

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

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U.S. Free Trade Agreements: Current Status

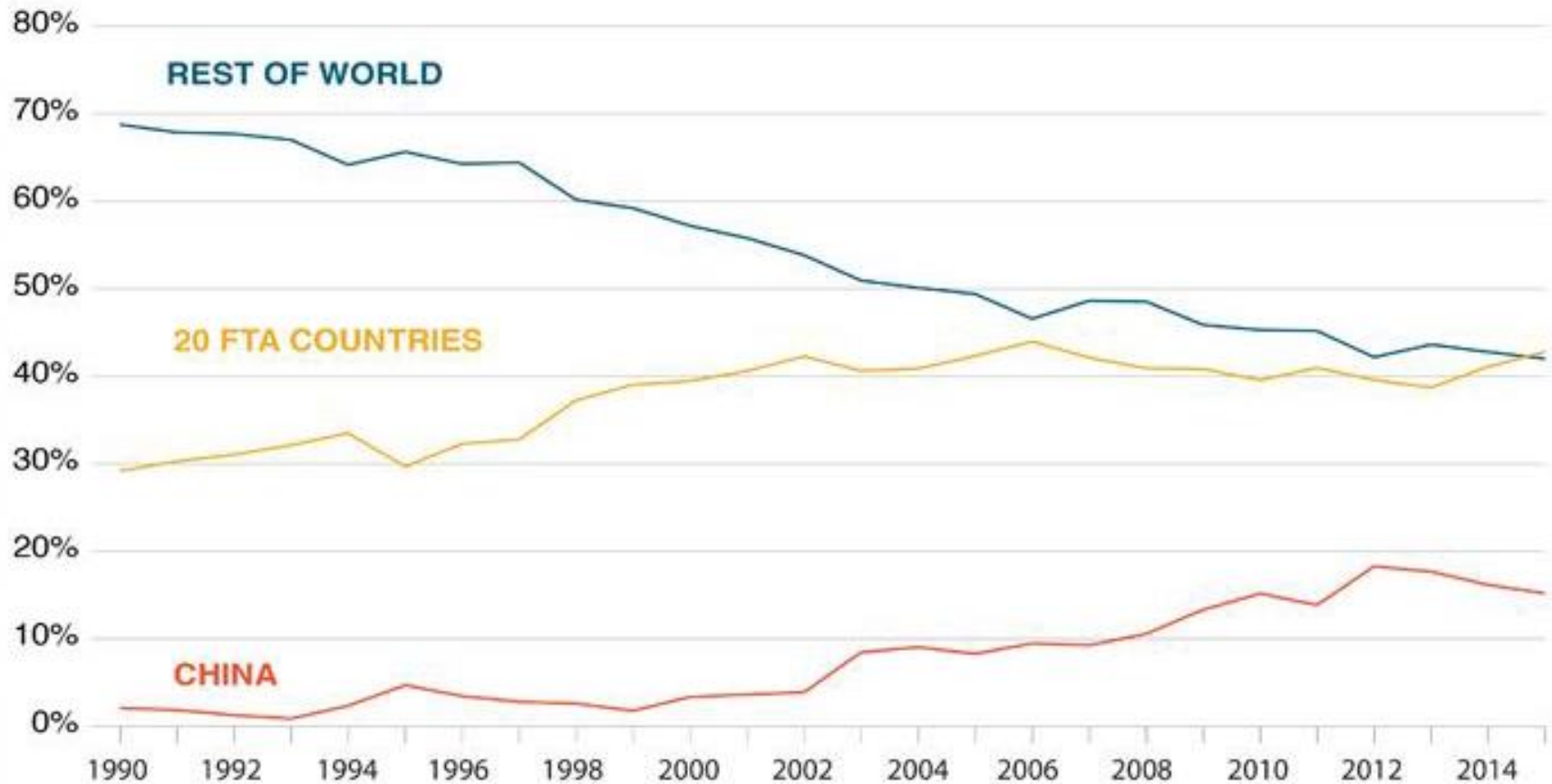
- **Free trade agreements (FTAs): bloc of countries cooperating to reduce trade barriers, members maintaining their own external (WTO) tariffs**
- **To date U.S. is member of 14 FTAs, e.g., NAFTA (1994) D.R.-CAFTA (2005), and KORUS (2012)**
- **Account for 20 trading partners, e.g., Australia, Canada, 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

