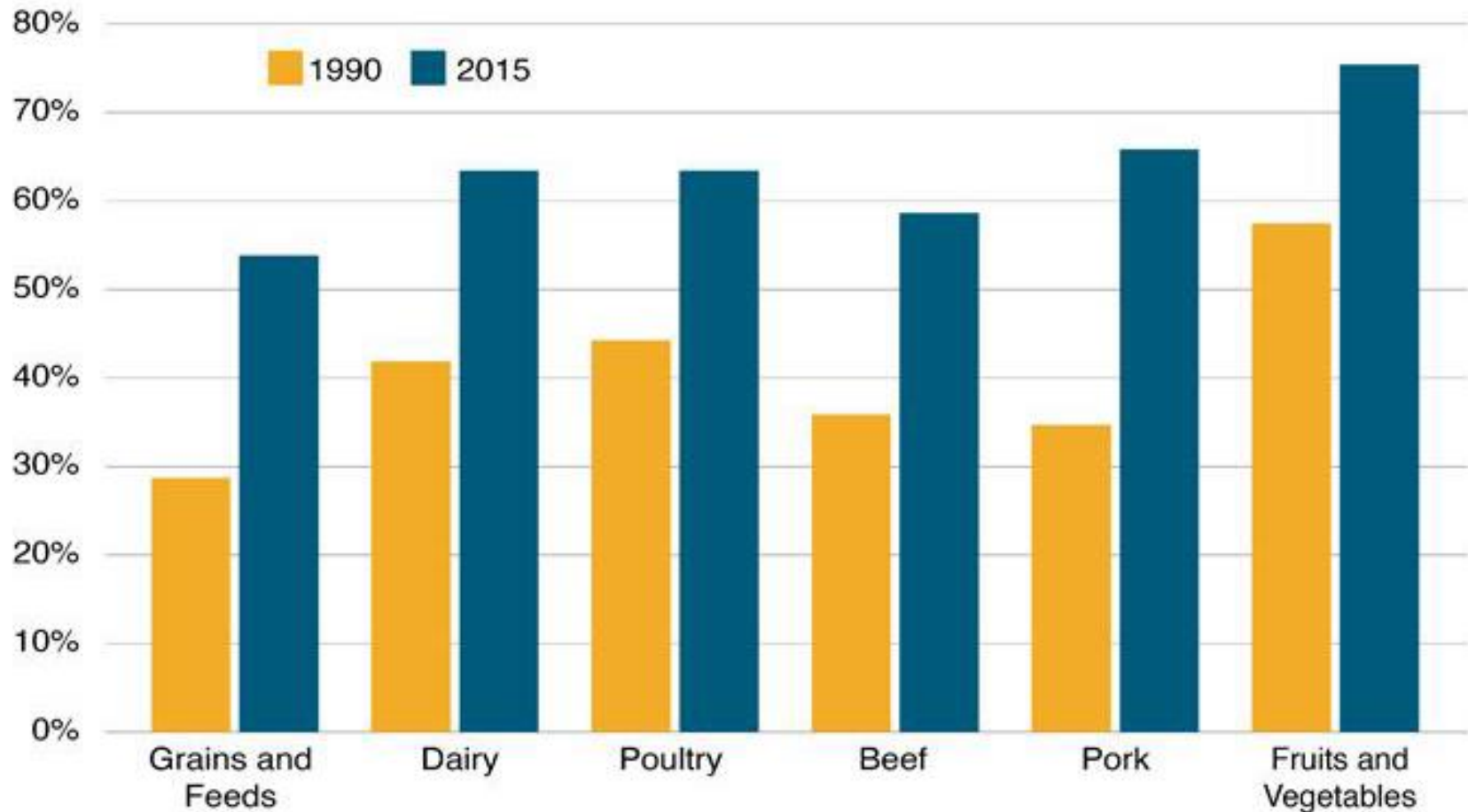
Figure 1: Share of U.S. Agricultural Exports by Destination



