



The Search for NAFTA Plus

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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



Chapter	Category	Canada	US	Mexico
1	Live animals	1	1	14
7	Edible vegetables and roots	3	9	19
8	Edible fruits and nuts	1	5	22
9	Coffee, tea	1	1	26
10	Cereals	14	2	49
11	Product of milling industry	4	4	21
12	Oilseeds	1	8	7
15	Animal / vegetable fats and oils	5	1	21
16	Preparations of meat	17	4	23
18	Cocoa and cocoa preparations	4	6	19
19	Preparations of cereals, flours	4	9	16
20	Preparations of vegetables	6	11	23
21	Misc. edible preparations	7	8	33
22	Beverages, spirits, vinegar	7	2	27
24	Tobacco and products	7	91	51



MFN Tariffs (%)

	Canada	US	Mexico
Beef	26	26	20
Chicken	238*	5	240
Butter	299*	91*	20
Corn	0	0	198*
Potatoes	1	2	251*
Sugar (raw)	6	90*	100
Strawberry jam	13	2	45



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

	Canadian exports to US - 2003	US exports to Canada - 2003
Live animals and products	33	50
Vegetable products	72	21
Fats and oils	98	93
Prepared food, beverages, & tobacco	64	81



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