

# *From NAFTA To USMCA: What Does it Mean for Agriculture*



By

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**A webinar presentation to  
the British Columbia Ministry of Agriculture**

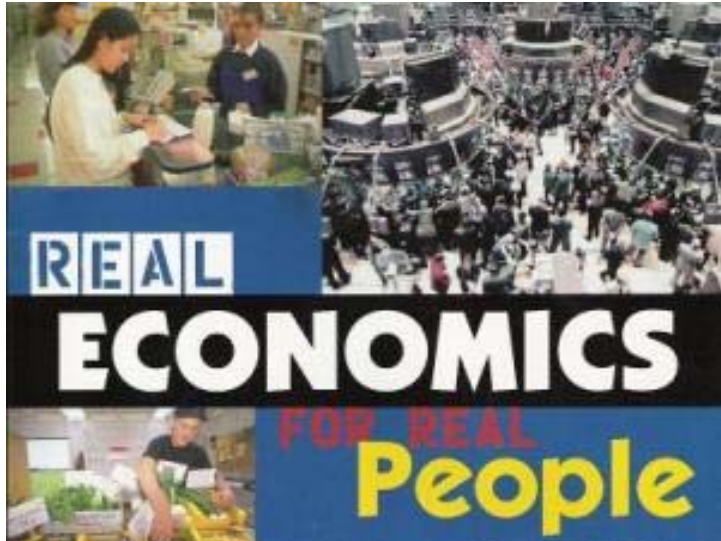
**November 21, 2018**



# USMCA: The context



U.S. President Donald Trump, Mexican President Enrique Peña 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

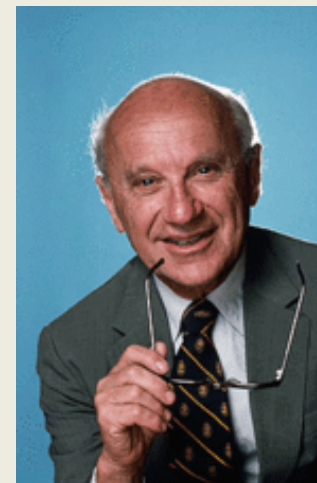
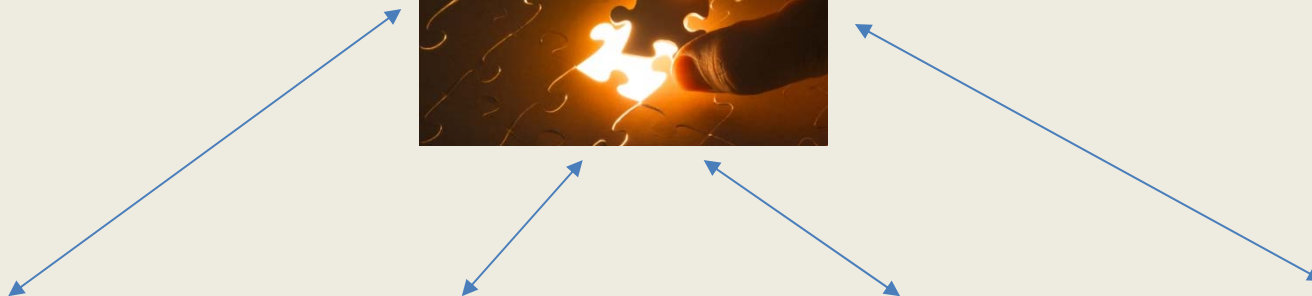
# Economic science and the obvious



Captain Obvious

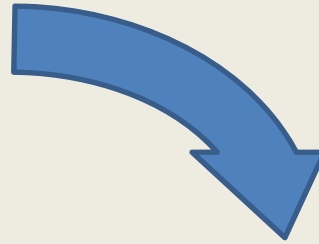
- Only humans act.
- Goods can't pay.
- Regulations are aimed at people.