Source: USDA-FAS Global Agricultural Trade System, 2016

FTAs and U.S. Export Growth

Figure 2: Share of U.S. Exports TO FTA Partners by Product



Source: USDA-FAS Global Agricultural Trade System, 2016

Dominance of NAFTA

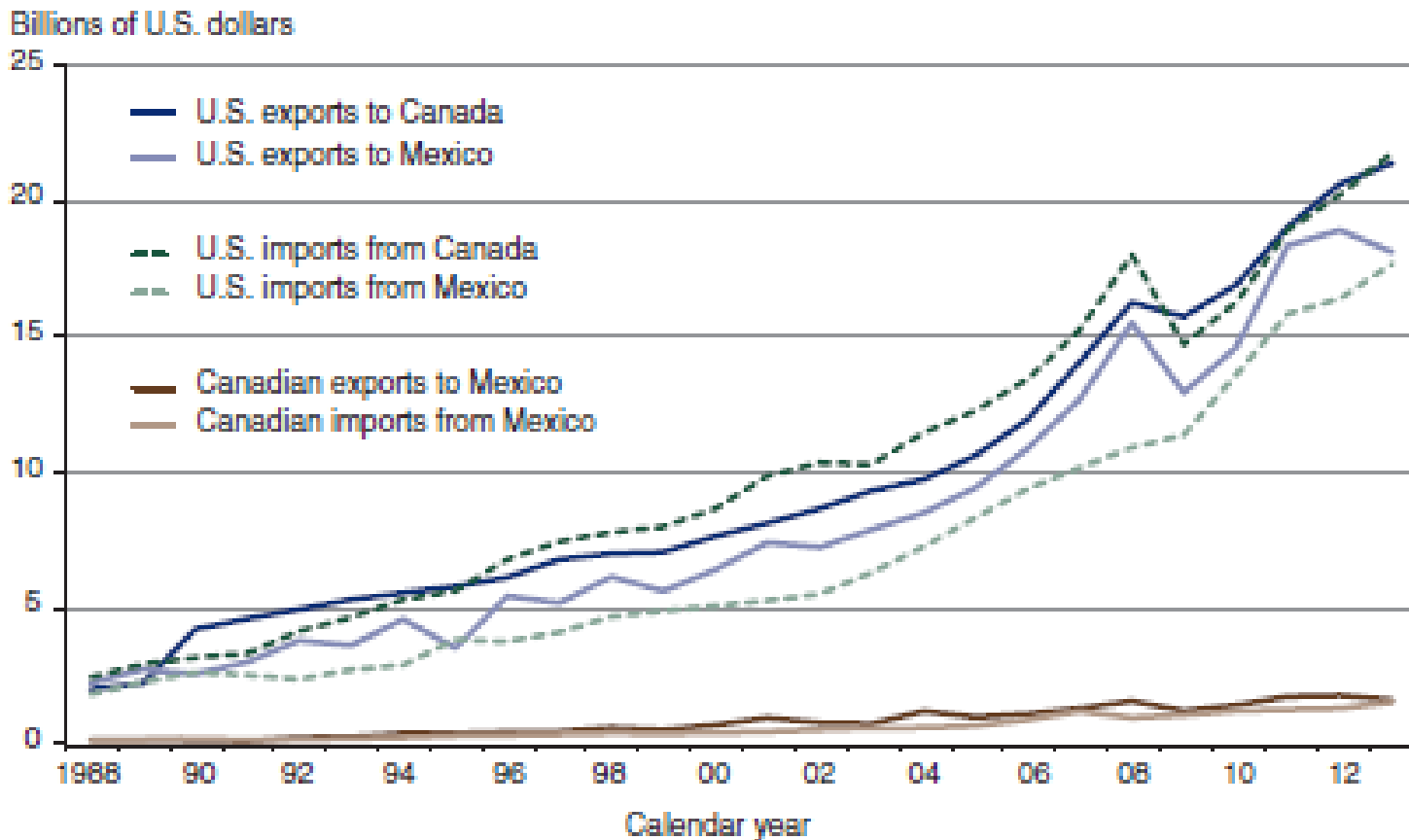
- **Among all commodities, U.S. corn exports to FTA partners have shown most dramatic growth rate**
- **Largely driven by expansion of TRQs and eventual elimination of trade barriers by Mexico under NAFTA**
- **Since NAFTA implementation, U.S. agricultural exports to Canada and Mexico have quadrupled: \$8.9 billion (1993) to \$38.6 billion (2015)**
- **Canada is #1 market for U.S. agricultural exports, and Mexico is #1 market for U.S. corn, soybean meal, poultry and pork exports**

