

Farmers cautiously optimistic about progress in NAFTA talks but not ready to celebrate

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Daniel Acker | Bloomberg | Getty Images

Corn is loaded into a truck during harvest in Malden, Illinois.

Agricultural producers are encouraged by reports the U.S. and [Mexico](#) are closer to an informal NAFTA deal, but some remain wary of celebrating until a final pact is struck that also includes [Canada](#).

The U.S. and Mexico achieved progress in bilateral trade talks over the past several weeks but issues remain on rules for auto production, Reuters reported Thursday. One agricultural issue that appears to have gone away in the North American Free Trade Agreement renegotiations is the U.S. demand for certain restrictions on seasonal exports from Mexico.

"The idea is to do our best to finish this agreement as soon as possible," Mexico's Economy Minister Ildefonso Guajardo told reporters as he prepared for talks Thursday with U.S. Trade Representative Robert Lighthizer in Washington. Any "handshake" deal to overhaul NAFTA must involve Canada, Guajardo told reporters Wednesday.

Reports suggest Canada could re-enter NAFTA talks within days, but thorny issues such as Canadian dairy policies remain outstanding. The administration claims Canada's protectionist policies have essentially shut out U.S. dairy producers in so-

called unfiltered milk, which is used to make cheese, yogurt and ice cream. In April 2017, President [Donald Trump](#) called the Canadian action "a disgrace."

Mexico ranks as the [third largest agricultural export market](#) for the United States. Mexico and Canada together represent nearly one-third of total U.S. agricultural exports, or about \$40 billion last year, according to the U.S. Department of Agriculture.

Indeed, Mexico is the [largest volume market for U.S. pork products](#) and second in dollar value to Japan as well as a major destination for American dairy products, especially cheeses.

In 2017, Mexico bought more than \$1.3 billion worth of dairy products from the U.S. as well as around \$1.5 billion in pork products, according to the USDA. Corn exports to Mexico totaled around \$2.6 billion last year, and beef shipments reached nearly \$1 billion.

"When the ink's on the paper, that's when I'll be ready to celebrate," said Brian Duncan, an Illinois hog farmer who is vice president of the Illinois Farm Bureau. "We're happy to see this as an intermediate step, if there's a 'handshake' deal, but there's still issues that might need to be worked through."

Anti-dumping policies

Meantime, the [push for restrictions on certain Mexican agricultural exports appears to have been dropped](#) by the U.S. trade negotiators, Reuters reported Sunday. They involved seasonal and perishable produce trade remedies sought by certain seasonal crop producers in the southeastern U.S.

For more than a year, lawmakers from Florida and Georgia have [urged the Trump administration](#) to insist on these anti-dumping policies as part of the NAFTA overhaul. Florida grower groups have been the most vocal, complaining that Mexico is essentially subsidizing its domestic fresh tomato industry at the expense of U.S. farmers by "[dumping](#)" [fresh produce into the U.S. market](#) at prices below the cost of production.

"We continue to stress to the administration that the specialty crop sectors in Florida and the Southeast can't survive without fair trade recourse against Mexico's unfair dumping and subsidy practices," said Lisa Lochridge, a spokesperson for the Florida Fruit & Vegetable Association.

Western U.S. growers, though, have largely opposed the anti-dumping provisions because they feared the change could make them vulnerable in seasonal trade with Mexico or Canada, such as shipping apples.

Sunset clause

An outstanding issue that remains unresolved in the NAFTA talks is the Trump administration's insistence on a so-called sunset clause in the updated trade pact that would essentially cause the agreement to expire every five years unless renewed by the three countries. Canada has opposed such provisions by warning it could chill long-term investment by adding uncertainty to the pact, which originally took effect in 1994.

Another sticking point is the current NAFTA Chapter 19 dispute resolution provisions on anti-dumping and countervailing duties that the White House wants ditched. Canadian Prime Minister [Justin Trudeau](#) has insisted these [provisions are essential](#).

