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Hancock Farmland Research Brief

United States-Mexico-Canada Agreement (USMCA)¹

On September 30, terms of a comprehensive trade agreement among the US, Mexico and Canada were finalized. The new United States-Mexico-Canada Agreement (USMCA) culminates an extended year-long period of negotiations to update the North American Trade Agreement (NAFTA). The new agreement retains many of the core elements and structure of NAFTA, with the most prominent changes focused on: trade in cars, new policies on labor and environmental standards, intellectual property protections, and some digital trade provisions. The most impactful changes for the farm sector in the new agreement were the expansion of US access to Canadian dairy and poultry markets, and an equalization in terms of trade for grains between Canada and the US.

The agreement is targeted to be signed by the three participating countries before the end of November, possibly at the G20 summit in Buenos Aires, Argentina, and all three countries would then still need to ratify the agreement. Congress will probably not address ratification until 2019, after the mid-term elections, and since the approval process will take time, most of the new USMCA provisions won't go into effect until 2020.

Terms of the Key Agricultural Provisions

- All agricultural products under NAFTA with zero tariffs will remain without tariffs under USMCA.
- Canada will provide new access for US dairy products and poultry, by reducing or eliminating duties. Canada currently has a supply management system regulating production of dairy and poultry and tariffs and quotas on imports of these products.
- Access to Canada for US dairy products would be gradually increased over 6 years. Canada will eliminate its class 6 and 7 milk solids pricing programs and ensure that prices for dairy ingredients do not undercut US prices. If Canada's exports of milk protein concentrates, skim milk powder and infant formula exceed agreed thresholds, Canadian companies would face an export surcharge on additional volumes.
- The US poultry sector under USMCA will gain 47,000 tons of tariff-free access (less than 2% of US poultry exports to Canada in 2017), this tariff-free volume will steadily increase to 57,000 tons in the sixth year of the agreement, after which it will grow annually at 1 percent for 10 years. Duty free egg exports to Canada will increase by 10 million dozen eggs, which is 15% more than 2017 exports of 69 million dozen.
- Each country will treat each other's grain equally, which will enhance the position of US wheat in the Canadian market. US wheat is currently relegated to feed-grade when imported into Canada.

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¹Sources: United States-Mexico-Canada Agreement Text, and USMCA Fact Sheet - Agriculture, Office of the United States Trade Representative. www.usstr.gov. Accessed October 4-8, 2018. All data referenced herein is sourced from United States-Mexico-Canada Agreement text, unless otherwise noted.

Potential Impacts of USMCA on Northern American Trade in Agricultural Commodities

At \$20.5 billion, Canada is the largest destination for US agricultural commodities, and Mexico is the third largest at \$18.6 billion. Collectively, the two countries represent 28% of total US agriculture exports.² The changes in the USMCA compared to NAFTA are expected to have a small but decidedly positive impact on US trade with Canada for a small number of agricultural products (dairy and poultry). Even in these particular market segments, improvements in US trade with Canada will be focused on particular regions.

The US dairy and poultry sectors are predominantly focused on domestic markets. In 2017, the US exported just 15% of milk production and 16% of poultry output. In 2017, US dairy exports were \$5.4 billion, with Canada representing 12% (\$636 million) of the total and exports to Mexico accounting for 24% (\$1.3 billion). US poultry exports in 2017 were \$4.5 billion, about 16% of total production. US poultry exports to Canada at about \$600 million in 2017 represented about 13% of the total, while US poultry and eggs shipped to Mexico was \$1.1 billion (24% of total poultry exports).³

The expanded access to Canadian dairy, egg and poultry markets will represent only incremental improvements to these segments of the US farm economy, but could play a more important role in supporting farmland values in regions that are logistically positioned to supply Canada and where dairy and poultry represent an important component of total farm revenues. The top five dairy producing states are California, Wisconsin, Idaho, New York, and Texas,⁴ and the top five poultry producing states are Georgia, Alabama, Arkansas, North Carolina and Mississippi.⁵

The USMCA will not remove the retaliatory bilateral tariffs that Mexico imposed in July 2018 on US agricultural products in response to US steel and aluminum tariffs. This set of trade restrictions included tariffs of 25% on cheese, 20% on fresh apples and a 20% on unprocessed pork.

This new agreement also includes a 16-year “sunset” clause, with the agreement expiring after this set period of time. The deal is also subject to a review every six years, at which point the US, Mexico, and Canada can decide to extend USMCA.

²2017 data, USDA Foreign Agricultural Service, accessed 10/22/2018 ³USDA Foreign Agricultural Service, accessed 10/5/2018 and 10/22/2018 ⁴September 19 USDA milk production report ⁵2017 data, USDA NASS 4/27/2018 report, accessed 10/22/2018

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HNRG Research Team

Court Washburn

Managing Director and
Chief Investment Officer
cwashburn@hnrgr.com

Daniel V. Serna

Senior Agricultural Economist
dserna@hnrgr.com

Keith Balter

Director of Economic Research
kbalter@hnrgr.com

Weiyi Zhang

Natural Resource Economist
wzhang@hnrgr.com

Mary Ellen Aronow

Associate Director, Forest
Economics
maronow@hnrgr.com

Elizabeth Shestakova

Economic Research Analyst
eshestakova@hnrgr.com

