An End to NAFTA Would Harm Californian Producers

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Overview: Californian farmers stand to lose their US$6 billion duty-free access to the Canadian and Mexican markets should the United States pull out of the 23-year old North American Free Trade Agreement (NAFTA) or allow it to expire after five years under the proposed sunset clause. Furthermore, consumers will face less access to fruits and vegetables year-round due to duty-free imports from Canada and Mexico. As a result, the Californian economy will be harmed by agricultural producers cutting back on labor and less cargo volume going through key ports such as Los Angeles and Long Beach. This trade brief includes an analysis of international trade statistics to show the significance of NAFTA for the Californian economy and offers recommendations for policymakers.

NAFTA TALKS ROUND-BY-ROUND

Round 1

- Reduce trade deficit with Canada and Mexico
- Increase agricultural access to Canadian and Mexican markets (e.g. eliminate Canadian tariffs on U.S. dairy and poultry products)

Round 2

- U.S. Secretary of Agriculture Sonny Perdue says that NAFTA has benefited U.S. agriculture and a withdrawal would create a rift with rural base

Round 3

- U.S. introduces "consolidated text" on agriculture
- Eliminate Canadian duties on dairy

Round 4

- Eliminate Canada's high duties on dairy
- Ease of filing a trade case against seasonal imports by U.S. fruit and vegetable producers
- Sunset clause introduced – allows NAFTA to expire after five years

California's agriculture sector will be hit hard if the United States withdraws from the North American Free Trade Agreement or allow the trade deal to expire. Californian farmers benefit from substantial trade with its NAFTA partners in terms of revenue. Local consumers enjoy lower-cost fruits and vegetables[1] that are imported from the NAFTA partners year-round.

However, as the United States, Canada, and Mexico enter the fifth round of talks in Mexico City, scheduled for November 15-21st,[2] previous rounds have resulted in the United States threatening to withdraw from the trade deal altogether. This trade brief provides the specific information that shows how an important sector to the Californian economy can be harmed should the United States pull out from NAFTA or allow the agreement to expire.

GRIIT bases its final analysis on trade data collected from U.S. Customs. These data offer insight into some of the Californian shippers who are currently exporting to Canada and Mexico. Furthermore, GRIIT analyzes trade statistics collected from the U.S. Department of Agriculture, the California Department of Food and Agriculture, and the Government of Canada. These statistics highlight the key commodities that California imports from and exports to each of its NAFTA partners.

Policymakers can use this information to gain an in-depth, fact-based understanding of exactly which exporters, industries, and specific commodities

[1] Other factors, not discussed in this trade brief, also affect the price of fruits and vegetables such as weather conditions and grower strikes.
[2] Talks pertaining to some areas, such as textiles, begin on November 15th. However, the fifth round officially begins on its original start date of November 17th.

would be affected. This knowledge can be taken a step further to develop a NAFTA policy based on research and that would continue to provide gains to California's agricultural sector, as well other indirectly related industries such as the port industry.

The brief is organized as follows: 1) Californian exporters to Canada and Mexico, 2) Californian exports to Canada and Mexico, 3) Californian fruit and vegetable imports, and 4) Conclusion and Recommendations.

Californian Exporters to Canada and Mexico

This section lists those specific Californian companies or shippers that have exported various types of agricultural commodities to Canada and Mexico. These exporters have mainly sent wine to Canada and dairy, fish, and tomato paste to Mexico.

Top agricultural shipments to Canada (January-October 2017) (US$)

Shipper	Estimated Value (US$)	Destination Country	Port of Departure	Declared Destination Port	Departure Date	Commodity
Mission Bell	714,827.00	Canada	Oakland	Montreal	2/25/2017	Wine in Bulk
Mission Bell	536,759.00	Canada	Oakland	Montreal	2/25/2017	Wine in Bulk
Mission Bell	534,112.00	Canada	Oakland	Montreal	6/3/2017	Wine in Bulk
Woodridge Winery	529,217.00	Canada	Oakland	Montreal	4/1/2017	Wine in Bulk
ASV Wines	358,501.00	Canada	Oakland	Montreal	5/20/2017	Gen MDSE

Top agricultural shipments to Mexico (January-October 2017) (US$)

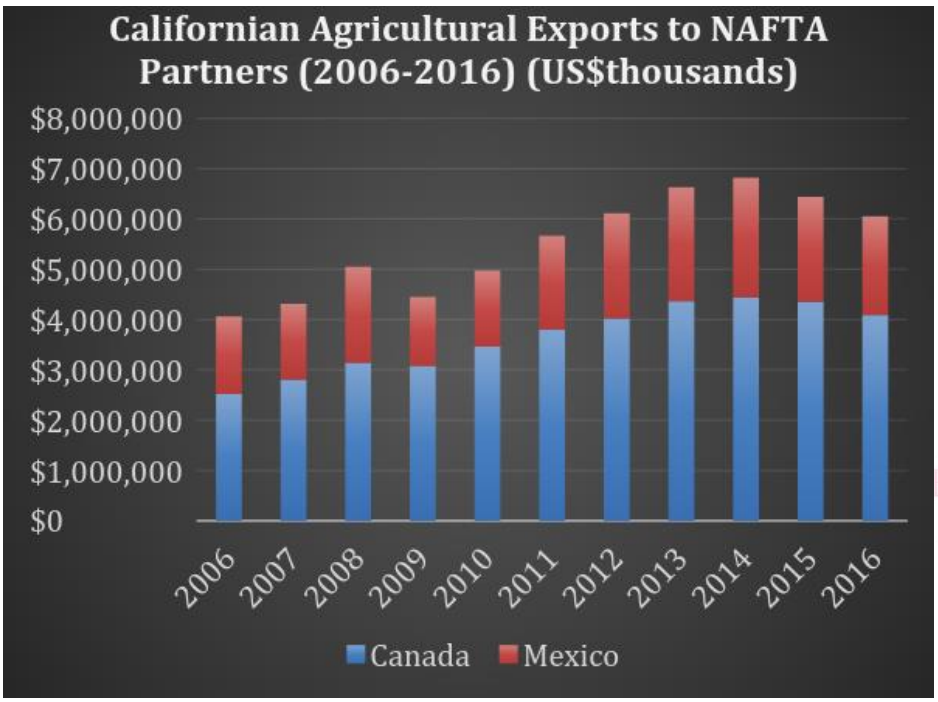
Shipper	Estimated Value (US$)	Destination Country	Port of Departure	Declared Destination Port	Departure Date	Product
Agility Logistics	492,262.01	Mexico	Los Angeles	Manzanillo	4/14/2017	Skimmed Milk Powder Medium Heat
Agility Logistics	492,195.31	Mexico	Los Angeles	Manzanillo	4/28/2017	Skimmed Milk Powder Medium Heat
MAC Industries	397,019.30	Mexico	Los Angeles	Mazatlán	9/26/2017	Tuna
British American Shipping	179,177.23	Mexico	Los Angeles	Mazatlán	1/10/2017	Tomato Paste