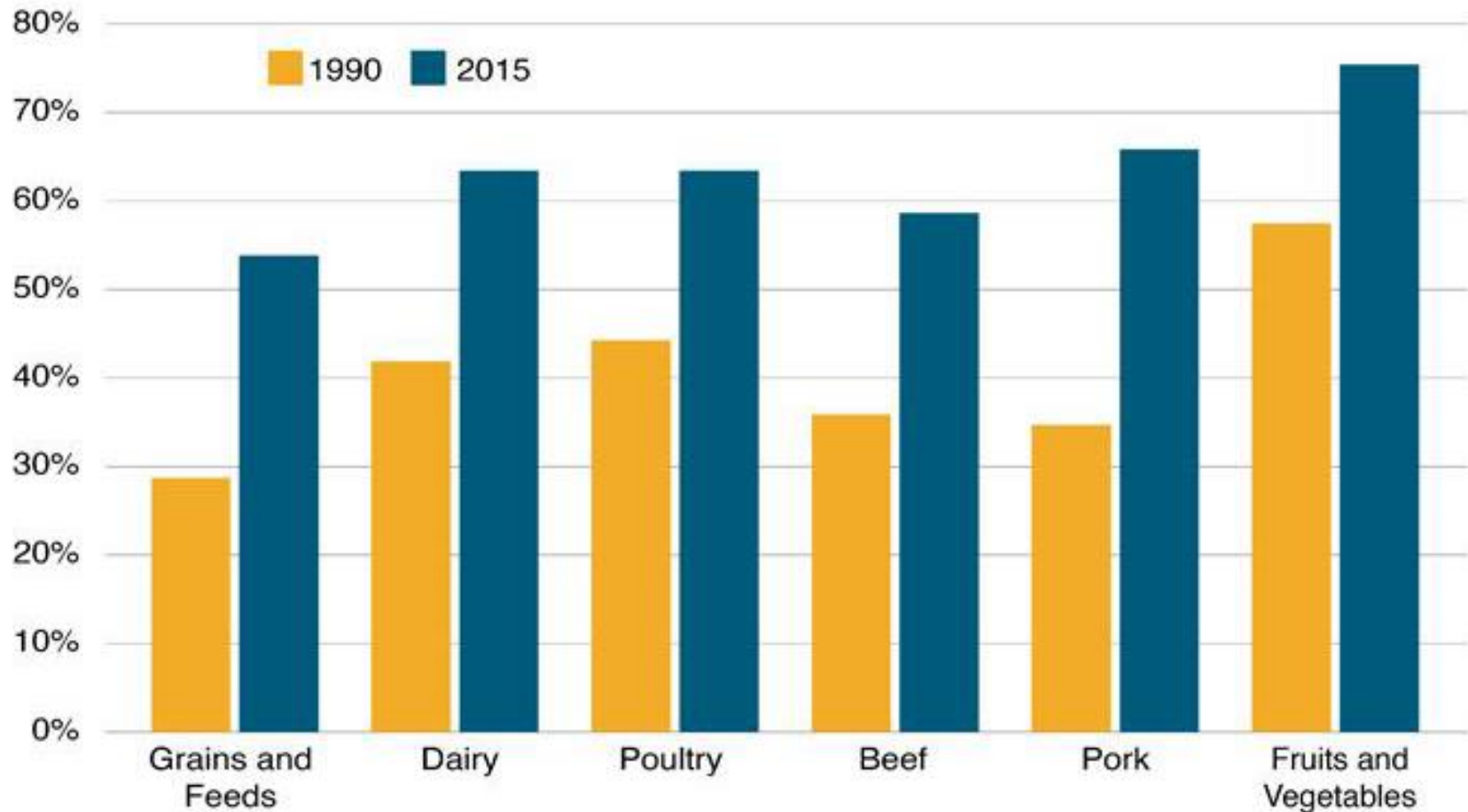
Figure 1: Share of U.S. Agricultural Exports by Destination



