From NAFTA To USMCA: What Does it Mean for Agriculture

By

Danny G. Le Roy

A webinar presentation to the British Columbia Ministry of Agriculture

November 21, 2018
USMCA: The context

U.S. President Donald Trump, Mexican President Enrique Pena Nieto and Canadian Prime Minister Justin Trudeau. Source: CBC
Real consequences for real people in real time.

Key to good economic analysis: Remember the people involved.

Source: The Review
The USMCA is ...

. by people   . about people   . for people

“Economics is not about goods and services; it is about human choice and action.”

-Ludwig von Mises
Economic science and the obvious

- Only humans act.

- Goods can’t pay.

- Regulations are aimed at people.

Captain Obvious
Second truth about human action

– That freedom of exchange is a great benefactor is the most convincingly established truth of economics.
  - Adam Smith, David Ricardo, Carl Menger, Milton Friedman
The pattern of production, consumption and exchange is forever changing….

because our wants, means, valuations and opportunity costs are always changing.
Opportunity costs and the price system

- **Opportunity cost:**
  - subjective valuation of the best forgone alternative and the basis of comparative advantage
  - individual, time, place and circumstance specific

- The *price system* serves to share and synchronize local and personal knowledge and opportunity costs.

- Allows individuals over time and space to achieve separate, diverse, complicated ends through spontaneous self-organization.
Politics is the art of making your selfish desires seem like the national interest.

— Thomas Sowell —
NAFTA 2.0?

Observations:

• “Free trade” absent from title.

• 1,812 pages long
  – 34 articles
  – Several annexes and side letters
  – Hundreds of pages of tariff lines.
Managed Trade versus Free Trade

• First “North American Free Trade Agreement”
  • (Article I, Section 9, of the US Constitution, 1787)

  – No tax or duty shall be laid on articles exported from any
    state. No preference shall be given by any regulation of
    commerce or revenue to the ports of one State over those
    of another: nor shall vessels bound to, or from, one State,
    be obliged to enter, clear, or pay duties in another.

  – 54 words
Automobiles

Pct. of vehicle components for zero tariffs

- 62.5% Under NAFTA
- 75% Under USMCA

Average hourly wages, auto industry

- $3.41 Current parts wage, Mexico
- $7.34 Current assembly wage, Mexico
- $16 Proposed production wage under USMCA
- $20 Current production wage, U.S. and Canada

Source: USA Today

SOURCE Center for Automotive Research, “Review of current NAFTA proposals and potential impacts on the North American automotive industry,” April 2018
George Petras/USA TODAY
Fewer cars and trucks manufactured globally and *at higher cost.*
## Additional Duty Free Access for Canadians

<table>
<thead>
<tr>
<th>Product (tonnes)</th>
<th>Year 1</th>
<th>Year 6</th>
<th>Year 19</th>
<th>Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk</td>
<td>8,333</td>
<td>50,000</td>
<td>56,905</td>
<td>85% for further processing</td>
</tr>
<tr>
<td>Cream</td>
<td>1,750</td>
<td>10,500</td>
<td>11,950</td>
<td>85% for further processing</td>
</tr>
<tr>
<td>Skim milk powder</td>
<td>1,250</td>
<td>7,500</td>
<td>8,536</td>
<td></td>
</tr>
<tr>
<td>Butter &amp; cream powder</td>
<td>750</td>
<td>4,500</td>
<td>5,121</td>
<td>85% for further processing gradually reduced to 50%</td>
</tr>
<tr>
<td>Industrial cheese</td>
<td>1,042</td>
<td>6,250</td>
<td>7,133</td>
<td>for further processing</td>
</tr>
<tr>
<td>All cheese types</td>
<td>1,042</td>
<td>6,250</td>
<td>7,133</td>
<td></td>
</tr>
<tr>
<td>Yogurt &amp; buttermilk</td>
<td>689</td>
<td>4,135</td>
<td>4,706</td>
<td></td>
</tr>
<tr>
<td>Ice cream &amp; ice cream mixes</td>
<td>115</td>
<td>690</td>
<td>785</td>
<td></td>
</tr>
</tbody>
</table>

Source: Appendix C, Tariff Schedule of Canada, Section B - TRQs
## Additional Duty Free Access for Canadians

