The Search for NAFTA Plus

Karl Meilke
James Rude
Steven Zahniser
Background

• Implementation of NAFTA Complete – January 1, 2008
• Easy Gains in Efficiency Achieved
• Developing Country Status of Mexico
  – Labor Migration to US
• Asymmetry in Economic Risk
  – 85% of Canadian Exports to US
  – 88% of Mexican Exports to US
  – 17% of US Imports from Canada
  – 10% of US Imports from Mexico
Background

- National Security Concerns
- Unease with Dispute Settlement
- Slow Pace of Doha Round
- Preference Erosion through Bilaterals
- Oil Shock
- Deeper Integration is an Economy Wide Issue
Options for Deeper Integration

• Do Nothing
  – Competition from Brazil, China, Others

• Strategic Trilateralism
  – Current situation

• Strategic Trilateralism towards a CU
  – Unilateral moves

• Customs Union

• Is it Time for a Big Idea? – Strategic Bargain
Outline

• Trade Policy
• Agricultural Policy
• Dispute Settlement
• Regulatory Coordination
• Immigration and Labor Market
Trade Policy: Strategic Bargain

• Establish a Common External Tariff
  – Eliminates the need for rules of origin
    • Increase CDN-GDP – 1%
    • Increase US-GDP – 0.1%
    • Most important where intermediate goods trade with off-shore markets is significant

• Eliminate the Agrifood Exemptions in NAFTA
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Category</th>
<th>Canada</th>
<th>US</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Live animals</td>
<td>1</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>7</td>
<td>Edible vegetables and roots</td>
<td>3</td>
<td>9</td>
<td>19</td>
</tr>
<tr>
<td>8</td>
<td>Edible fruits and nuts</td>
<td>1</td>
<td>5</td>
<td>22</td>
</tr>
<tr>
<td>9</td>
<td>Coffee, tea</td>
<td>1</td>
<td>1</td>
<td>26</td>
</tr>
<tr>
<td>10</td>
<td>Cereals</td>
<td>14</td>
<td>2</td>
<td>49</td>
</tr>
<tr>
<td></td>
<td>Product of milling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>industry</td>
<td>4</td>
<td>4</td>
<td>21</td>
</tr>
<tr>
<td>12</td>
<td>Oilseeds</td>
<td>1</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Animal / vegetable fats and oils</td>
<td>5</td>
<td>1</td>
<td>21</td>
</tr>
<tr>
<td>16</td>
<td>Preparations of meat</td>
<td>17</td>
<td>4</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>Cocoa and cocoa</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Preparations of cereals, flours</td>
<td>4</td>
<td>6</td>
<td>19</td>
</tr>
<tr>
<td>19</td>
<td>Preparations of vegetables</td>
<td>4</td>
<td>9</td>
<td>16</td>
</tr>
<tr>
<td>20</td>
<td>Misc. edible preparations</td>
<td>6</td>
<td>11</td>
<td>23</td>
</tr>
<tr>
<td>21</td>
<td>Beverages, spirits, vinegar</td>
<td>7</td>
<td>8</td>
<td>33</td>
</tr>
<tr>
<td>22</td>
<td>Tobacco and products</td>
<td>7</td>
<td>2</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7</td>
<td>91</td>
<td>51</td>
</tr>
</tbody>
</table>
### MFN Tariffs (%)

<table>
<thead>
<tr>
<th></th>
<th>Canada</th>
<th>US</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef</td>
<td>26</td>
<td>26</td>
<td>20</td>
</tr>
<tr>
<td>Chicken</td>
<td>238*</td>
<td>5</td>
<td>240</td>
</tr>
<tr>
<td>Butter</td>
<td>299*</td>
<td>91*</td>
<td>20</td>
</tr>
<tr>
<td>Corn</td>
<td>0</td>
<td>0</td>
<td>198*</td>
</tr>
<tr>
<td>Potatoes</td>
<td>1</td>
<td>2</td>
<td>251*</td>
</tr>
<tr>
<td>Sugar (raw)</td>
<td>6</td>
<td>90*</td>
<td>100</td>
</tr>
<tr>
<td>Strawberry jam</td>
<td>13</td>
<td>2</td>
<td>45</td>
</tr>
</tbody>
</table>
Rules of Origin

• An Ag Product is NAFTA if:
  – Grown, harvested, wholly produced or “substantially transformed” in the FTA
  – “Substantial transformation” occurs when processing causes the product to shift from one tariff classification to another
• Less restrictive than minimum value added or detailed technical requirements
NAFTA Tariff Utilization

