



CAPI

*The Canadian Agri-Food
Policy Institute*



ICPA

*L'Institut canadien des
politiques agro-alimentaires*

Pressures on NAFTA

Karl Meilke

University of Guelph

February 13-14, 2006

Discontent with NAFTA

- **From the Left**
 - Income distribution, downward pressure on tax rates, social programs, unionization, loss of sovereignty
- **From the Right**
 - Byrd Amendment
 - Softwood lumber
 - BSE
- **Acknowledged Benefits of NAFTA**
 - \$530 billion in cross border Canada/US trade
 - \$45 billion in cross border agricultural trade

Discontent with NAFTA: Dispute Settlement

- Absolute number of Canada/US agricultural disputes since CUSTA has been constant, but the number of disputes per dollar of agrifood trade have fallen by 50%
- In relation to trade there are more disputes in agriculture than manufacturing – but no more with our NAFTA partners than with third countries
- Disputes seldom involve packaged goods – and generally involve import surges

Discontent with NAFTA

- **Chapter 19 Disputes**

- Canadian findings: 4/14 agricultural
- Mexican findings: 3/10 agricultural
- US findings: 5/17 agricultural

- **A Few Disputes Never Go Away!**

- Mexico: Steel from Canada and the US
- US: Cement from Mexico and softwood lumber from Canada

The Environment

- **Asymmetric Economic Relationship**
 - Agriculture nationally focused
- **Legitimate Border Security Concerns**
 - Canadian border guards more concerned if you exceed your duty free limit than if you are packing heat!
 - Security perimeter – be part of the solution, not part of the problem
- **Protectionism**

Is the Third Option an Option?

Country	Canada's Merchandise Exports		Canada's Agrifood Exports	
US	\$348	84.5%	\$16.6	62.6%
Japan	\$8.5	2.1%	\$2.5	9.4%
UK	\$7.7	1.9%	\$1.2	4.5%
China	\$6.7	1.6%	\$1.2	4.5%
Mexico	\$3.0	0.7%		
Germany	\$2.7	0.7%		
Italy			\$0.3	1.1%
Belgium			\$0.3	1.1%
Top 2-6	\$28.6	6.9%	\$5.5	20.7%
Total	\$411.8	100.0%	26.5	100.0%

The Future

- Industries will continue to integrate beyond the farm gate and view NAFTA members as the relevant market
 - Farm policy differences and import surges will continue to cause trade friction
- Economic integration has moved far beyond political integration
 - The time is not right for the BIG IDEA (a CU)
 - Move unilaterally, bilaterally and trilaterally to remove trade friction

The Future

- Growth of sales into the US market will be slower in the next decade than in the past decade
 - The share of sales to the US market might decline as our tariff preference is eroded
 - Tariffs are higher in agrifood than in manufacturing
 - Select new FTA markets strategically
- Might be possible to make progress on trade remedy law as the US is increasingly a target for actions