Key Features of NAFTA

- **NAFTA structured as 3 bilateral regional agreements: Canada/U.S., U.S./Mexico and Canada/Mexico**
- **Tariff elimination under CUSTA concluded in 1998; some key products still governed by TRQs (U.S. - dairy, peanuts, sugar; Canada – dairy, poultry and eggs)**
- **Under NAFTA, no products excluded from U.S.-Mexican liberalization; many tariffs eliminated immediately, others phased out over 4, 9 or 14 years**
- **Real value of intra-regional trade (exports + imports) expanded by 233% between 1993 and 2013**

NAFTA and Agricultural Trade

Figure 3: Intraregional Trade over CUSTA/NAFTA Period



Source: USDA/ERS, 2015

NAFTA and Market Integration

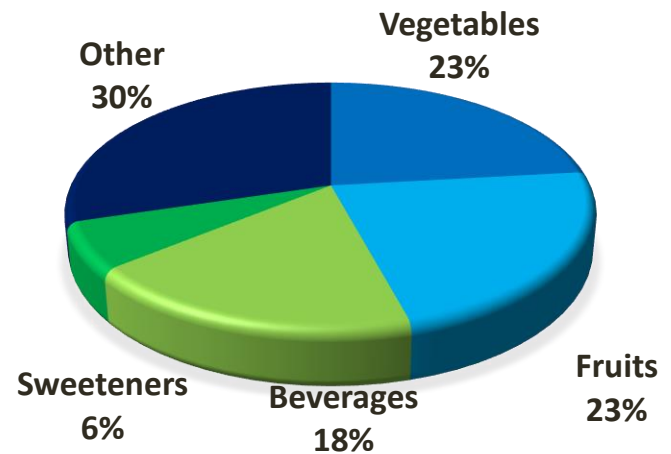
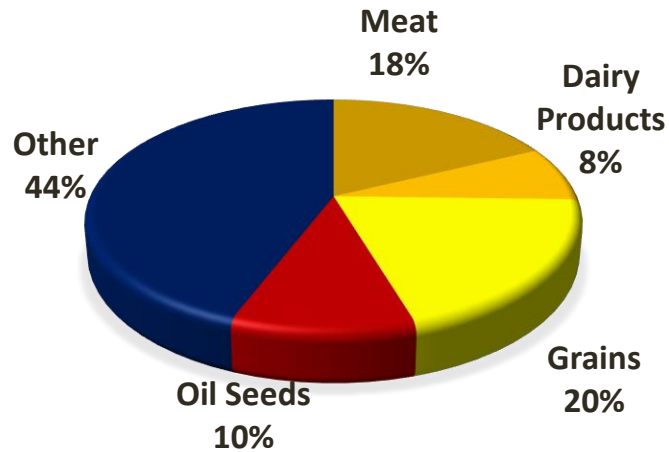
- **Specialization has allowed extensive integration of North American agricultural markets**
- **Rising demand for feed and food (meat) in Mexico has driven intraregional trade in grains and oilseeds**
- **Complex agricultural supply chains have evolved for meat production: e.g., feeder pigs from Canada, finished, slaughtered, and processed in U.S., exported to Canada and Mexico (Hendrix, 2017)**
- **Fruit and vegetable trade has increased substantially with removal of trade barriers – benefits consumers**

