

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

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COLLEGE OF FOOD, AGRICULTURAL,
AND ENVIRONMENTAL SCIENCES

U.S. Free Trade Agreements: Current Status

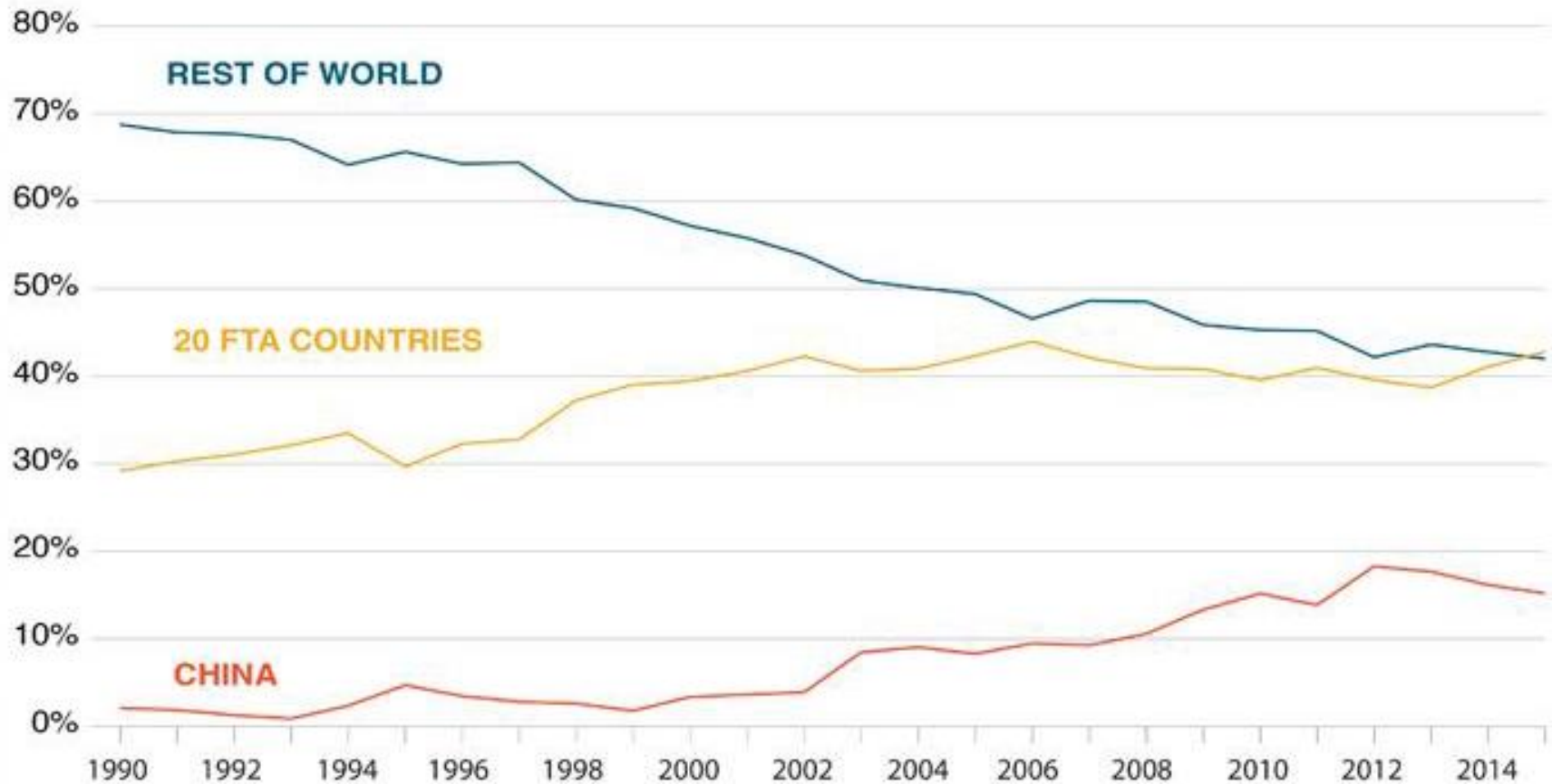
- Free trade agreements (FTAs): bloc of countries cooperating to reduce trade barriers, members maintaining their own external (WTO) tariffs
- To date U.S. is member of 14 FTAs, e.g., NAFTA (1994) D.R.-CAFTA (2005), and KORUS (2012)
- Account for 20 trading partners, e.g., Australia, Canada, Chile, Colombia,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

