Intelligence MEMOS

As NAFTA renegotiations proceed through the summer and fall C.D. Howe Institute Intelligence Memos will be looking at what to expect and provide analysis on the latest developments at the table. This post is part of that series.

From: Jon Johnson

To: US Agricultural Organizations

Date: October 4, 2017

Re: **US Access to Mexican Agricultural Market – NAFTA Best Trade Deal Ever**

"Do no harm has got to be our objective," Robert Lighthizer, the US Trade Representative told Agriculture Secretary Sonny Perdue and the House Agriculture Committee last May in describing his goal for upcoming NAFTA talks with Mexico and Canada. This statement simply repeats the "do no harm" objective that your organizations have adopted in the NAFTA negotiations.

Your organizations are obviously well aware that the original US NAFTA negotiators achieved a major breakthrough in securing access to Mexican agricultural markets. Before NAFTA came into effect, Mexico maintained formidable barriers to the entry of most agricultural goods, with tariffs of 10 percent or 20 percent or even higher. Imports of many goods (dairy and poultry products, various fruits and vegetables, corn, barley, sugar and sugar containing products, orange juice) were also subject to licensing requirements and tariff rate quotas. A tariff rate quota establishes a quota for imports of a good. Imports up to the limit of the quota are subject to one rate of duty and imports over and above that quota limit are subject to higher duties. The Mexican over-quota tariff rates were prohibitive, with some as high as 282 percent.

The NAFTA bilateral Mexican-US agreement phased out virtually all of these tariffs by January 1, 2008, including the over-quota tariffs. For example in 1994, the first year NAFTA was in effect, 2.5 million tonnes of US corn were admitted duty free into Mexico and imports above that volume were subject to an over-quota tariff rate of 215 percent. By 2008 this rate had been completely phased out and by 2016 US exports to Mexico had grown to 13.8 billion tonnes, worth $2.6 billion, and in total Mexico imported $17.9 billion in US agricultural goods.

Your groups have expressed concerns that gains you made as a result of NAFTA will be traded away to recoup manufacturing jobs. The situation may be more serious than that. The US has tabled a number of proposals that Canada and Mexico cannot possibly accept as stated, such as a five-year sunset clause that terminates NAFTA if the president isn't happy with balance of trade figures. President Donald Trump has periodically threatened a US withdrawal from NAFTA if the US does not get its way in the negotiations.

If the US withdraws from NAFTA, the US agricultural sector would lose all of the benefit of the concessions that the original US NAFTA negotiators succeeded in securing from Mexico. Mexico still maintains significant barriers to the entry of agricultural goods from countries with which it does not have trade agreements. Tariffs would revert to their pre-NAFTA 10 percent or 20 percent or higher levels. As well Mexico still maintains licensing requirements and tariff rate quotas on some agricultural goods with prohibitive over-quota tariff rates.

NAFTA has been the best trade deal ever for market access for US agricultural products to the Mexican market and a US withdrawal from NAFTA, far from doing no harm, would do irreparable harm. The US cannot withdraw from NAFTA unless Congress agrees. Your organizations must exercise all the influence that they can to ensure that Congress asserts its constitutional authority to prevent the US from withdrawing from NAFTA.

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