The New NAFTA: Agricultural export impacts

By Dr. Steve Suppan

A June 11 letter to the leadership of the U.S. Senate and House of Representatives from U.S. food and agriculture organizations urged "swift ratification" of the U.S.-Mexico-Canada Agreement (USMCA). However, given the miniscule increase in agricultural exports to Mexico and Canada forecast by the U.S. International Trade Commission (USITC) report released on April 18, and the lack of cost of production estimates for producing those exports, the report provides no agricultural economic basis for Congress to approve the USMCA.

Key messages:

- The USITC-estimated agricultural exports increase for the USMCA is insignificant, relative to the 2015-2017 average annual value of U.S. agricultural exports to Canada and Mexico.
- The USMCA's promotion of agricultural biotechnology exports will further increase U.S. farmer costs of production, keeping prices paid to farmers below the cost of production, and making farmers dependent on U.S. taxpayer compensation for U.S. market and policy failure.
- The USITC report fails to estimate the likely impacts of climate change on USMCA agricultural trade. The USMCA is not a "modernized" NAFTA but a 20th century agreement that ignores climate change as a systemic risk to trade.

The USITC forecasts a mere 1.1 percent increase ($2.2 billion) in U.S. agricultural exports and 1.8 percent ($3.1 billion) increase in imports, relative to the 2017 baseline (Table E.S. 3, p.17), when other USMCA chapters are "fully implemented." Full implementation means completion of transitions "including all other provisions in chapter 2 of this report," (p. 117), i.e. quantified economy-wide estimates of agricultural trade value of USMCA provisions on intellectual property, technical barriers to trade (labeling, quality grading), agricultural chemicals, industrial goods (e.g. farm machinery) reduction of uncertainty for investors, etc. However, no period is specified for full implementation.

According to economist Dean Baker, USITC's econometric forecasting model, the Global Trade Analysis Project (GTAP), assumes a 16-year period for full implementation. If the GTAP phase-in period is applied to the USITC's agricultural export projection of $2.2 billion, U.S. agribusiness can look forward to an average additional $137 million in exports over the 2017 baseline. What is the historical baseline for the $2.2 billion increase touted in the June 11 agribusiness letter? Here's an estimate.

An August 29, 2018, Congressional Research Service brief stated that between 2015 and 2017, U.S. agricultural exports to Mexico averaged $18.6 billion annually. The USDA's Farm Credit Administration reported that in 2017, U.S. food and agriculture exports to Canada were valued at a bit more than $20 billion. Once all the transition periods of the non-agricultural chapters related to the agricultural chapter are phased in, the USMCA is forecast to add an annual $137 million to the $38.6 billion in agricultural exports to Canada and Mexico facilitated under the current terms of NAFTA. In sum, the USMCA will increase agricultural exports annually by all of 0.4 percent above the current level.

Even this minute addition to current NAFTA-mediated agricultural trade with Mexico and Canada obscures real questions about the winners and losers of this deal. A Global Development Policy Center comment on the entire USITC report asks, "If there was so little [Gross Domestic Product from NAFTA] effect overall, why is the agreement still so controversial? It is precisely because trade creates winners and losers—something long recognized by trade economists—as economies adjust to different costs of production in trading partner countries," (p. 2). In agriculture, the NAFTA winners have been agribusiness commodity groups, traders, processors and input producers. The losers are most farmers and the rural communities in which dwindling farm income circulates. As IATP has written, the New NAFTA puts the brakes on future U.S. agricultural policy reform.

The USMCA doesn't change this grim situation. Indeed, by enabling trade of agricultural goods from expensive genome and gene edited seeds—whose traits could include resistance to proprietary pesticides—USMCA will help increase the costs of agricultural production while doing nothing to increase prices paid by agribusiness to farmers and ranchers. A Federal Reserve Bank of Minneapolis article in March 2019 notes, "total costs for inputs like seed, fertilizer, pesticide, fuel, and electricity have risen by 50 percent (inflation-adjusted) since 2006 for Minnesota farmers." These costs will rise further under the USMCA's promotion of "trade in products of modern biotechnology." USMCA's article on genome "edited" food and agriculture enables their trade in thousands of products (Article 3.1) "without authorization" (Chapter 3, Section A), i.e. without risk assessment.