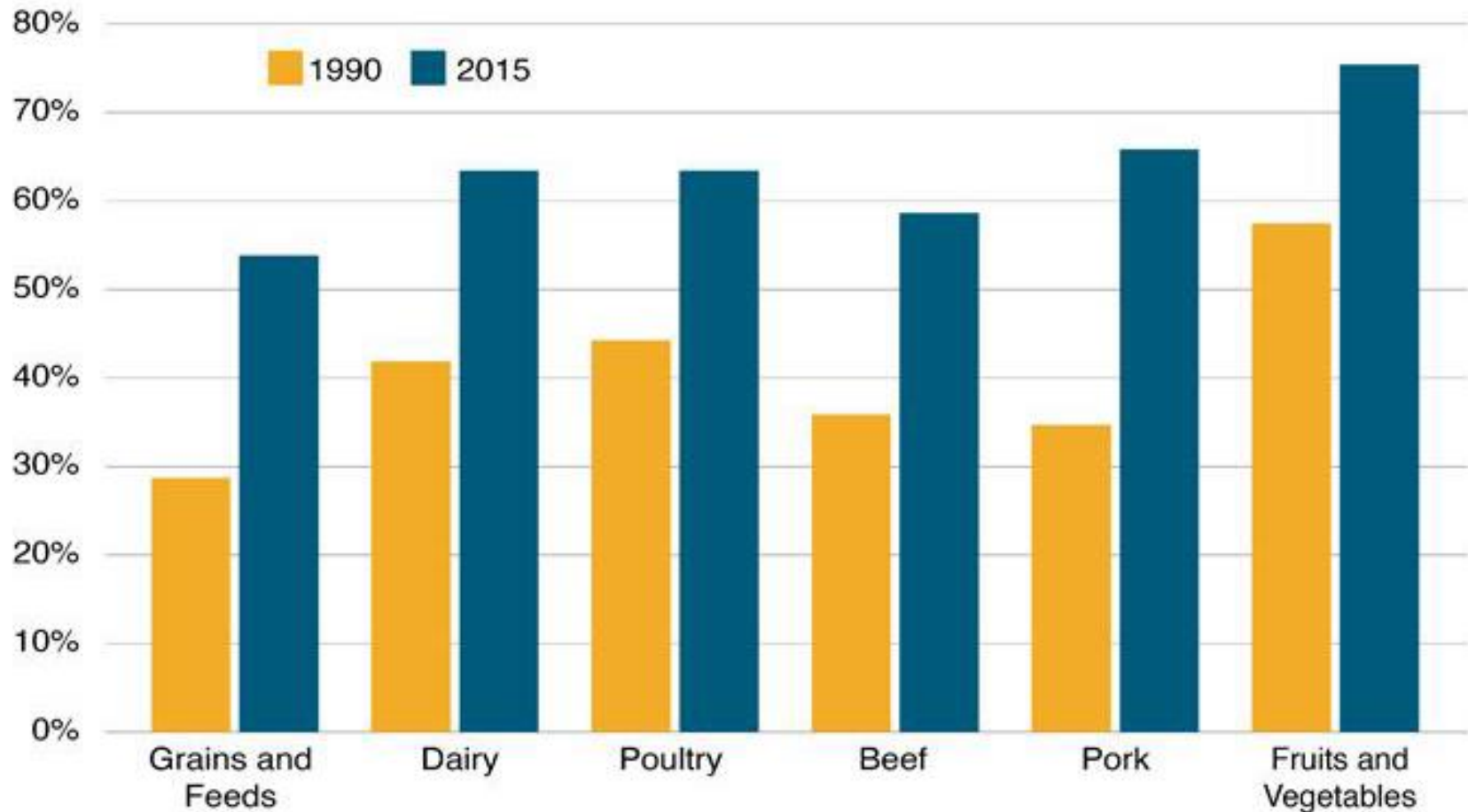
Figure 1: Share of U.S. Agricultural Exports by Destination



