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The new U.S.-Mexico-Canada Agreement

NAFTA Reloaded?

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The U.S., Mexico, and Canada trade negotiators have reached an agreement to update, modernize, and replace the trilateral North American Free Trade Agreement (NAFTA). If ratified and approved by the three countries, the new trade deal will be called the U.S.-Mexico-Canada Agreement (USMCA). The agreement is likely to have different implications in several key regional industries and sectors; including automotive, manufacturing, financial services, energy, pharmaceutical, and food and agriculture. Below a short summary and key highlights of the potential agreement where it relates to food and agriculture. We will continue to assess as information continues to emerge and prepare more intelligence as the agreement materializes.

Key Highlights

- All food and agricultural goods with zero tariffs under NAFTA will remain unchanged when it comes to tariffs. The USMCA will, however, eliminate some barriers to products traded between the U.S. and Canada that remained protected under NAFTA, such as dairy, poultry (including turkey), eggs, and sugar.
- U.S. dairy, poultry, and eggs will get some access to the Canadian market via, mostly, Tariff-Rate Quotes (TRQs) that marginally grow over time. The new agreement provides slightly more access to the dairy market than what Canada committed to provide in the TPP, however, in this case, the U.S. is the sole beneficiary of those opportunities. Furthermore, the U.S. will provide reciprocal access for imports of Canadian dairy products, through first-come, first-served tariff-rate quotas.
- It is important to understand that the policy mechanics behind the agreement are not finalized and still need to be better understood. For example, the Canadian Class 6/7 (milk protein concentrates/skim milk products) will be eliminated and replaced with a price formula that may act similarly to the old class 6/7 pricing system, which again hinders U.S. dairy protein exports to Canada.
- Mexico's food and ag trade with the U.S. and Canada seems to remain mostly unchanged.
- Mexico and the U.S. left sugar untouched. The current suspension agreement needed no alterations as both countries and parties were satisfied with the agreement. However, under the new U.S.-Mexico-Canada Agreement, sugar trade between the U.S. and Canada will be modified, with Canada only able to export sugar (a small quota).
- Regarding fruit and vegetables, the agreement creates certainty for cross-border investment that should strengthen the fruit and vegetable sectors, particularly between Mexico and the U.S.
- Given this agreement, the U.S. wine sector will see greater security in (and perhaps some marginal improvements to) its access to Canada (currently its top export market – roughly 30% of total U.S. exports according to the Wine Institute). Furthermore, the agreement eliminates uncertainty for other beverage products such as bourbon and tequila.
- Despite the USMCA, the steel and aluminium import tariffs set by the Trump administration will remain in place as will the retaliatory actions set by Mexico and Canada, including the 20% Mexican tariffs on U.S. pork imports.

- The independent tariff-rate dispute settlement system (chapters 19 and 20), that the US proposed eliminating, will remain in the agreement.
- In addition, sanitary and phytosanitary (SPS) measures were agreed upon in order to strengthen trade and cooperation and to establish grading standards and services on agricultural products, independent of each countries' grading standards.
- The new deal sets new regulations on labor, rules of origin, and property rights. For the North American automotive industry, the USMCA raises the requirements for regional content in automobiles from 62.5% to 75% in order to qualify for duty-free treatment. In addition, 40% of the vehicle needs to come from factories where the average wage is at least USD 16. This could add pressure, albeit minimal, to Mexican wages in some regions.
- The next step for the USMCA is ratification by the three countries. The U.S. Congress is not expected to vote on it until 2019.
- With the information we have at this moment, we don't believe the agreement will generate a structural change in the North American food and agricultural sector, but it paves the way for more normalized trade, and brings back certainty for further investments and growth.

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