# 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* —

**AZ QUOTES**

# 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

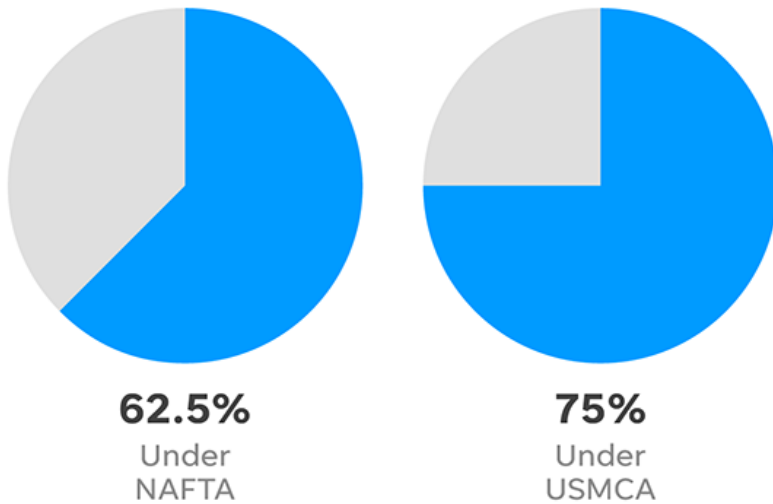
- First “North American Free Trade Agreement”
  - (Article I, Section 9, of the US Constitution, 1787)
    - *No tax or duty shall be laid on articles exported from any state. No preference shall be given by any regulation of commerce or revenue to the ports of one State over those of another: nor shall vessels bound to, or from, one State, be obliged to enter, clear, or pay duties in another.*

– **54 words**

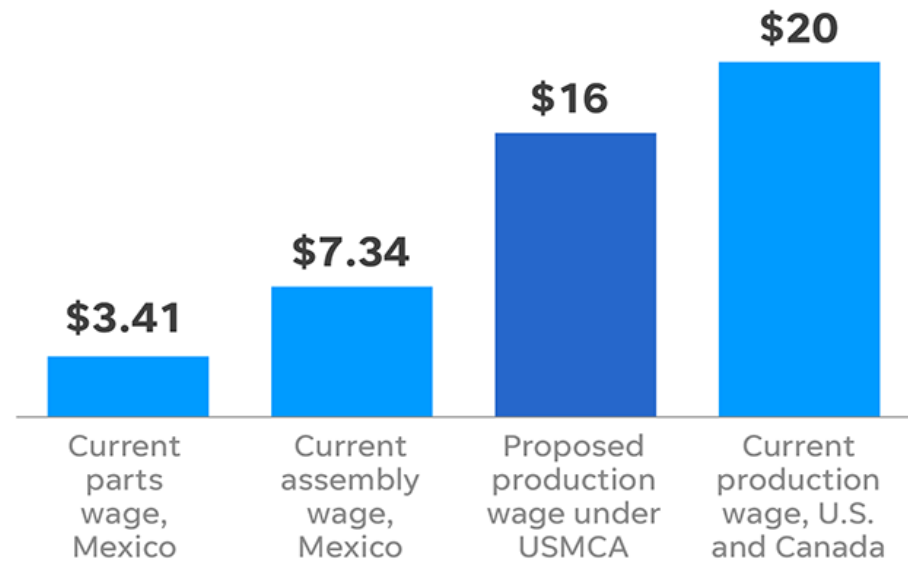


# Automobiles

**Pct. of vehicle components for zero tariffs**



**Average hourly wages, auto industry**



Source: USA Today

SOURCE Center for Automotive Research, "Review of current NAFTA proposals and potential impacts on the North American automotive industry," April 2018 ●13  
George Petras/USA TODAY



Fewer cars and trucks manufactured globally  
and *at higher cost.*

Canadian  
Hatching Egg  
Producers



Les Producteurs  
d'œufs d'incubation  
du Canada



TURKEY FARMERS<sup>TM</sup>  
OF CANADA

LES ÉLEVEURS DE DINDON  
DU CANADA

EGG FARMERS  
OF CANADA



LES PRODUCTEURS  
D'ŒUFS DU CANADA



*Chicken Farmers  
of Canada*  
*Les Producteurs de  
poulet du Canada*



**DAIRY  
FARMERS  
OF CANADA**

**LES PRODUCTEURS  
LAITIERS  
DU CANADA**





# Additional Duty Free Access for Canadians

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

Source: Appendix C, Tariff Schedule of Canada, Section B - TRQs

# Additional Duty Free Access for Canadians

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

Chicken



Eggs

Turkey



# Additional Duty Free Access for Canadians

Product	Year 1	Year 6	Year 16
Chicken (eviscerated, in tonnes)	47,000	57,000	62,963
Eggs and egg products (dozen of eggs equivalent)	1,666,667	10,000,000	11,046,221

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.