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

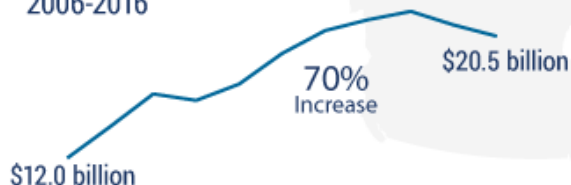
 U.S. Agricultural Exports, 2016

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

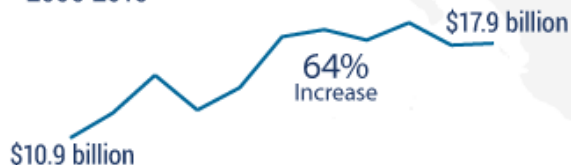
 U.S. Agricultural Exports, 2016

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

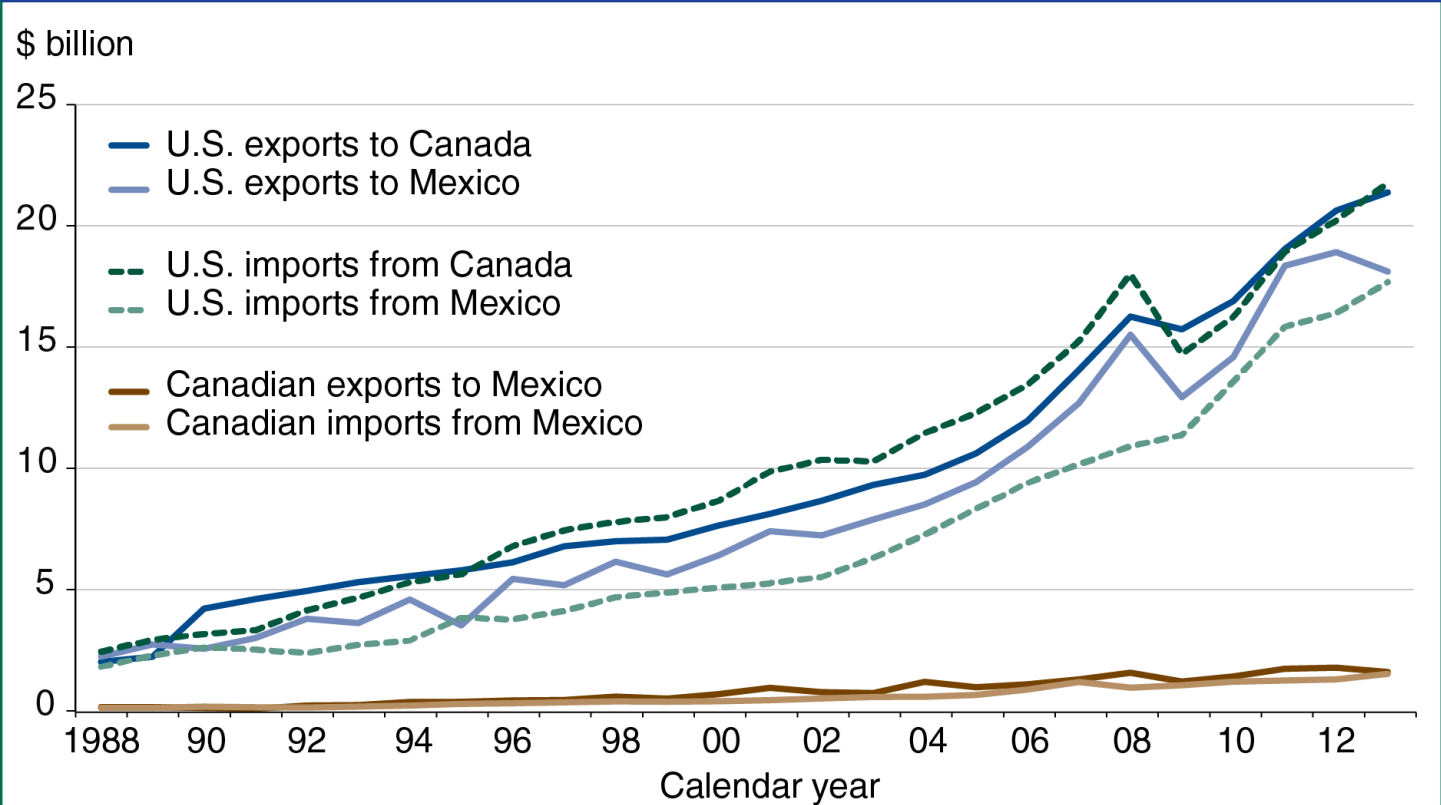


Key Features of NAFTA

- **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, Economic Research Service using data from U.S. Department of Commerce, Census Bureau, Foreign Trade Statistics, and Canadian trade data from Statistics Canada,



