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USMCA, Supply Management, Suspension Agreements, and Retaliatory Tariffs

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The United States-Mexico-Canada Agreement (USMCA) was signed November 30, 2018, but still needs to be ratified by all three governments. United States Congress will not consider the USMCA until 2019, when the Democratic Party has control of the House of Representatives. The USMCA will have a non-trivial effect on a small subset of agricultural goods traded among the United States, Mexico, and Canada. Annex 3-A of the USMCA provides specific details regarding agricultural trade between the United States and Mexico, while Annex 3-B of the provides specific details regarding agricultural trade between the United States and Canada. Section C of Annex 3-B contains provisions for dairy pricing and exports and Section D contains specific provisions related to grain. Section E contains provisions related to Canada's Duties Relief Program and Import for Re-export Program. It also includes a provision that will allow access for sugar that is the product of Canada to any within-quota quantity of the refined sugar TRQ that is not allocated among supplying countries (USTR, 2018).

The USMCA is expected to end Canada's Class 6 and 7 milk pricing and create additional tariff-rate quotas (TRQs) exclusively for U.S. dairy products above existing levels and will also expand the TRQ on Canadian poultry. However, there still exist several barriers to trade among the three countries. The core structure of Canadian supply management for dairy and poultry will remain intact. It is possible that the concessions agreed to under the USMCA might be the first step in a series of events that could eventually lead to dismantling of the entire Canadian supply-management system. Indeed, some have argued that this may eventually be good for Canadian dairy producers. If production quotas are eventually removed, herd sizes should expand and increased economies of scale could lead to larger, more efficient herds, with lower costs and may eventually lead to Canada becoming a net dairy exporter (Van Kooten, 2018). However, this remains to be seen.

Suspension agreements still exist for U.S. imports of sugar and tomatoes from Mexico and there are 40 countries allocated TRQs for raw sugar by the U.S. government. The U.S. allocates a minimum of 1.14 million metric tons raw value of raw sugar quota to countries other than Mexico and Canada and each of those countries faces an over-quota tariff of $15.36/cwt on raw sugar. The American Sugar Coalition submitted antidumping and countervailing duty petitions against Mexico on March 28, 2014. On October 27, 2014 both sides reached a tentative agreement which set minimum price floors for U.S. raw and refined sugar imports from Mexico. The tentative countervailing agreement limited Mexican exports of raw sugar to 100 percent of U.S. needs after accounting for U.S. production and imports from the rest of the world (as determined by USDA forecasts) and restricted U.S. imports of refined sugar to 53% of total exports from Mexico. On December 19, 2014 the U.S. and Mexico finalized the suspension agreement by imposing an import price floor on Mexico of $22.25/cwt for unrefined sugar and $26.00/cwt for F.O.B. milled sugar. On October 20, 2015, the U.S. International Trade Commission (USITC) unanimously agreed that Mexico's sugar industry harmed American sugar producers. The verdict means that the suspension agreement on sugar will remain in effect until at least 2020. This will not change under the proposed USMCA (Schmitz, 2018).

In December 1996, Mexican producers and the U.S. Department of Commerce reached an agreement to suspend a USITC anti-dumping investigation into Mexican tomato exports to the United States. Mexican producers voluntarily agreed to reduce their production levels and agreed to a minimum reference price (price floor) of $0.4647/kg. In December 2002, a new suspension agreement was reached (Baylis and Perloff, 2010). In 2008, the agreement was updated with a higher winter price floor of $0.4782/kg. Yet another new agreement was reached in March 2013 in which price floors were separated by production methods. Price floors of $0.6834/kg and $0.5418/kg were set for winter and summer respectively for tomatoes that were produced in open fields or adapted environments (such as shaded areas). Also, price floors of $0.9038/kg and $0.7167/kg per kilogram for winter and summer tomatoes were set for controlled (greenhouse) production. Specialty varieties also received price floors of $1.3007/kg and $1.0315/kg for winter and summer specialty variety packaged tomatoes. Specialty variety tomatoes that were sold loose received winter and summer price floors of $0.9921/kg and $0.7866/kg, respectively (Valdez-LaFarga, Schmitz, and Englin, 2019). The proposed USMCA will not make any changes to the U.S.-Mexico Suspension Agreement on Tomatoes.

On March 1, 2018 the U.S. imposed a 25% tariff on steel and a 10% tariff on aluminum. Australia, Brazil, Argentina, and South Korea were granted permanent exemptions from the tariffs, but Canada, Mexico, and the EU were granted only temporary exemptions. On April 2, China imposed $16.5 billion in retaliatory tariffs on many agricultural products from the U.S., including a 25% tariff on soybeans. On May 30, 2018, the U.S. imposed tariffs on steel and aluminum from Canada, Mexico and the EU. In retaliation, Mexico imposed a first round of $3 billion in tariffs on American farm products on June 5 and then imposed a second round of nearly $3 billion in tariffs on July 5. Mexico also eliminated preferential tariffs established under NAFTA on U.S. agricultural products including pork, potatoes and whiskey. On July 1, 2018

Canada imposed $16.6 billion in retaliatory tariffs on the United States. The above combination of events led to a dramatic reduction in U.S. soybean prices and put downward pressure on the price of many other U.S. agricultural products.

On July 24, 2018, in response to retaliatory tariffs by other countries placed on U.S. agricultural products, the U.S. announced $12 billion in emergency relief for farmers hurt by the escalating trade war. For example, hog farmers are to receive $8 per head for 50% of their herd, while dairy farmers are to receive 12 cents per hundredweight on 50% of each farm's highest annual production in 2011, 2012, or 2013 (Dickrell, 2018). The government also plans to purchase approximately $1.3 million worth of apples, oranges and pork to distribute through nutrition assistance programs. The emergency relief program limits the total amount an individual farmer can receive to $125,000 per person. However, as of November 19, 2018, only $838 million had been paid out to farmers since the first $6 billion in relief was made available in September (Rappeport, 2018). The $12 billion relief package most likely pales in comparison to the actual losses that U.S. farmers will accrue by the time the retaliatory tariffs are lifted. Even if the proposed USMCA is ratified, these retaliatory tariffs will still exist unless the U.S. can forge separate agreements with all countries involved.

Chepeliev, Tyner, and van der Mensburgghe (2018) performed an analysis for the Farm Foundation on how U.S. Agriculture will fare under the USMCA and retaliatory tariffs. They estimate that the USMCA will increase U.S. agricultural exports by $450 million, mostly because of increased U.S. access to Canadian dairy and poultry markets. However, they also estimate that the combination of retaliatory tariffs described above will cause total U.S. agricultural exports to decline by $7.9 billion, with $1.9 billion less agricultural exports to Mexico, and $1.8

billion less agricultural exports to Canada. If the USMCA is not ratified and the tariff rates for all three countries revert to Most Favored Nation status of the World Trade Organization, it is estimated that U.S. agricultural exports would decline by more than $9 billion and lead to higher food prices.

In summary, even if the proposed USMCA agreement is ratified, nearly all existing tariff and non-tariff barriers to agricultural trade among the three countries, such as Canadian supply management, U.S.-Mexico suspension agreements on sugar and tomatoes, and retaliatory tariffs placed on agricultural products exported from the United States, will remain in place.

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