# 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.

Product	Year 1	Year 2	Subsequent years	Export surcharge
Infant formula	13,333 t	40,000 t	+1.2% annually	\$4.25/kg
SMP/MPC	55,000	35,000	+1.2% annually	\$0.54/kg

# 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



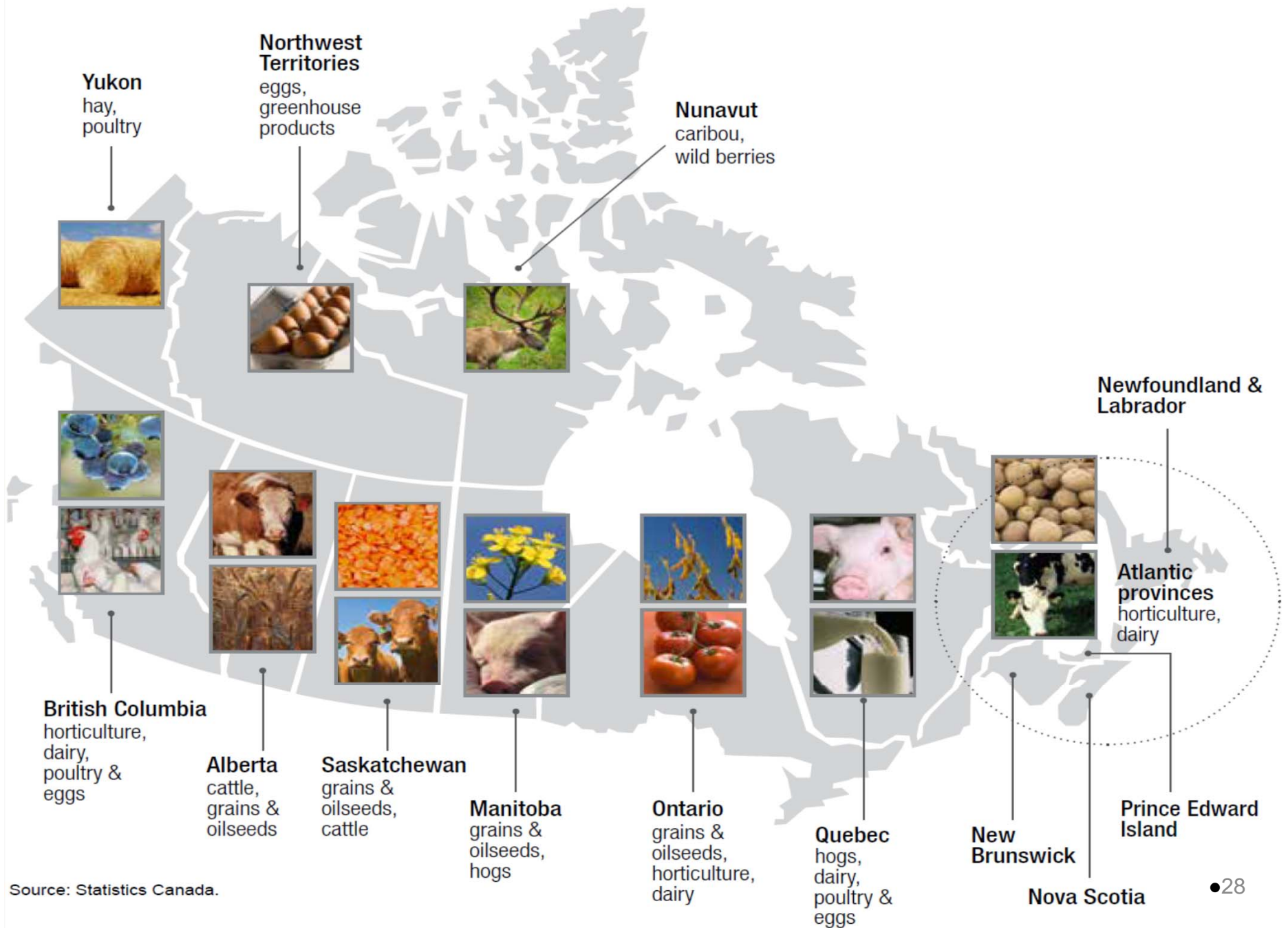
Reciprocity in the regulatory treatment of American wheat in the Canadian grain system.

# Margarine



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**



Source: Statistics Canada.