Given the widely reported collapse in U.S. net farm income (cash receipts plus government payments) since 2013, it's clear that prices paid by agribusiness to farmers have not increased by an inflation-adjusted 50 percent. The Minneapolis Fed charts how prices paid to farmers have been at or below the cost of production since 2010. Despite U.S. taxpayer compensation for trade policy and market failures, and despite the non-farm jobs that contribute the largest share of income to most U.S. farm households, Chapter 12 farm bankruptcies have spiked in the Fed's Ninth District.

It is difficult to isolate the effects of any trade agreement from the effects of the domestic policy with which trade policy is coordinated, in this case the Farm Bill. However, the 1996 so-called "Freedom to Farm" Bill and subsequent versions have been designed to comply with U.S. trade agreements and maximize production for export. USMCA is part of a U.S. agricultural export policy that requires farmers to rely on taxpayer subsidies and off-farm income—a little more than 80 percent of U.S. farm household income in 2017—to compensate partially for trade related agricultural market failure.

According to the Agricultural Policy Analysis Center (APAC) ("Surviving Trade Wars," May 17, 2019), despite the increase in the value of agricultural exports (and imports), "over the last 150 years, there have been only three times, totaling maybe 15 or so years, that exports have resulted in profitable prices for major crops in general: WWI, WWII, and the mid-1970s." Betting the farm on exports is usually profitable for agribusiness and food processors, but seldom for farmers. "What we need," writes APAC, "is a policy mechanism that delivers a fair price for farmers." That policy mechanism begins in the Farm Bill and the prevention of anti-competitive agribusiness practices, such as the currently reported price fixing in the chicken industry—not in trade at any cost policy.

The puny-USITC projected increase in agricultural exports will not reverse the falling income from U.S. farm operations, considering (as the USITC does not) the "likely impacts" of the costs of producing those exports. Climate change-related costs affecting agricultural production, processing and transportation are among the most important and likely. As IATP wrote to the USITC, the USMCA fails to estimate the trade related costs of climate change. A key message of the second volume of the Trump administration's *Fourth National Climate Assessment* is, "The impacts of climate change variability, and extreme events outside the United States are affecting and are virtually certain to

increasingly affect U.S. trade and economy, including import and export prices and businesses with overseas operations and supply chains," (pp. 25-26).

Nevertheless, the USMCA, like U.S. trade policy in general, contains no provisions to adapt to climate change nor to reduce greenhouse gases emissions in traded products and services, including those of the digital economy. In late June, *Politico* reported that the U.S. Department of Agriculture has been suppressing staff studies on climate change impacts.

What most clearly makes the USMCA a 20th century agreement, rather than a "modernized" NAFTA, is its failure to include measures to require that traded products and services adapt to climate change and reduce greenhouse gases. IATP wrote to the ITC that in addition to increasing trade in fossil fuels, "the USMCA further entrenches trinational Confined Animal Feed Operations (CAFOs) whose feed grain fertilizer and animal agriculture manure management practices are a major source of nitrous oxide and methane, respectively," (p. 4). At a time when large investor groups are threatening to disinvest from corporations that fail to disclose their Climate Value at Risk and their investments to become climate resilient and when banks are advised to perform stress tests to predict climate change losses to their investment and loan portfolios, USMCA makes the United States more vulnerable to climate change impacts. Notwithstanding academic studies on the impact of trade on climate change, trade policy remains in denial about climate change.

The Trump administration, by ignoring climate change and suppressing studies about it, ensures that the USMCA does not modernize NAFTA, but instead exacerbates its environmental and economic failures. The tiny USITC-projected agricultural export increase, the failure to estimate the costs of production for that increase, and the USDA's suppression of the likely impacts of climate change on agriculture combine to make the USMCA a trade agreement that Congress must reject. Congressional rejection of the New NAFTA would be the policy shock to spur Congress to modify the Trade Promotional Authority Act of 2015 and restore its Constitutional obligations under Article 1, Section 8 "to regulate Commerce with Foreign Nations." That rejection would be the first step towards crafting a sustainable trade policy.