NAFTA and Market Integration

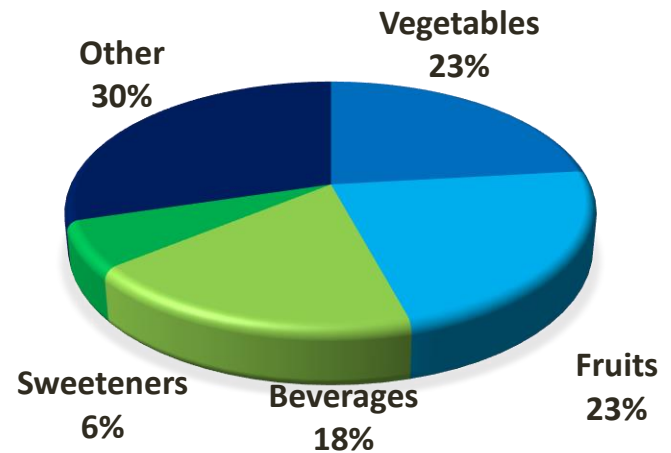
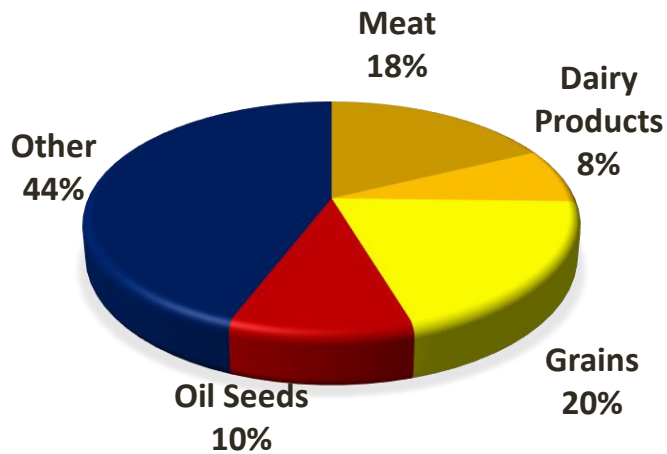
- **Specialization has allowed extensive integration of North American agricultural markets**
- **Rising demand for feed and food (meat) in Mexico has driven intraregional trade in grains and oilseeds**
- **Complex agricultural supply chains have evolved for meat production: e.g., feeder pigs from Canada,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