Tri Marine Fish	172,269.18	Mexico	Los Angeles	Mazatlán	2/8/2017	Frozen Bonito Fish

Source: Based on information collected from the U.S. Customs and Border Protection

Californian Agricultural Exports to Canada and Mexico (US$)

Californian agricultural exports to its NAFTA partners have increased from about US$4 billion in 2006 to US$6 billion in 2016. Canada and Mexico remain top importers of U.S. agricultural commodities. These exports consist mainly of fruits and vegetables to Canada and dairy and nuts, Mexico.



Mexico (2015)

Total - $1,059.5 (US$million)

Dairy - $454.1

Almonds - $105.1

Table grapes - $92.5

Other - $407.8

Canada (2016)

$1.6 b in fruits and vegetables

$950 m in vegetables

$301 m in prepared nuts, fruits, and vegetables

Source: Statistics collected from the Foreign Agricultural Service, U.S. Department of Agriculture; Government of Canada; California Department of Food and Agriculture

Californian farmers would lose its US$6 billion worth of duty-free access to Canada and Mexico if the United States withdraws from NAFTA or allows the trade pact to expire.

Californian Fruit and Vegetable Imports

Canada and Mexico are among the top 10 suppliers of a variety of fruits and vegetables. In each group, U.S. imports from these two countries increased from August 2016 to August 2017, except for prepared or preserved vegetables from Mexico.

Commodity	Oct.- Aug. 2016	Oct.- Aug. 2017	Aug. 2016	Aug. 2017
		Million dollars		
Fruits, fresh or frozen				
Mexico	4,789	5,752	284	370
Chile	1,874	1,852	86	119
Guatemala	998	1,098	90	95
Costa Rica	894	937	82	83
Peru	528	738	44	64
Ecuador	487	380	46	28
Canada	344	348	62	83
Honduras	339	341	18	16
Colombia	164	177	16	18
Argentina	137	156	2	1
World	11,255	12,437	801	944
Fruits, prepared or preserved				
Mexico	394	477	46	55
China	486	467	46	44
Thailand	382	338	40	38
Canada	204	216	20	21
European Union-28	227	193	17	20
Philippines	160	165	18	17
Chile	115	106	20	11
Turkey	103	86	4	5
South Korea	63	73	6	7
Indonesia	46	57	4	5
World	2,596	2,619	264	268
Vegetables, fresh or frozen				
Mexico	5,852	5,451	275	276
Canada	1,981	2,094	245	261
Peru	325	319	37	29
European Union-28	234	270	31	33
China	223	238	25	18
Guatemala	153	164	14	15
Costa Rica	95	89	8	7
Ecuador	64	55	6	5
Honduras	48	52	3	3
Dominican Republic	45	47	4	3
World	9,225	8,992	664	666
Vegetables, prepared or preserved				
European Union-28	865	899	84	96

China	368	535	36	39
Mexico	402	428	44	41
Canada	309	320	27	31
Peru	195	203	13	12
Thailand	106	117	11	11
India	77	76	7	8
Turkey	70	71	5	6
Japan	38	41	4	4
South Korea	28	33	3	3
World	2,781	3,061	263	284

Source: U.S. Department of Agriculture

The increase shows the interdependence between the two countries, which will be negatively affected should the United States withdraw from NAFTA or allow the trade deal to expire after a specific amount of time.

Conclusion and Recommendations:

The U.S. NAFTA policy is driven by the desire to reduce the U.S. trade deficit and to develop deals that benefit U.S. workers and companies. However, walking away from NAFTA may have the opposite effect. As mentioned earlier, California's agricultural sector, which depends on international trade, would lose its competitive edge in the NAFTA market. Such an outcome would lead to other consequences such as job losses in the farming sector, possible company closings, lower revenue for local ports, and possible impact on jobs in the port industry.

GRIIT recommends that the decision-makers defer to in-depth assessments on local and state economies to develop objectives that satisfy the final goal of implementing trade pacts that benefit U.S. firms and workers. Secondly, the NAFTA policy should incorporate an emphasis on the pros and cons of various outcomes on consumers, as in the case of Californian consumers of lower-cost fruits and vegetables year-round. Finally, the NAFTA approach should be guided by a sound negotiation strategy to increase access to the Canadian and Mexican markets rather than the idea of walking away from the deal altogether.