• Why Not Use NAFTA Tariffs?
  – MFN tariffs are low
  – Compliance costs are higher than the NAFTA tariff preference
• Should be a positive correlation between the use of NAFTA tariffs and the preference margin

preference margin = (MFN tariff – NAFTA tariff)
### NAFTA Tariff Utilization

<table>
<thead>
<tr>
<th></th>
<th>Canadian exports to US - 2003</th>
<th>US exports to Canada - 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Live animals and products</td>
<td>33</td>
<td>50</td>
</tr>
<tr>
<td>Vegetable products</td>
<td>72</td>
<td>21</td>
</tr>
<tr>
<td>Fats and oils</td>
<td>98</td>
<td>93</td>
</tr>
<tr>
<td>Prepared food, beverages, &amp; tobacco</td>
<td>64</td>
<td>81</td>
</tr>
</tbody>
</table>
Other Integration Challenges

• Some Can’t be Done Unilaterally
  – TRQs
    • Beef has common external tariff
  – Preferential tariffs for developing countries
  – FTAs with third countries
  – Countries without normal trade relations
  – Customs procedures
Domestic Agricultural Policies

• Level of Support to Producers (OECD 2004 PSE)
  – Canada  21%
  – Mexico  17%
  – US      18%

• General Services Support
  – Canada  7%
  – Mexico  3%
  – US      21%
Ag Policy Goals & Instruments

• Goals
  – Sovereignty
  – Countercyclical
  – Decoupled
  – Environmental goods and services

• Canada: whole farm net income support that ratchets down (21%), little based on HE (10%); MPS = 47%
• Mexico: Output and input specific support (33%), some based on HE (22%); MPS = 45%
• US: Support for “program commodities” often based on historical entitlements (28%) or output/input subsidies (33%); MPS = 35%
Harmonizing Influences

• Doha Development Agenda
  – Will market access provisions put pressure on MPS programs?
  – Will domestic support disciplines bite?

• Higher Commodity Prices
  – Biofuel programs

• Disengage – Modify – Harmonize - Eliminate
Dispute Settlement

• NAFTA has 6 different dispute settlement processes

• We will concentrate only on Chapter 19 cases that deal with AD/CVD actions
Dispute Settlement

• Skill Testing - Audience Awakening Question!

How many AD/CVD orders does the US have in place against Canada and Mexico?

How many are on agrifood products?
Dispute Settlement

- 8 against Canada – NONE on agrifood
- 12 against Mexico – ONE on agrifood
- 60 against China – 6 on agrifood
- 20 against Italy – 2 on agrifood
Dispute Settlement

• Barichello, Josling and Sumner
  – The annual number of Canada-US ag disputes was constant, but relative to the value of bilateral trade they have declined by one-half
  – Disputes were disproportionately high in ag, but no higher among NAFTA members than with other countries
  – Most CDN-US ag disputes arose from import surges rather than policy or institutional differences
Dispute Settlement

• So Why All the Fuss?
  – Large and asymmetric legal and economic costs to the affected industries and workers
  – Rules not well suited to agriculture
  – Loss of public trust
    • Softwood lumber
    • Byrd amendment
    • Cattle/hogs/wheat/sugar/corn
Reforms

• Quick Fixes
  – Reduce delays
    • One resolution “path”
    • Permanent roster of panelists
    • Single NAFTA Secretariat
  – NAFTA economics division
Regulatory Coordination

• “Workaday Cooperation”
  – Rank-and-file-staff
  – Usually Bilateral

• Strategic Bilateralism/Trilateralism
  – Top-down solution
  – Security and Prosperity Partnership for NA
    • Food and Ag Working Group with 7 Initiatives and 60 milestones
      – Funding concerns have hampered some initiatives – plant health lab network
    • National sovereignty is maintained
Labor

- **RED HOT SUBJECT!!**
- Polar Views on Subject
- Current Situation
  - Easy movement for professionals
  - Very limited movement for others
  - US and Canada have temporary employment programs for foreign-born agricultural workers; Mexico has a program for Guatemalan farm workers in the State of Chiapas
  - About 50% of the hired labor in US crop ag is undocumented
  - Substantial number of workers in food processing are likely to be undocumented
- Immigration reforms could have a major effect on ag – positive or negative, depending on the initiative
Conclusions

• Work Towards:
  – Common external tariffs
  – Elimination of exceptions from NAFTA
  – Elimination of amber box support programs
  – Cooperation on green box programs
  – Single dispute settlement “path” and single NAFTA secretariat, staff and roster of panelists
  – NAFTA economics division
Conclusions

• Work Towards:
  – Regulatory coordination – with funding to match ambition
  – Border measures to enhance security and reduce bottlenecks
  – Immigration reforms that do not put NAFTA at a competitive disadvantage