"New NAFTA" puts the brakes on farm policy reforms

Farm economies in the United States, Mexico and Canada are very different than they were when the North American Free Trade Agreement (NAFTA) was signed. Supply chains for meat and feed have become highly integrated, with goods and animals flowing back and forth across borders to take advantage of the cheapest conditions, allowing for dramatically increased corporate concentration. After NAFTA, Mexican farmers were devastated by the flood of cheap corn from the U.S. Nearly two million Mexican farmers were driven out of agriculture, with many more losing their farms to become contract workers or compelled to migrate to cities or to the U.S. to seek work.[1] More than 250,000 U.S. small—and medium-scale family farms have disappeared since NAFTA,[2] as volatile prices and increasing corporate concentration and control made it harder for them to make a living from the land. Farm Bill programs enacted since NAFTA have facilitated farm consolidation and a deeper reliance on export markets to absorb chronic over-production and low prices.

Also, since NAFTA, our food systems have become less healthy, with increasing meat and processed food consumption contributing to rising obesity in all three countries, but especially in the United States and Mexico. Consumers and farmers are pushing back, leading to more demand for healthier and locally grown foods and for farm and trade policies that are fair and sustainable.

Unfortunately, the new NAFTA, dubbed the U.S.-Mexico-Canada Agreement (USMCA), not only doesn't fix the problems in the original agreement, it takes several steps back from those goals. Canada's existing dairy supply management program has been weakened, a promising new initiative in Mexico to enhance food sovereignty is endangered and the problem of dumping of agricultural exports has been ignored.

WEAKENING SUPPLY MANAGEMENT

Canada's supply management program has been operating for more than 40 years, long before the current crisis in U.S. dairy markets. The U.S. crisis is due to massive oversupply linked to the growth of mega-sized dairy operations and years of prices below the true cost to farmers. Most Canadian dairy farms are family owned and operated, and this program helps them stay in business without reliance on public subsidies.

This program of balancing Canadian supply and demand requires the ability to restrict imports, so they don't overwhelm the market. Canada's dairy program was excluded from the original NAFTA.

Recent increases in consumer demand for butter have reduced the market for high-protein milk products. Over the last few years, U.S. dairy processors have exported ultrafiltered milk or diafiltered milk as a concentrated protein product under customs definitions (thus avoiding Canadian dairy tariffs) for use in cheese and other food production. As the market for these inputs rebalanced, the Canadian Dairy Commission decided to create new designations for dairy products (Class 6 and Class 7) for ingredients like protein concentrates, skim milk and whole milk powder. The

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decision to lower the price of Class 7 products as supplies built up led to trade tensions with the U.S.

New NAFTA creates a special window, called a tariff rate quota, for duty-free exports of U.S. dairy products to Canada amounting to 3.6 percent of the Canadian market. This comes on top of a concession equivalent to 3.25 percent of the market granted under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and additional market access for 17,500 tons of European cheese under CETA (the Canada-European Union trade deal). While the Canadian government has promised farmers some compensation for the opening, National Farmers Union Canada president Jan Slomp says, "We take no comfort in promises of compensation…CETA shrinks total revenue available to Canadian farmers, yet the subsidy is given to the farmer that expands. To expand when revenue is diminished is a rather reckless business decision."[3] This approach will contribute to overproduction in Canada, replicating the problem at the heart of the U.S. dairy crisis.

Canada also agreed to abolish the Class 6 and Class 7 milk designations in Annex 3B of new NAFTA chapter on agriculture. That annex details plans to tie prices for Canadian non-fat dairy solids to domestic prices set by USDA (adjusted by Canadian processor margins and yield factors). It also agreed to add a price surcharge to global exports of skim milk powder, milk protein concentrate and infant formula if they exceed certain set volumes. Thus, rather than achieving "free trade" in dairy products, these changes will tie Canadian prices to those set in the U.S., potentially raising prices for consumers in other countries while weakening a successful program that attempts to avoid overproduction and help farmers stay on their lands. Even so, the U.S. National Family Farm Coalition (NFFC) points out that, "The impacts for U.S. farmers will be minimal: Canada's entire dairy market is smaller than that of Wisconsin."[4]

LIMITS ON REBUILDING NATIONAL FOOD SYSTEMS

Mexican President-elect Andrés Manuel López Obrador has promised to revitalize the country's agricultural sector, based on the Plan de Ayala Siglo 21,[5] which was endorsed by more than 100 Mexican farmers' organizations. A primary goal is to achieve self-sufficiency in corn, wheat, rice and beans by 2024. This program would reorient agricultural support to target smaller producers through credit, crop insurance and reforms to anti-competitive business practices by buyers and sellers. Small Planet Institute's Tim Wise explains:

> The Plan commits to a transition toward agro-ecology, bars transgenic crops, and creates a National System for the Protection and Improvement of Mesoamerican Agro-biodiversity, with a special program called Native Maize-Tortilla 2050 to promote the cultivation and consumption of native maize. This is just the sort of directed action that can revalue indigenous cultures and practices while actively supporting the production of native maize.[6]

These kinds of programs would require significant restructuring of Mexico's support to agriculture, which could be undermined by language in the Agriculture Chapter of new NAFTA. Article 3.6.1 states that, "If a Party supports its agricultural producers, the Party shall consider domestic support measures that have minimal or no trade distorting or production effects." While "shall consider" is not binding language, it is consistent with other provisions, especially the articles that follow, which establish a consultation process in cases where trade distortion is alleged.