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 \$38.4 billion (2016)
- Canada and Mexico were the #2 and # 3 markets respectively for U.S. agricultural exports in 2016

Dominance of NAFTA



Canada

United States Department of Agriculture
Foreign Agricultural Service 

\$20.5 billion

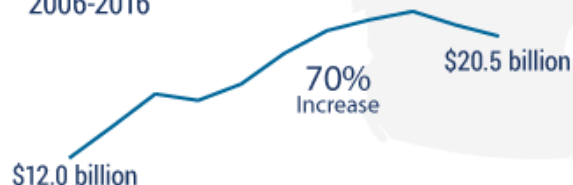
 U.S. Agricultural Exports, 2016

Top 5 U.S. Exports

- 1 Prepared Food (\$3.5 billion)
- 2 Fresh & Processed Vegetables (\$2.4 billion)
- 3 Fresh & Processed Fruit (\$2.4 billion)
- 4 Pork (\$793 million)
- 5 Beef (\$758 million)

Export Growth

2006-2016



#2

Among U.S.
Agricultural Export
Markets, 2016

Source: FAS Global Agricultural Trade System (GATS) BICO HS- 6

Mexico

United States Department of Agriculture
Foreign Agricultural Service 

\$17.9 billion

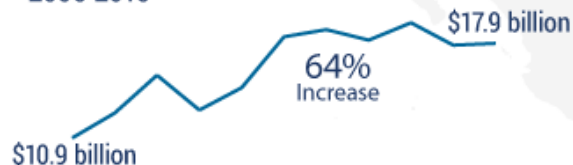
 U.S. Agricultural Exports, 2016

Top 5 U.S. Exports

- 1 Corn (\$2.6 billion)
- 2 Soybeans (\$1.5 billion)
- 3 Pork (\$1.3 billion)
- 4 Dairy Products (\$1.2 billion)
- 5 Prepared Foods (\$1.0 billion)