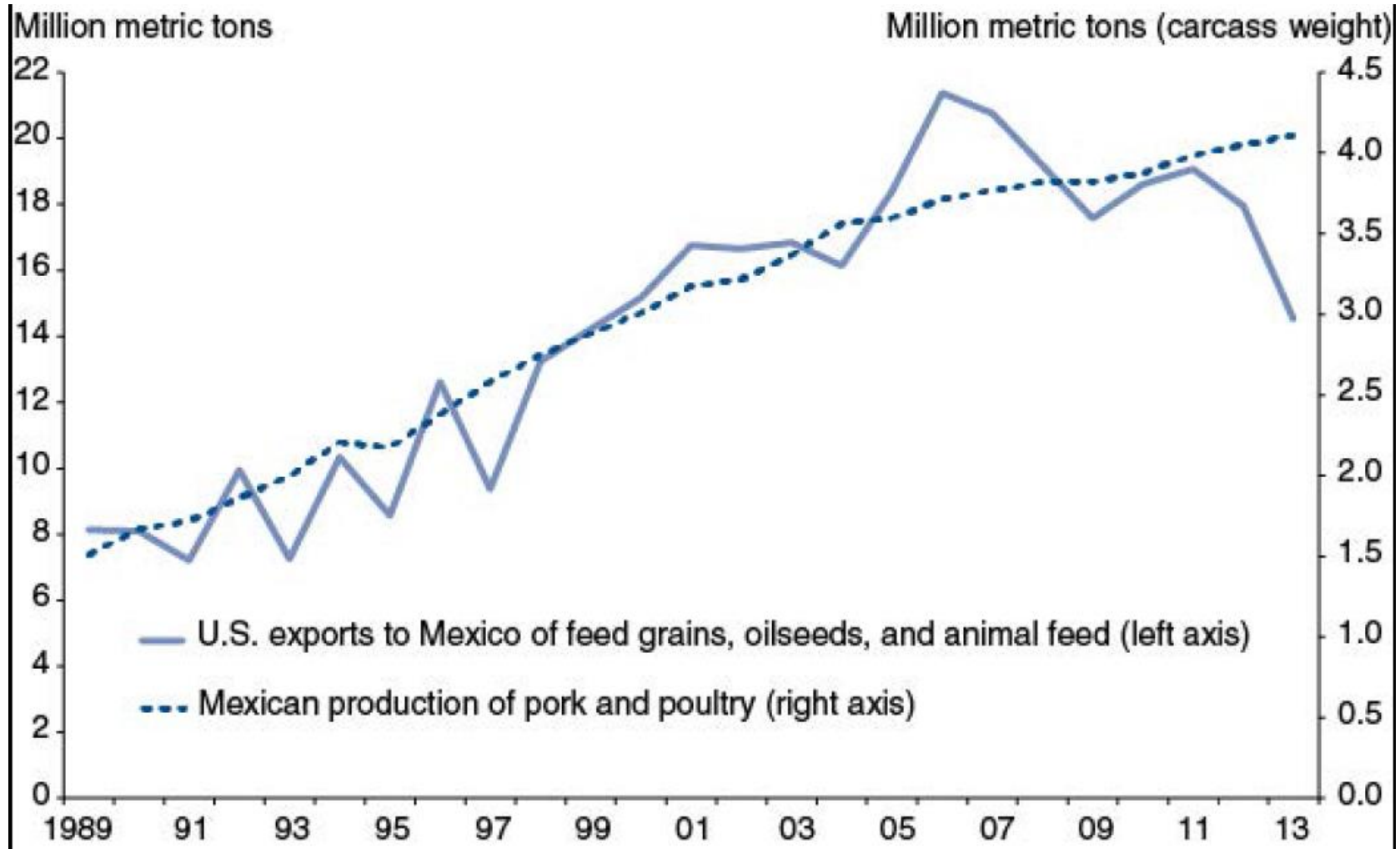
U.S. agricultural imports from Mexico 2016
\$24.8 billion



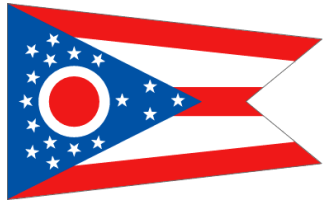
Source: USDOC, 2016

Feed Market Integration

Figure 5: Mexican Demand for Feedstuffs



Source: USDA/ERS, 2015



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
- President Trump could 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)

