WHAT'S GOING ON WITH THE NEW NAFTA?

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NAFTA AND THE USMCA

The North American Free Trade Agreement (NAFTA) facilitates increased trade and investment between the U.S., Canada and Mexico.

While the **United States Department of Agriculture** (USDA) hailed NAFTA as one of the most successful trade agreements in history that helped more than double the share of U.S. agricultural exports to Canada and Mexico since 1994, the pact came under fire from President **Donald Trump** before he took office.

Holding true to his promise to renegotiate NAFTA's terms, Trump and leaders in Canada and Mexico signed the United States-Mexico-Canada Agreement (USMCA) on Nov. 30, 2018. USMCA maintains the spirit of the original NAFTA accord and is expected to have small effects on the U.S. economy overall; however, it makes updates necessary for modernizing the agreement that governs trade in North America.

HOW IS USMCA DIFFERENT?

Overall, USMCA isn't that different from NAFTA, but provides important improvements. USMCA updates and expands NAFTA through changes regarding labor and environmental standards, auto manufacturing regulations, market access for food and agricultural products, modernization of intellectual property protections and new provisions for digital trade.

While there is consensus that modernization was imperative for the existing agreement as technology and the landscape of trade have evolved, key changes present challenges for implementation.

For example, provisions for auto manufacturing aim to increase wages in Mexico to be more in line with the U.S. and Canada and have more autos made in North America. But new labor standards that call for a $16/hour minimum wage for workers making 40-45% of auto components will be difficult to enforce, and the requirement that 75% of auto components be made in North America will make vehicle production more expensive, likely compromising U.S. competitiveness in the auto market.

While most food and agricultural products are traded freely between NAFTA countries, some challenges remain for access to the Canadian market.

USMCA provides small gains in market access for U.S. dairy, wheat and poultry products in Canada that were not afforded before. While these changes are small, Canada cracking the door in these markets is a win for U.S. agriculture; however, there are product specific nuances that weaken U.S. access to the market.

The changes to Canadian dairy policy are complex, and while U.S. wheat will no longer be automatically downgraded upon arrival in Canada, there are regulatory barriers that will prevent U.S. wheat producers from shipping any wheat varieties that haven't made it through the lengthy process for Canadian government approval.

NAFTA was the first trade deal to include intellectual property protections, but our innovative world demanded modernization of its provisions. USMCA strengthens protections for patents and trademarks in areas like biotechnology, financial services and domain names, as well as provides new provisions governing the expansion of digital trade and investments in innovative products and services. These modernizations provide greater protection for U.S. agribusinesses along the supply chain.

WHERE DO WE GO FROM HERE?

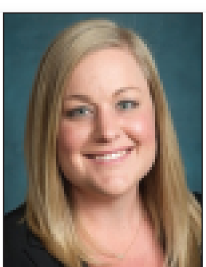
While leaders from the three countries signed USMCA, their governments must ratify the agreement for it to take effect. Some argue the biggest hurdle in U.S. Congress is skepticism of enforceability of labor and environmental standards of USMCA.

Mexican officials stated that to support the agreement, the U.S. must lift Section 232 tariffs on steel and aluminum imports from Mexico and Canada. Trump also increased tensions with threats to withdraw from NAFTA if Congress doesn't pass USMCA.

While USMCA is expected to have modest impacts, withdrawing from NAFTA would cause widespread negative implications for the North American economy and agricultural supply chain.

Economists in **Purdue's Center for Global Trade Analysis** highlight in a recent study that if Congress doesn't pass USMCA and Trump withdraws from NAFTA, U.S. agricultural export losses could be as high as $9.4 billion.

Continued market access provided through NAFTA and small changes provided by USMCA are critical for continued trade and investment in North America. **AM**



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