Export Growth

2006-2016



#3

Among U.S.
Agricultural Export
Markets, 2016

Source: FAS Global Agricultural Trade System (GATS) BICO HS- 6

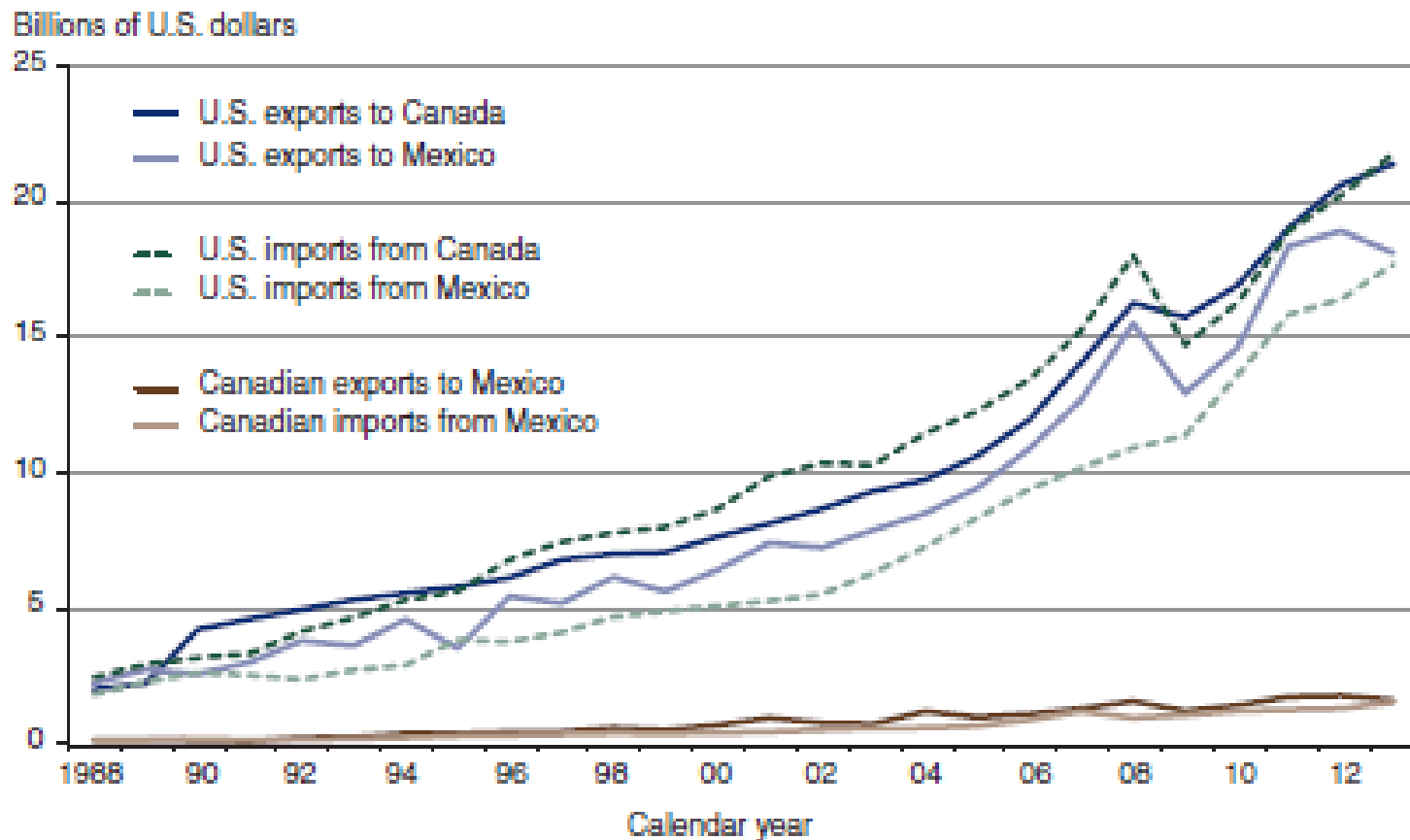


Key Features of NAFTA

- **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

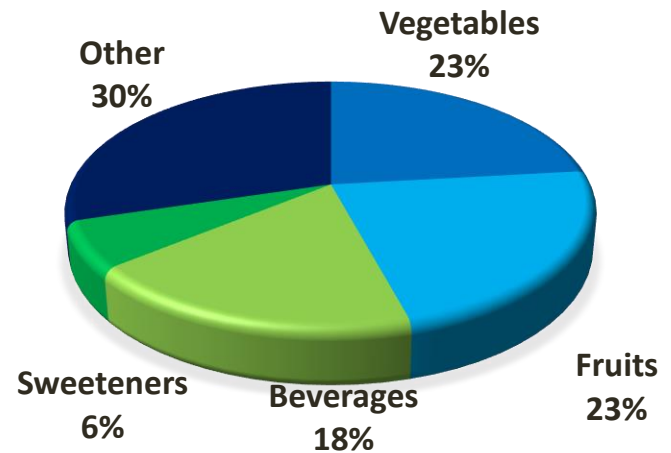
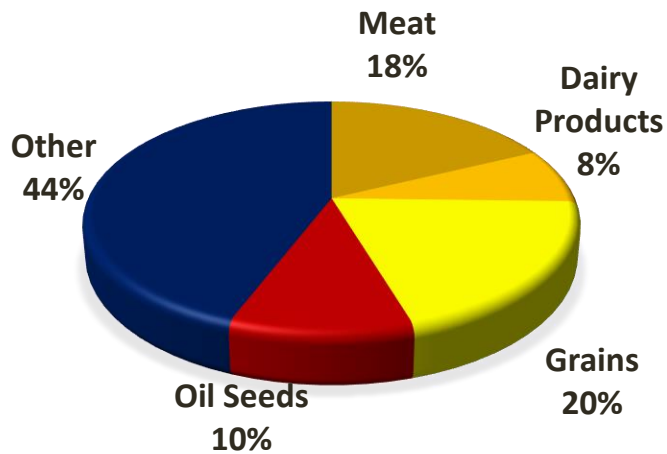
- **Specialization has allowed extensive integration of North American agricultural markets**
- **Rising demand for feed and food (meat) in Mexico has driven intraregional trade in grains and oilseeds**
- **Complex agricultural supply chains have evolved for meat production: e.g., feeder pigs from Canada, 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

