



Trump made US dairy access to Canada a big issue, but NAFTA 2.0 may bring only 'marginal' concessions from Ottawa

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With a preliminary NAFTA deal possible next week, attention is turning to how it could potentially affect U.S. agriculture.

Canada's dairy market is protected by high tariffs and has been a key bone of contention by the U.S. but experts expect only "marginal" concessions from Ottawa. There's also an anti-dumping provision aimed at Mexico that has been sought by Florida and U.S. Southeast specialty crop producers, but analysts say it could ignite trade retaliation.

"What dairy farmers in America need now is some good news," Tom Vilsack, president of the U.S. Dairy Export Council and former secretary of the U.S. Department of Agriculture, told CNBC in an interview. "Prices are very low, things are very stressed on the farm, and they see free trade agreements being negotiated by their competitors that open up market access."

'Opening up' Canada's dairy market

In fact, Michigan and portions of the U.S. Northeast had milk prices so low last fall that it was being dumped as production exceeded the capacity to process the product. Vilsack called it "incredibly important" that any renegotiation of NAFTA include progress on "opening up" of the Canadian dairy market.

Officials from Canada, Mexico and the United States met this week in Washington, and a Mexican business representative said Tuesday an agreement in principle could be reached next week, according to Reuters.

"NAFTA, as you know, is moving along," President Donald Trump told reporters Tuesday. The president added, "I could make a deal really quickly, but I'm not sure that's in the best interests of the United States. But we'll see what happens."

\$40 billion in agricultural exports

Mexico and Canada together represent nearly one-third of total U.S. agricultural exports, or about \$40 billion last year, according to the USDA. Corn, wheat, soybeans, fresh fruits and vegetables, as well as livestock and dairy, are major U.S. exports to those countries.

The future of NAFTA has been clouded ever since Trump notified Congress last May that the U.S. wanted to renegotiate the deal with Mexico and Canada. During this time, Trump has threatened to scrap the 24-year-old trade agreement.

"Pulling out of NAFTA would be a horrendous mistake," said former USDA chief economist Joseph Glauber, a senior research fellow at the International Food Policy Research Institute, an agriculture think tank based in Washington. "There are some improvements that can be made in this agreement, but understand that status quo is a far better deal than getting bad changes to this agreement."

Mexico diversifies beyond NAFTA

Amid the uncertainty over NAFTA and strained relations with the Trump administration, Mexico has looked to diversify trade partners beyond the United States.

Mexico strengthened its trade ties with major producers in Latin America and looked for new suppliers of corn, wheat and soy, among other commodities. Mexico is the top buyer of U.S. corn, but shipments of corn from Brazil soared more than 900 percent last year.

On Saturday, Mexico announced an agreement in principle on an updated free trade agreement with the European Union that will allow more goods to be exported tariff-free, including in the agricultural sector.

Vilsack said the new Mexico-EU trade deal "could potentially impact access to a market that we have been dominant in." He added that there's also the recent EU-Japan trade agreement, and one of the EU's biggest food exports to Japan is dairy products.

Mexico ranks as the largest U.S. dairy export market, accounting for about double the size of the industry's number two market, Canada. One of the biggest global competitors for American dairy producers is the EU, the leading exporter of many dairy products, particularly cheeses.

For Trump, concerns about NAFTA go well beyond agriculture to industries such as auto manufacturing. But when it comes to agribusiness, the president has been very vocal in the past about Canada's dairy industry.

Trump calls Canada 'a disgrace'

A year ago, Trump tweeted about Canada hurting U.S. dairies in border states such as Wisconsin and vowed the U.S. "will not stand for this." He also fumed: "What they have done to our dairy farmer workers is a disgrace."

Even top Democratic lawmakers have weighed in on the Canadian dairy restrictions and pressed the Trump administration to act.

Sen. Chuck Schumer, D-N.Y., vented this week about "reversing restrictive dairy pricing policies in Canada that are hurting our dairy producers at their core." The Senate minority leader also revealed in remarks delivered during an appearance at an upstate New York dairy farm that if the Canadian situation is not addressed in the updated NAFTA it would be unacceptable.

Canada uses a supply-management program to support various agricultural sectors, including dairy and cheese. Two years ago, the Canadian dairy industry created a new class of milk prices for so-called ultrafiltered milk, which is used to make cheese, yogurt and ice cream. Some U.S. officials have criticized the move as protectionist and harmful to American dairy farmers.

Milk politics in Canada

Regardless, Canada has defended itself against claims the dairy incentives they have are protectionism and contend they shouldn't be blamed for excess milk capacity by American dairy producers. Prime Minister Justin Trudeau has even said the system "works very well" for Canada.

U.S. and Canadian experts say there's a slim chance of major dairy concessions from Ottawa. They point out domestic pressure from the Canada's dairy industry is significant and complicated by elections later this year in the two large dairy provinces, Quebec and Ontario.

"They'd walk away from a deal before they would actually give up supply management at this point," said Kevin Carmichael, a senior fellow at the Centre for International Governance Innovation, a think tank in Waterloo, Ontario. "It's just too sensitive for the Canadians."

'Marginal' concessions

To secure trade agreements with the EU and the Trans-Pacific Partnership, though, Canada granted some dairy access. As a result, Carmichael expects Canada will do same for the United States, but he suggests "you're going to see something marginal."

Others agree no significant concessions from Canada are likely on the dairy side.

"They won't liberalize dairy very much," said Gary Clyde Hufbauer, a former U.S. Treasury international trade official who is now a senior fellow at the Peterson Institute for International Economics, a nonpartisan think tank in Washington D.C. "They might do some token stuff on ice cream but it won't amount to anything."

Mexico's 'dumping' of fresh produce

Meanwhile, some U.S. Southeast agricultural groups representing specialty fruit and vegetable producers want changes in NAFTA 2.0 that would allow them to pursue anti-subsidy and anti-dumping cases or seek temporary import quotas. They accuse Mexico of "dumping" product such as seasonal tomatoes and other fresh produce into the U.S. market.

"It would give seasonal producers a standing to file anti-dumping claims in the United States, which they usually don't get to do," said Inu Manak, a visiting scholar at the libertarian Cato Institute in Washington.

Added Manak: "You could have a lot of retaliation from Mexico. You also open the floodgates to a lot of various claims that could be quite dangerous."

Former USDA chief economist Joseph Glauber agrees, suggesting that U.S. could be vulnerable for shipping apples to Mexico or seasonal trade done with Canada.

"We compete with a lot of their industries at various points in time," said Glauber, now a senior research fellow at the International Food Policy Research Institute, an agriculture think-tank based in Washington.

Retiring Sen. Jeff Flake, R-Ariz., whose state is a key entry point for fresh produce from Mexico to the U.S., has pushed the Trump administration to remove seasonal protection of perishable products from the NAFTA talks.

Yet there are others, including Florida Sens. Marco Rubio, a Republican, and Bill Nelson, a Democrat up for re-election this year, who have pushed to include perishable and seasonal protection policies in the NAFTA renegotiations. The two lawmakers wrote a letter earlier this month to urge Senate Finance Committee leaders to support Florida farmers on the matter.

"NAFTA has undoubtedly expanded U.S. agricultural exports, and that is a great result for American farmers," Rubio and Nelson wrote. "But our exports have succeeded at the expense of Florida farmers who have been systematically undercut at home by Mexican agricultural subsidies, poor labor standards, and seasonal dumping."