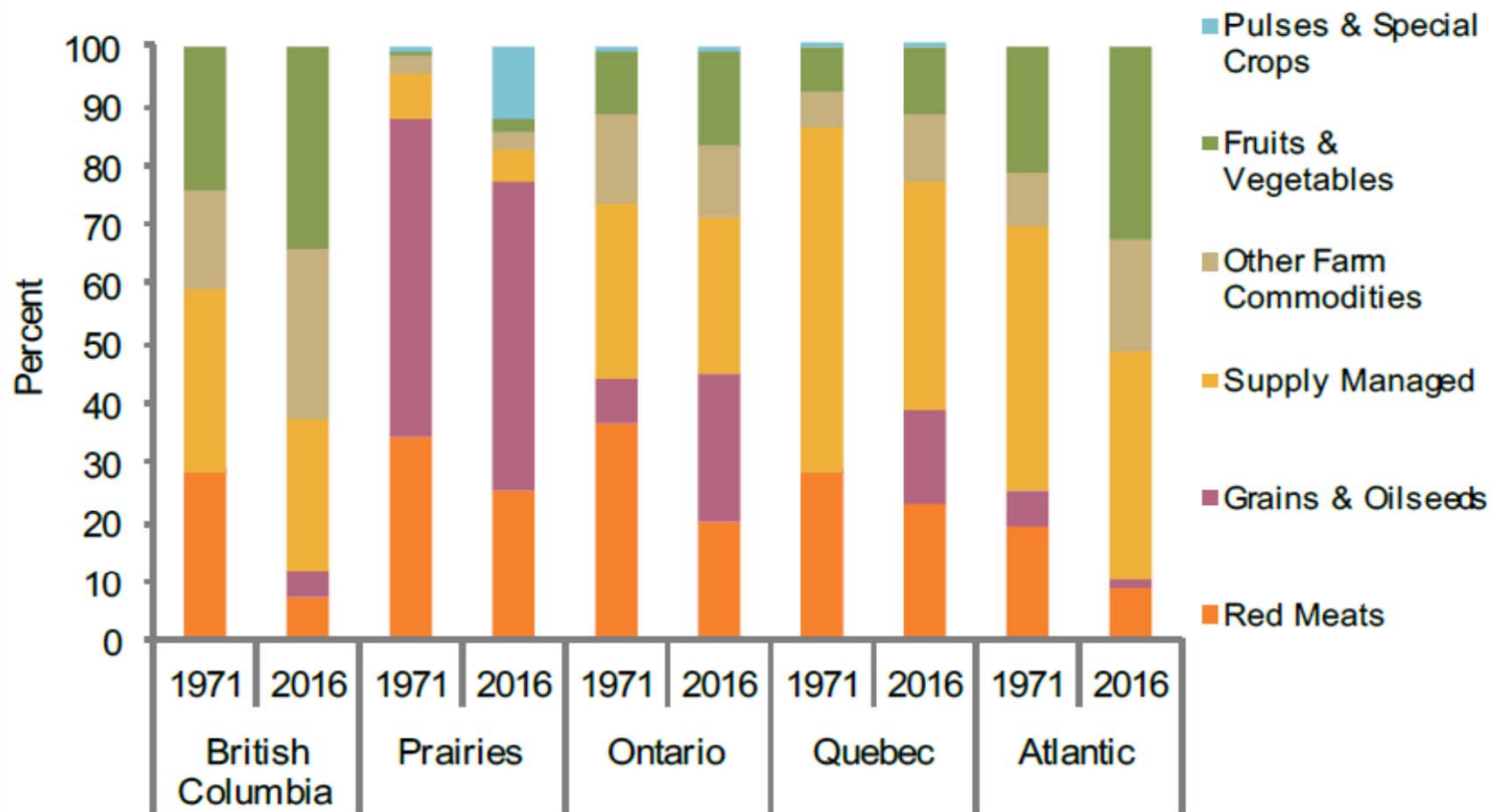
# Article 32-10



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

**Chart D1.4**  
**Total Farm Market Receipts, by Region and Commodity**  
**Groups, 1971 and 2016**



Source: Statistics Canada and AAFC calculations.

# Relative Impacts: BC

Chart E1.1  
Top Food and Beverage Processing Shipments by Province and Region, 2015



Source: Statistics Canada.

# 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.



A vibrant yellow field of flowers, likely rapeseed, stretches across the foreground. The sky above is a deep blue, filled with scattered white clouds. The overall scene is bright and cheerful.

THANK  
YOU!