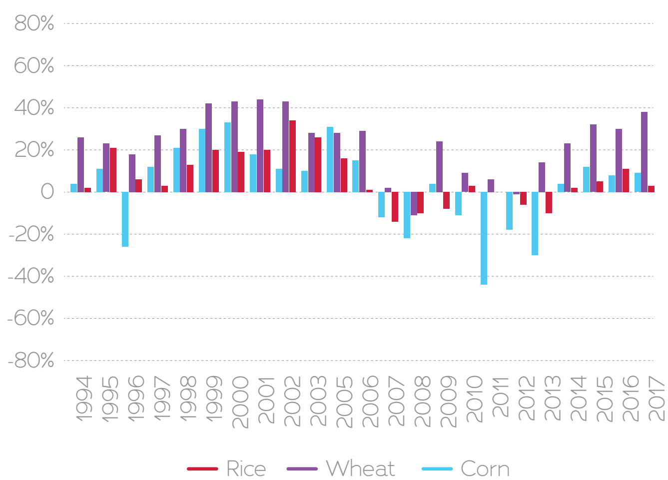
It seems possible that the López Obrador administration's plans to reorient agriculture spending to achieve self-sufficiency in corn, beans, wheat and rice production and to end reliance on imports of those goods through floor prices, public procurement, and production and distribution of fertilizers[7] could be considered trade distorting. The more important question is not whether these programs distort trade, but if they contribute to enhanced rural livelihoods and food security.

In addition, Article 20.A.7 (2) of new NAFTA, like the CPTPP, requires all countries to ratify the 1991 version of the International Union for the Protection of New Varieties of Plants (UPOV 1991), which prohibits farmers from saving and sharing protected seeds. Mexico ratified the 1978 version of that accord, which includes exceptions for small-scale farmers, but has declined to ratify the more stringent 1991 version. Given the recent experience of Guatemala and other Central American countries after ratification of the U.S-Central America-Dominican Republic Free Trade Agreement,[8] it seems likely that the U.S. would insist that Mexico comply with that new requirement as well.

BLOCKING THE WAY TO REFORMS

It's hard to see how Mexico can achieve self-sufficiency in basic grains without limits on imports priced below the cost of production (dumping). IATP has documented the extent of dumping since the early 1990s. Since NAFTA's inception, dumping rates have ranged as high as 33 percent for corn, 44 percent for wheat and 34 percent for rice. After temporary reversals in the wake of the 2008 food price crisis and the 2012 drought, recent figures show a trend toward the resumption of dumping. Our calculations show that as of 2017, dumping rates were nine percent for corn, 38 percent for wheat and three percent for rice.[9]

Commodity dumping under NAFTA



Mexico agreed to maintain zero tariffs for these and other farm goods under new NAFTA, so they will not be able to shelter these goods as they restart production. Article 3.9 forbids Parties from utilizing WTO special agricultural safeguards, which would allow them to enact temporary trade barriers in cases of unstable prices or import surges. Some 39 countries (including the U.S., Canada and Mexico) have registered agricultural products for potential protection under that agreement.[10] There are ongoing debates at the WTO among developing countries to expand that provision through the establishment of a Special Safeguard Mechanism and the designation of Special Products (key goods for food security that could be excluded from imports), so this provision would cut off that possibility from parties to USCMA (and those in the CPTPP, where it is also included). Article 3.3 of new NAFTA also commits members to work together at the WTO, "with the objective of substantial progressive reductions in agriculture support and protection."

Dumping is an issue for U.S. farmers, too. IATP's dumping calculations are based in part on USDA data on the costs of production, which include both direct costs, like seeds and fertilizer, and the opportunity costs of labor and land. When prices are below the cost of production, farmers do not fully cover those costs. Many farm households now rely on off-farm income. According to the USDA Economic Research Service, "Median farm income earned by farm households is estimated at—$800 in 2017 and is forecast to decline to—$1,691 in 2018."[11]

Changes to this losing game would require reforms to both farm and trade rules. For example, NFFC and the U.S. National Farmers Union, among others, have suggested that rather than weakening Canada's dairy supply management program, the U.S. should consider adopting a similar program to revitalize U.S. dairy markets. Those groups, along with many others including the ranchers organization R-CALF and the United Food and Commercial Workers Union (as well as IATP and Food & Water Watch) asked for Canada and Mexico to withdraw their WTO complaint against mandatory Country of Origin Labeling (COOL) for meat. Congress overturned COOL after the WTO found that the labeling program restrained trade, but without the complaint it could be refined and restarted so that consumers could know where their meat is grown and processed. That proposal is not addressed in new NAFTA.

The Trump administration has proclaimed U.S. farmers "winners" under USMCA, but the main achievements they claim are holding on to the status quo on most tariffs and increased market access to Canadian dairy markets—neither of which will contribute in any meaningful way to resolving the problems of U.S. farmers. Many of the supposed fixes in new NAFTA are provisions brought in from the rejected CPTPP. Agribusiness exporters may be breathing a sigh of relief that they can continue with business as usual, but for rural communities confronting falling incomes, rising debt and an increasingly unstable climate, new NAFTA is a lost opportunity for change.

Read further analysis on the "New NAFTA"

- *"New NAFTA" continues damaging climate legacy*
- *Imposing hurdles to delay and weaken public protections*
- *Food safety and GMOs in "new NAFTA:" A retreat in science-based policy*

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