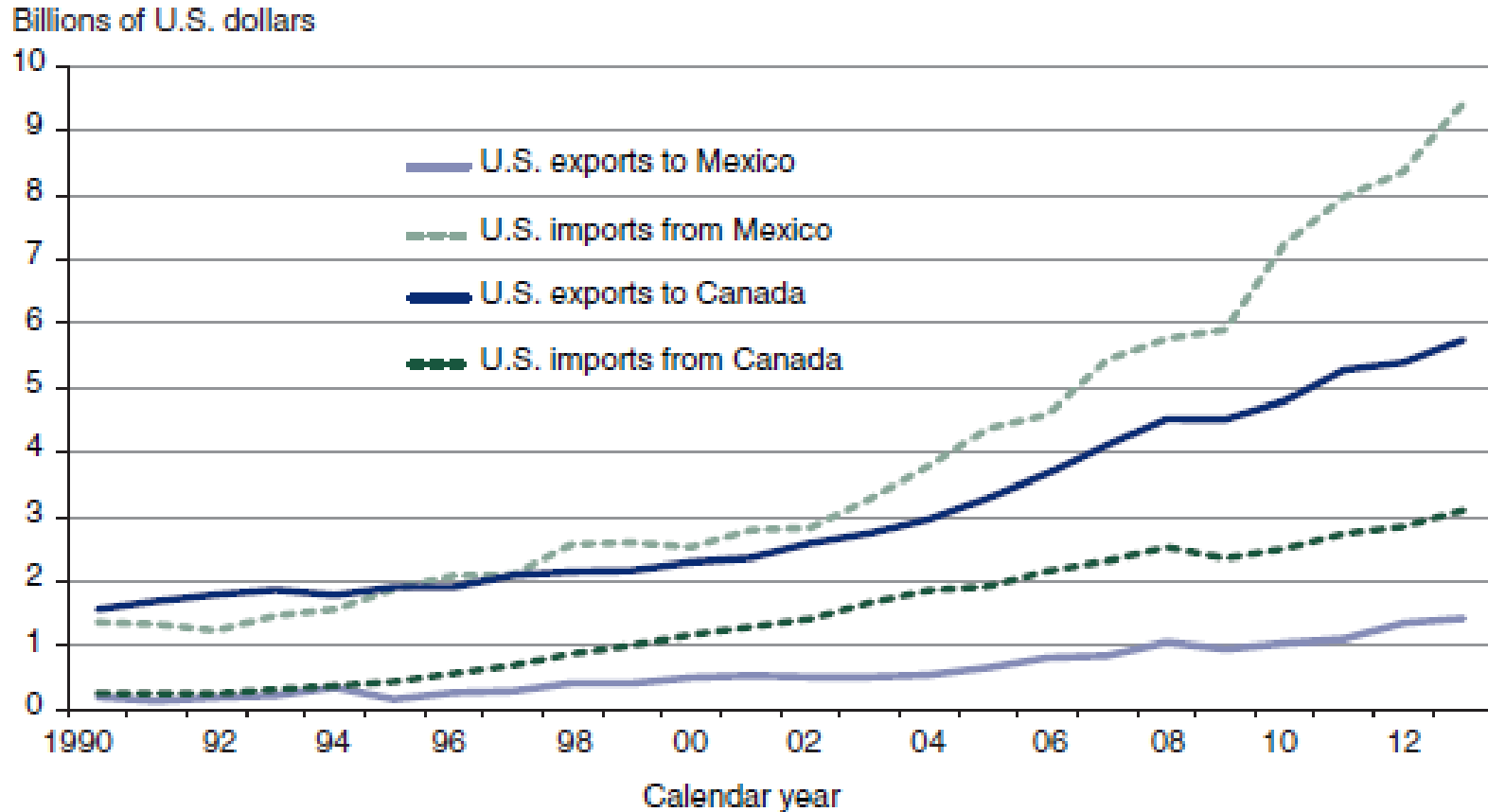
Figure 5: Mexican Demand for Feedstuffs



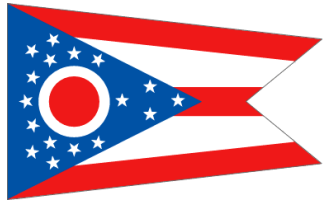
Source: USDA/ERS, 2015

NAFTA: Fruit and Vegetable Trade

Figure 7: Fruit and Vegetable Trade under NAFTA



Source: USDA/ERS, 2015



Ohio Agriculture and NAFTA



Top Ohio Agricultural/Food Exports to Canada and Mexico, 2016 (\$million)

Product (4-digit NAICS)	Canada	Product (4-digit NAICS)	Mexico
Meat Products and Meat Packing	191.1	Oilseeds and Grains	251.1
Fruits & Vegetable Preserves and Specialty Foods	124.3	Meat Products and Meat Packing	17.5
Grain/Oilseed Milling	96.9	Bakery Products	15.9
Animal Foods	83.5	Animal Foods	6.9
Bakery Products	82.1	Sugar and Confectionary	4.8
Other Foods	77.2	Cattle	4.4
Beverages	60.6	Grain/Oilseed Milling	4.4
		Dairy Products	4.1

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



- **Prior to 6th round of talks in Montreal, three issues raised by U.S. 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**
 - **Ending Chapter 19 dispute settlement mechanism**
- **Suggestion that President Trump will send letter giving 6-month notice of U.S. intention to pull out of NAFTA**

NAFTA Breakdown and Agriculture



Change in Prices and Purchasing Power

Scenario	Importer	% change in prices	% change in purchasing power
1. NAFTA ends	Canada	0.16	-0.75
	U.S.	0.15	-0.36
	Mexico	2.18	-3.38
2. NAFTA ends and Mexico raises corn tariff to bound level	Canada	0.23	-0.79
	U.S.	0.21	-0.47
	Mexico	12.82	-28.55

Change in Export Value

Scenario	Canada	U.S.	Mexico
1. NAFTA ends	-5.33	-5.99	-4.75
2. NAFTA ends and Mexico raises corn tariff to bound level	-4.83	-6.35	-7.63

Source: Heerman and Zahniser - ERS/USDA (2018)

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., Australia-Japan (JAEPA), Canada-EU (CETA), and EU negotiating FTA with Japan**
- **Failure to ratify TPP, and not pushing TTIP – U.S. will be giving up on significant preferential access, and also losing market share to major competitors**

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 U.S. (12.9%) compared to reverse (6.4%)
- TTIP forecast to generate higher agricultural export growth than TPP – 159% for U.S. compared to 56% for the EU (Disdier *et al.*, 2015)

Contact Details

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