NAFTA and Specialization

Figure 4: U.S.-Mexican Agricultural Trade

U.S. agricultural exports to Mexico 2016
\$18 billion

U.S. agricultural imports from Mexico 2016
\$24.8 billion



Source: USDOC, 2016

Feed Market Integration

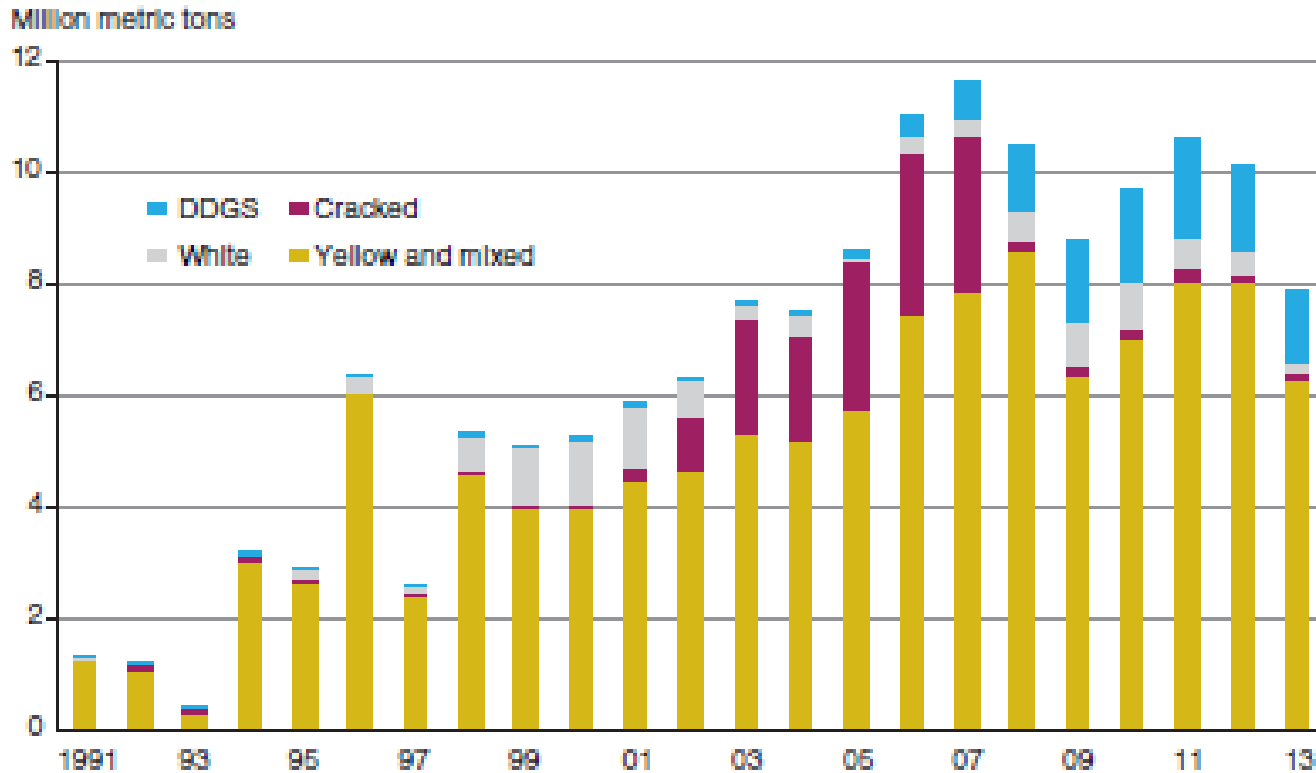
Figure 5: Mexican Demand for Feedstuffs



Source: USDA/ERS, 2015

Feed Market Integration

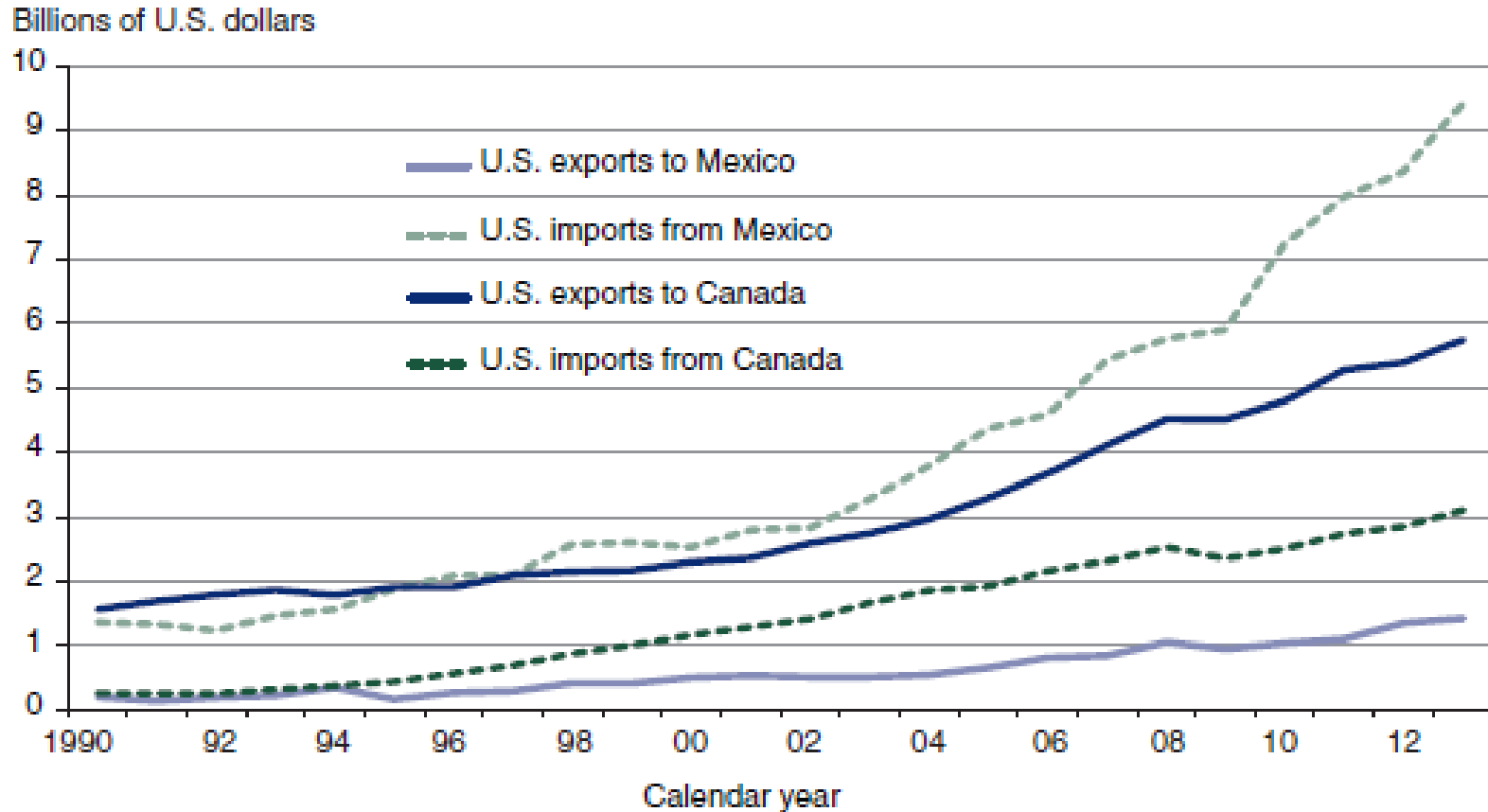
Figure 6: Mexican Demand for Corn



Source: USDA/ERS, 2015

NAFTA: Fruit and Vegetable Trade

Figure 7: Fruit and Vegetable Trade under NAFTA



Source: USDA/ERS, 2015

NAFTA Renegotiations

- Administration's negotiating objectives emphasize improved market access as well as "deep integration"
- Deep integration involves harmonization of standards relating to investment, intellectual property, labor, environment, state-owned enterprises, etc.
- Resembles TPP – so why drop the latter?
- Potential gains from deeper integration, but also poses risks of higher trade barriers in North America
- Misguided attempt to address U.S. trade deficit?