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<th>Product (tonnes)</th>
<th>Year 1</th>
<th>Year 6</th>
<th>Year 19</th>
<th>Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk powder</td>
<td>115</td>
<td>690</td>
<td>785</td>
<td></td>
</tr>
<tr>
<td>Concentrated and condensed milk</td>
<td>230</td>
<td>1,380</td>
<td>1,571</td>
<td></td>
</tr>
<tr>
<td>Powdered buttermilk</td>
<td>87</td>
<td>520</td>
<td>592</td>
<td></td>
</tr>
<tr>
<td>Whey powder</td>
<td>689</td>
<td>4,135</td>
<td></td>
<td>TRQ eliminated after 10 years</td>
</tr>
<tr>
<td>Product consisting of natural milk ingredients</td>
<td>460</td>
<td>2,760</td>
<td>3,141</td>
<td></td>
</tr>
<tr>
<td>Other dairy</td>
<td>115</td>
<td>690</td>
<td>785</td>
<td></td>
</tr>
<tr>
<td><strong>Total (tonnes)</strong></td>
<td><strong>16,667</strong></td>
<td><strong>100,000</strong></td>
<td><strong>109,403</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Appendix C, Tariff Schedule of Canada, Section B - TRQs
## Additional Duty Free Access for Canadians

<table>
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<tr>
<th>Product</th>
<th>Year 1</th>
<th>Year 6</th>
<th>Year 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chicken (eviscerated, in tonnes)</td>
<td>47,000</td>
<td>57,000</td>
<td>62,963</td>
</tr>
<tr>
<td>Eggs and egg products (dozen of eggs equivalent)</td>
<td>1,666,667</td>
<td>10,000,000</td>
<td>11,046,221</td>
</tr>
</tbody>
</table>

**Turkey:** access equivalent to no less than 3.5% of the previous year’s total Canadian turkey production.

Relative to current access, Canadians can import 1,000 MT more of turkey products each year for the next 10 years.

**Broiler Hatching Eggs:** Current duty free access remains at 21.1% of domestic production.

*Source: Appendix C, Tariff Schedule of Canada, Sections A and B*
Impacts on raw milk producers

Reduction in sales from the CETA, the CPTPP and the USMCA may be $450 to $550 million per year, several years from now.

Current farm-gate revenue in Canada from raw milk sales: $6.5 billion.
Increase in the duty free level: C$150 from C$20
Additional changes: raw milk

- Elimination of class 6/7
- Reclassification of products in other classes based on end-use
- Minimum price for SNF going into SMP, MPC and infant formula
- Limits on quantities exported.

### Table

<table>
<thead>
<tr>
<th>Product</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Subsequent years</th>
<th>Export surcharge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infant formula</td>
<td>13,333 t</td>
<td>40,000 t</td>
<td>+1.2% annually</td>
<td>$4.25/kg</td>
</tr>
<tr>
<td>SMP/MPC</td>
<td>55,000</td>
<td>35,000</td>
<td>+1.2% annually</td>
<td>$0.54/kg</td>
</tr>
</tbody>
</table>
WTO Reaches Deal on Export Subsidy Elimination
Compensation forthcoming

Prime Minister Justin Trudeau and Minister of Foreign Affairs Chrystia Freeland hold a press conference in Ottawa Monday after reaching the United States Mexico Canada Agreement. (Sean Kilpatrick/The Canadian Press)
Wheat grading

Reciprocity in the regulatory treatment of American wheat in the Canadian grain system.
Removing tariffs broadens consumption opportunities for buyers and selling opportunities for Canadian manufacturers.
Chart D1.1
Geographic Distribution of Key Commodities by Province and Territory, 2016

Yukon
- hay, poultry

Northwest Territories
- eggs, greenhouse products

Nunavut
- caribou, wild berries

British Columbia
- horticulture, dairy, poultry & eggs

Alberta
- cattle, grains & oilseeds

Saskatchewan
- grains & oilseeds, cattle

Manitoba
- grains & oilseeds, hogs

Ontario
- grains & oilseeds, hogs, horticulture, dairy

Quebec
- hogs, dairy, poultry & eggs

New Brunswick
- horticulture, dairy

Prince Edward Island
- horticulture, dairy

Newfoundland & Labrador
- Atlantic provinces horticulture, dairy

Nova Scotia

Source: Statistics Canada.
Requires officials in Canada to keep their contemporaries United States abreast of intentions to enter free trade talks with “any non-market economies”
Relative impacts: BC
Relative Impacts: BC
Key points to remember

If the USMCA ever gets enacted, the three most notable changes for most people may be:

1. The increase in the duty free level from C$20 to C$150.

2. In agriculture: a slight liberalization of supply managed markets in Canada with unchanged market access for the other 92% of Canadian farmers.

3. The new wage and country-of-origin rules will make vehicles produced in North America more expensive.
THANK YOU!