In fact, Canada has used this Chapter 19 avenue in the past to form independent dispute settlement panels to resolve trade issues against the U.S. involving duties on imports of Canadian softwood lumber.

"I would be surprised if the Chapter 19 issues are resolved in any sort of 'handshake' agreement," said former USDA chief economist Joseph Glauber, a senior research fellow at the International Food Policy Research Institute, an agricultural think tank based in Washington. He said removing the Chapter 19 dispute resolution mechanism could even be a "deal-killer" for Canada and Mexico just like a sunset provision might be.

Eliminating retaliatory duties

Trade experts suggest any "handshake" deal involving a renegotiated NAFTA would likely include eliminating the [retaliatory tariffs imposed recently by Mexico on pork](#) and other products in response to the Trump administration's [duties on steel and aluminum imports](#). Canada also imposed tit-for-tat tariffs on a variety of American goods, from orange juice and soup to yogurt and chocolate, in response to the U.S. levies on steel imports.

Regardless, the sign of progress in Washington talks between the U.S. and Mexico to modernize the 24-year-old trade pact is seen as good news for U.S. agriculture. Mexico is considered one of the most lucrative markets for American producers of pork, soybeans, corn and dairy products given its proximity to the U.S, whether via rail, ship or truck.

"Any little piece of optimistic news is good," said Craig Finke, a dairy producer in Illinois. "It's tough out there for dairy farming for most people."

Mexico is the largest export market for American cheese and accounts for nearly [30 percent of all U.S. cheese exports](#), according to the U.S. Dairy Export Council. Last year, the U.S. held a 75 percent share of Mexico's cheese import market.

U.S. cheese and pork exports to Mexico along with shipments of potatoes and apples have been the target of retaliatory tariffs in response to U.S. duties on steel imports. The 28-member [European Union](#) also imposed tit-for-tat tariffs after the Trump administration in May lifted its tariff exemption for several allies.

Pork slowdown

"Mexico is a critical market for us," said Joe Schuele, a spokesman for the U.S. Meat Export Federation. He said June shipments of pork south of the border were down about 7 percent compared with a year ago, coming as the first round of tariffs imposed by Mexico went into effect.

Still, Schuele said the decline in June "is not catastrophic" because the year-ago month was the biggest month ever for pork shipments to Mexico. July figures haven't been reported, but there's a possibility the trade slowdown may have continued, given that the second round of retaliatory duties on U.S. pork shipments to Mexico hit the first week of July and doubled from 10 to 20 percent.

Due to uncertainty surrounding NAFTA, Mexico has taken steps to reduce its dependence on U.S. trade.

"Mexico has shopped around to see what else is out there given that there might be some disruption on the trade with its main partner, the U.S.," said Luis Ribera, an agricultural economist at Texas A&M University in College Station.

In April, [Mexico struck a new trade agreement with the EU](#) that could boost cheese, poultry and pork exports from Europe. It followed an earlier deal reached between Mexico and Japan that could see Mexican pork processors take share in Asia from the U.S. pork industry.

Additionally, Mexico has turned to South American countries such as [Argentina](#) and [Brazil](#) for corn and soybean supplies. Besides being a large buyer of U.S. corn, Mexico in recent years also has been a major importer of U.S. soybeans.

"When the tensions were escalating because of steel and aluminum tariffs and because of standoffs in NAFTA negotiations, Mexico did kind of use that [buying from South America] as a bargaining chip, I think, to bring the U.S. closer to some of its positions," said Monica de Bolle, senior fellow at the Peterson Institute for International Economics, a nonpartisan think tank based in Washington, D.C.

Nonetheless, shipping costs of buying certain agricultural products from South America makes it more expensive for Mexican importers, according to de Bolle. "It makes a lot more sense for Mexico to just continue buying these things from the U.S.," she said.

— *Reuters contributed to this report.*