NAFTA Renegotiations

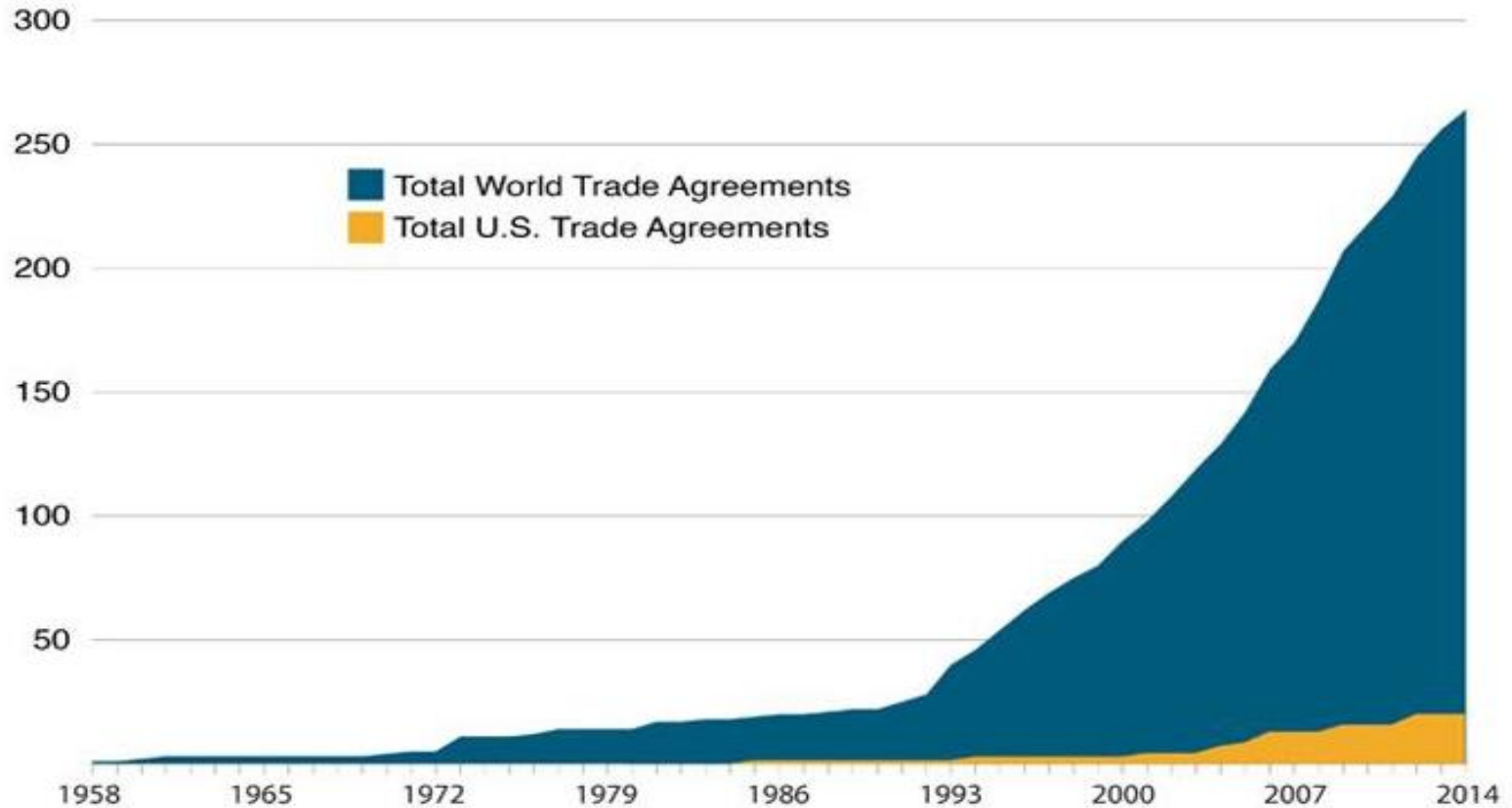
- Following end of talks on October 17, two issues represent key threat:
 - Proposal of 5-year “sunset” clause – will generate uncertainty, reducing trade and investment
 - Change in *rules-of-origin* in automobile sector – risk manufacturers go offshore and incur U.S. tariff
- U.S., Canada, and Mexico have indicated they are willing to leave NAFTA if unsatisfied with negotiations

Cost of Backing Away From Regionalism

- **U.S. has small share of total number of FTAs (14/267)**
- **U.S. has low average agricultural tariffs compared to some of its export markets, e.g., Japan**
- **By their nature, FTAs discriminatory against non-members, placing U.S. exporters at disadvantage, e.g., EU-Canada FTA, and EU negotiating FTA with Japan**
- **Failure to ratify TPP, and not pushing TTIP – U.S. locked out of significant “hub and spoke” market connections**

FTAs and the U.S.

Figure 8: U.S. Share of Reported FTAs



Source: WTO, 2015

U.S. Agriculture: TPP and TTIP

- By 2025 TPP was expected to increase U.S. agricultural exports by \$2.8 billion – a 33% increase in export market share (USDA/ERS, 2014)
- U.S. agriculture would have gained market access to countries where it has no FTA, notably Japan
- EU has higher average agricultural import tariffs against US (12.9%) compared to reverse (6.4%)
- TTIP forecast to generate higher agricultural export growth than TPP – 159% for US compared to 56% for the EU (Disdier *et al.*, 2015)

Contact Details

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