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NAFTA Provisions for Agriculture

Herewith, a summary of the provisions included in the proposed North American Free Trade Agreement that apply to agriculture.

by C. Parr Rosson, III and Gary W. Williams

C. Parr Rosson is Extension Economist–International Trade and Marketing, and Gary W. Williams is Professor and Coordinator of the Texas Agricultural Market Research Center, Department of Agricultural Economics, Texas A&M University, College Station, Texas.

The proposed NAFTA creates separate bilateral agreements, one between the U.S. and Mexico and the other between Canada and Mexico. Because of the low level of Canada-Mexico agricultural trade, this discussion focuses primarily on the U.S-Mexico bilateral agreement in agriculture.

U.S.-Mexico Agricultural Agreement

The general provisions include the following:

- Immediate elimination of all import tariffs on a broad range of agricultural products already facing low or negligible duties. About one-half of current U.S.-Mexico bilateral agricultural trade will be duty free when NAFTA takes effect. These commodities represent about $1.5 billion in current U.S. exports to Mexico and $1.6 billion in Mexican exports to the United States.
- Systematic reduction of all remaining tariffs on U.S.-Mexico agricultural trade. Some commodities will be covered by special safeguard provisions. A small share of trade (about 10 percent) will be liberalized over a 5-year period. These products were deemed too sensitive for immediate liberalization but not sensitive enough to require more than five years of transition to free trade.
- Elimination of tariffs for most sensitive products over a 10-year or 15-year transition period. Some of these products will be eligible for special safeguards in the form of a tariff-rate quota (TRQ) during the transition period. The TRQs call for a low or zero duty on a specified amount of imports. For imports over the specified TRQ level, a higher tariff (the current or original) will be "snapped back" into place. Both the within-quota and the over-quota tariffs will decline to zero over the specified time period. The initial TRQ levels will be determined by recent average trade levels and will expand at a 3 percent annual compounded rate over the transition period. The United States will use 10-year TRQs entirely for selected fruits and vegetable imports from Mexico currently valued at $330 million. Mexico will apply the 10-year TRQs on $155 million in imports from the United States, mainly hogs, pork, potatoes, and apples.
- Elimination of tariffs on a few selected fruits and vegetables over a 15-year period. A 15-year period with TRQs is provided for the most economically and politically sensitive products, including U.S. imports of sugar, peanuts, and frozen orange juice. Mexico will employ a 15-year transition with TRQs for corn, dry beans, and non-fat dry milk.
- Elimination of non-tariff barriers over specified transition periods. Mexico will eliminate its import licensing requirements on U.S. products. The United States will exempt Mexico from its Meat Import Act. The U.S. will also replace Section 22 (Agricultural Adjustment Act of 1933) quotas on imports from Mexico with TRQs during specified transition periods.

Trilateral Agreement

Domestic agricultural policies and export subsidies are covered by a trilateral agreement among the NAFTA countries. Although each country "will endeavor to move toward domestic support policies that are not trade-distorting," the NAFTA does *not* require any changes in domestic policies. NAFTA provides for the establishment of a working group to eliminate

all export subsidies. However, the United States and Canada may use export subsidies in the Mexican market to counter subsidized competition from non-NAFTA countries. U.S. countervailing duties against subsidized imports from Canada or Mexico will be allowed. U.S. marketing order provisions for fruits and vegetables will be maintained. Mexican fresh fruits and vegetables that do not meet grades and standards may be imported for processing.

The trilateral agreement also confirms the right of each country to establish and maintain the level of sanitary and phytosanitary (SPS) protection considered appropriate to protect human and animal health and plant life. Trade measures related to SPS protection must be based on scientific principles and a risk assessment and not simply result in disguised restrictions to trade.

"Rules of origin" are included in the agreement to prevent non-NAFTA countries from taking advantage of the preferential trading arrangements afforded NAFTA countries. In general, the *de minimis* requirements of the Canada-U.S. Free Trade Agreement are used which allow all products to receive NAFTA benefits as long as foreign ingredients make up less than 7 percent of the value of a processed commodity. These rules are also intended to protect and ensure the integrity of U.S. farm programs and to reduce the possibility of unfair competition. Rules of origin will be permanently in place and will not expire at the end of the transition period.

Proposed Duties and Safeguards Under NAFTA

Conversion of licenses and quotas to tariffs and TRQs will occur over a 10 or 15-year transition period in most cases.

Horticultural Products. U.S. imports of many Mexican horticultural products will be subject to seasonal, declining duties and seasonal, increasing quotas. For example, Mexican tomatoes entering the United States from November 15 through January 31 will initially be covered by a 172,300 metric ton (MT) quota and a $.033/kg duty. During the period of March 1 through July 14, U.S. imports from Mexico will be limited to 165,500 mt with a duty of $.046/kg. Over-quota imports will be assessed the lower of the most-favored-nation (MFN) rate on June 12, 1991, or the MFN rate in effect when the safeguard is implemented. The quotas will increase at 3 percent compounded annually for both periods. The tariffs will be phased out over 10 years.