-\$2.3 billion

Cost of Backing Away From Regionalism

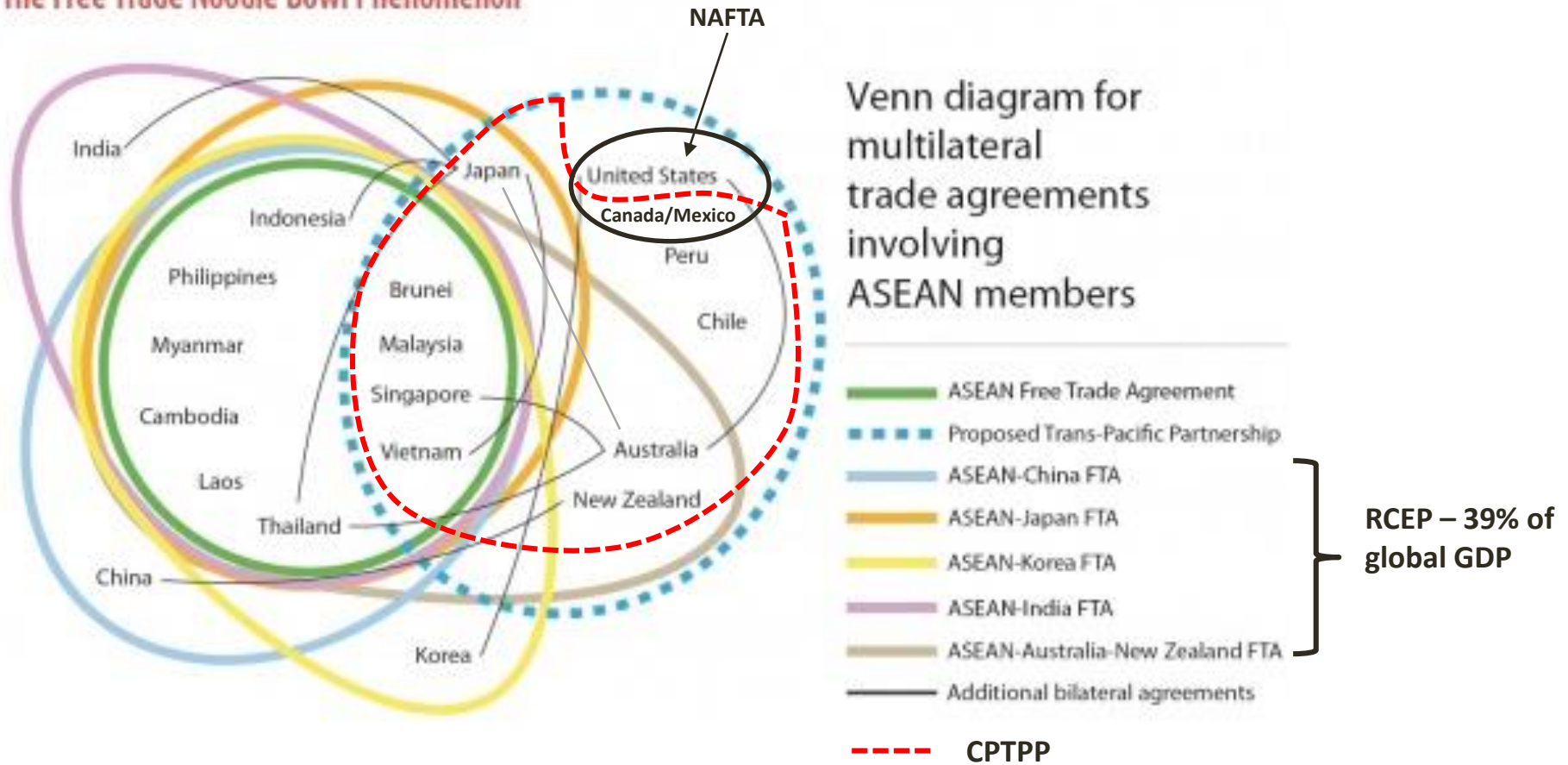
- **U.S. has small share of total number of FTAs (14/267)**
- **U.S. has low average agricultural tariffs compared to some of its export markets, e.g., Japan**
- **By their nature, FTAs discriminatory against non-members, placing U.S. exporters at disadvantage, e.g., Australia-Japan (JAEPA), Canada-EU (CETA), and EU-Japan (30% of global GDP)**
- **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**

TPP: Lost Market Access for the U.S.

- 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
- U.S. has lost ground to Australia in exporting beef to Japan – partly due to JAEPA
- Simplification of Asia-Pacific “noodle bowl” could result in significant loss of market share for U.S. agricultural exporters

Simplifying the “noodle bowl”

The Free Trade Noodle Bowl Phenomenon



The Cost of Retreating from Regionalism

- U.S. agriculture very dependent on trade
- Rolling back NAFTA would reduce U.S. market access to its two largest agricultural export markets
- In long-run, might impact ability of North American pork and beef value chains to compete globally
- Failure to ratify TPP reduces ability of U.S. to compete against other exporters (Australia, Canada and EU) in Asia-Pacific region – self-inflicted “preference erosion”

Contact Details

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