Grains and Oilseeds. Grains and oilseeds will also face a number of duties and TRQs during the transition period. U.S. corn exports, for example, will enter Mexico duty free up to an initial 2.5 million mt in the first year. Amounts above 2.5 million mt would be assessed an *ad valorem* duty of 215 percent. The over-quota duty will decline 24 percent over the first six years with the remaining duty phased out over the next 9 years as the quota grows at 3 percent compounded annually over the full 15-year period. U.S. exports of grain sorghum will enter Mexico duty free immediately after the agreement goes into effect. Wheat exports, however, must pay a 15 percent duty which will be phased out over 10 years. The U.S. soybean complex will face duties ranging from zero percent-20 percent to be eliminated over 10 years.

Livestock and Meat. Mexican imports of all U.S. cattle and beef except edible offals, will be duty free immediately. Edible offals will be assessed a 20-percent duty to be phased out over 10 years. U.S. hog exports for breeding will enter Mexico duty free immediately. However, U.S. slaughter hogs and pork will face duties up to 20 percent with certain pork products subject to a 68,600 mt quota and a 20-percent duty to be phased out over 10 years. U.S. broiler exports to Mexico will be allowed duty free entry up to 52,000 mt and then face a 260-percent duty to be eliminated over 10 years.

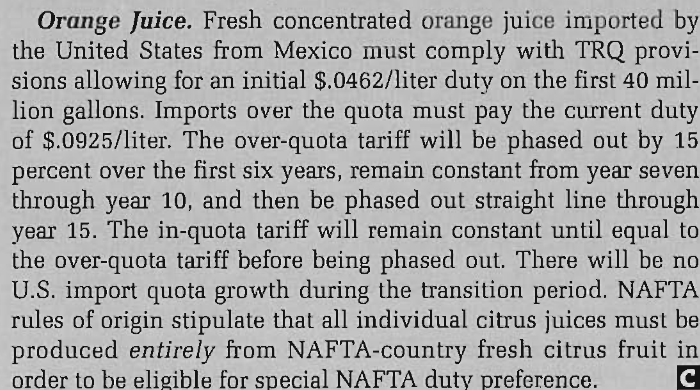
Mexico will be exempt from the U.S. Meat Import Law. Most meat products and livestock will have immediate duty free access to the U.S. market.

Dairy. Both the United States and Mexico will protect their dairy markets with 10-year TRQs for most products. The U.S. will initially allow 5,500 mt of cheese imports duty free with a 69.5 percent duty on over-quota imports. Mexico will have no TRQ but will have duties on cheese ranging from 20-40 percent. U.S. milk powder exports may enter Mexico duty free up to an initial 40,000 mt limit with an over-quota duty of 139 percent. Milk powder from the European Community cannot be imported into Mexico and processed into cheese or yogurt for shipment into the U.S. market.

Peanuts. Imports of Mexican peanuts will enter the United States duty free up to 3,377 mt but will be subject to a 186 percent over-quota duty to be phased out over 15 years. Peanuts may not be shipped through Mexico or imported into Mexico and processed into peanut butter or paste for export to the U.S. market. Peanut products from Mexico must be 100 percent NAFTA origin in order to qualify for preferential duty treatment under NAFTA.

Sugar. During the first six years of NAFTA transition, Mexican sugar exports to the U.S. will be limited to 7,258 mt. If Mexico achieves net exporter status during this period, the U.S. will allow imports of up to 25,000 mt from Mexico. In year seven, Mexico's import quota will increase to 150,000 mt and will expand by 10 percent per year over the remaining nine years. If Mexico achieves net exporter status for any two consecutive years, all of Mexico's exportable surplus may by shipped to the U.S. duty free. The refining of non-NAFTA sugar will not confer origin under NAFTA.

Cotton. U.S. cotton exports to Mexico will not face any TRQ limits but will be subject to a 10 percent duty to be phased out over 10 years. Mexican cotton exports up to 10,000 mt will be able to enter the U.S. duty free. An over-quota duty of 29 percent will be eliminated over 10 years. NAFTA "fiber forward" rules require that cotton imported into Mexico must be transformed twice, from cotton fiber to yarn and from yarn to fabric, before it is considered a product of Mexico. A "yarn forward" provision also requires that yarn imported into Mexico be transformed twice, from yarn to fabric and from fabric to apparel, before it can receive duty-free access to the U.S. market.



Orange Juice. Fresh concentrated orange juice imported by the United States from Mexico must comply with TRQ provisions allowing for an initial $.0462/liter duty on the first 40 million gallons. Imports over the quota must pay the current duty of $.0925/liter. The over-quota tariff will be phased out by 15 percent over the first six years, remain constant from year seven through year 10, and then be phased out straight line through year 15. The in-quota tariff will remain constant until equal to the over-quota tariff before being phased out. There will be no U.S. import quota growth during the transition period. NAFTA rules of origin stipulate that all individual citrus juices must be produced *entirely* from NAFTA-country fresh citrus fruit in order to be eligible for special NAFTA duty preference.