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FACT SHEET

U.S. Department of Agriculture
North American Free
Trade Agreement: Agriculture

THE NORTH AMERICAN FREE TRADE AGREEMENT: BENEFITS FOR U.S. AGRICULTURE

The United States, Canada, and Mexico concluded 14 months of negotiations on the North American Free Trade Agreement (NAFTA). The agreement will eliminate most trade barriers among the three countries. The 1989 U.S.-Canada Free Trade Agreement has already boosted U.S. agricultural exports to Canada. The most significant growth in trade from NAFTA will be with Mexico, already U.S. agriculture's third largest single-country market.

NAFTA will eliminate all tariffs, quotas, and licenses that act as barriers to agricultural trade between the United States and Mexico. NAFTA will result in net gains for both the United States and Mexico.

Locks in recent gains

U.S. agricultural exports to Mexico have grown significantly since the mid-1980s, rising from $1.4 billion then to almost $3.0 billion in fiscal year 1991. This growth is largely the result of unilateral liberalization in Mexico, the natural comparative advantages of the two countries, and relatively strong Mexican economic performance (averaging 3.6 percent income growth for the past 3 years). NAFTA will assure that U.S. agricultural exports to Mexico will continue to grow. NAFTA will open market access in Mexico and prevent a return to policies that restricted trade and economic growth in Mexico during the early 1980s.

Assures a larger market

Mexico's population (86 million), is growing at 2 percent a year and is becoming more urban. It is a significant market now for U.S. agricultural products. The agreement will boost incomes in Mexico and increase demand for a greater volume and variety of food and feed products. Mexico's comparative advantages indicate that it will continue to be a net importer of food and fiber. Combined with greater market access, this assures continued growth in U.S. agricultural exports to Mexico.

Increases production efficiency

The NAFTA agreement will lead to gains in efficiency in both Mexico and the United States as producers respond to greater market opportunities. U.S. agriculture will benefit from greater trade, higher agricultural export prices, and increases in economic efficiency and productivity.

Expands two-way trade

Mexico imported primarily bulk commodities prior to 1987 (mostly coarse grains and soybeans). But Mexico is now one of the largest and fastest growing markets for U.S. high-value products. High-value products now account for almost 70 percent of all U.S. agricultural sales to Mexico, up from 40 percent in 1987. Consumer-oriented food products have gained the most; meat and poultry, horticultural products, dairy products, and snack foods are among the leaders. Other high-value products doing well include live animals, cattle hides, feeds and fodders, and soybean meal.

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At the end of the 15-year transition period, U.S. agricultural exports will likely be $1.5 to $2.0 billion higher than without a NAFTA agreement. Over the same period, U.S. farm cash receipts likely will increase by 2 to 3 percent compared with receipts without a NAFTA. Greater trade will also expand U.S. employment in processing and transportation. For example, U.S. agricultural exports to Mexico already support 81,000 jobs in food processing, transportation, packaging, and the economy at large. The agreement will add as many as 54,000 more jobs -- two-thirds more.

Mexico's main exports to the United States are feeder steers and tropical and horticultural crops, such as coffee and selected fruits and vegetables. These exports also will likely expand with the agreement.

Grains, Meats Major Gainers

Grains and meats are expected to account for the majority of the expanded value of U.S. agricultural trade by the end of the 15-year transition period.

NAFTA assures that the United States can ship 2.5 million metric tons of corn into Mexico without a tariff. This duty-free quota will grow by 3 percent a year over the 15-year transition period. As the tariffs are reduced and the demand for grain for feeding grows, U.S. corn exports to Mexico will increase steadily over the longer term.

U.S. sorghum exports (about 3.4 million metric tons in the first half of 1992) will increase due to the immediate elimination of the sorghum tariff. U.S. wheat exports also will increase under NAFTA, resulting from the elimination of tariffs and licensing, and higher Mexican incomes.

Mexico is one of the fastest growing export markets for U.S. meat. The ultimate elimination of tariffs under NAFTA will give a strong boost to further growth. Beef trade is expected to nearly double by the end of the transition period -- and there will also be significant increases in U.S. exports of pork, variety meats, and sausages. U.S. poultry exports, already up sharply in recent years, are expected to grow further as Mexico's import licensing requirements are removed and Mexican demand expands.

Gains Seen in Horticulture

NAFTA will boost market opportunities for a variety of U.S. horticultural products as a result of the lower trade barriers and income growth in Mexico. The most significant gainers will include fresh apples, pears, and peaches. U.S. exports of fresh vegetables to Mexico during their off-season will also increase as Mexican consumers demand more high-quality fresh produce. U.S. tree nut exports to Mexico, which have doubled in recent years, will continue to expand as NAFTA eliminates Mexico's 15-20 percent tariffs.

U.S. horticultural imports from Mexico are seasonal and generally enter the United States during the winter months. Under NAFTA, tariffs on selected horticultural commodities during the U.S. off-season will be eliminated immediately. Other tariffs will be phased out gradually. The longer phaseout periods apply to tariffs during seasons of the year when Mexican imports compete more directly with production in the United States. The agreement also includes quantity-based safeguards to protect U.S. producers of import-sensitive fruits and vegetables from import surges.

The United States will not change its existing health and sanitary requirements on horticultural imports. The United States will take all measures necessary to assure that imports are safe from pesticide residues. No changes in U.S. minimum import requirements for grade, size, and quality are made on Mexican fruit and vegetable exports. Mexican goods entering the United States and to be processed will receive treatment no less favorable than that accorded U.S. goods.

Long transition for import-sensitive crops

NAFTA provides for: (1) a transition of up to 15 years before tariffs are eliminated for the most sensitive products; (2) quantity-based safeguards that protect producers against injury from import surges; and (3) tough rules of origin to ensure that the maximum NAFTA benefits accrue to products produced in North America.

NAFTA will liberalize trade with Mexico in all products, including those farm products now protected by Section 22 import quotas. However, imports from non-NAFTA countries will continue to be limited by quotas. Mexico will be granted a small duty-free quota for Section 22 products in the U.S. market. Mexican exporters will be charged a tariff (based on a 1989-91 tariff equivalent) for any sales over that amount. The duty-free quota will grow at a 3-percent compounded annual rate over the NAFTA transition period while the over-quota tariff is gradually phased out. For dairy products, cotton, and sugar-containing products, this phase-out period will be 10 years; for peanuts and sugar the phase-out will be 15 years.

NAFTA also contains special agricultural safeguard provisions to provide timely, effective relief against surges in imports from Mexico. These provisions allow only a specified quantity of a product to enter at low or zero duty rates and the higher tariffs are automatically triggered when imports reach a specified level.

The United States will have a special safeguard consisting of tariff duties against an import surge for seven horticultural items. These items accounted for about $340 million in imports from Mexico in 1991, or about 15 percent of the U.S. agricultural import total. Roughly half of the amount is tomatoes. Mexico will have a special safeguard against an import surge for 17 agricultural products, including live swine, most pork products, apples, and potato products, valued at about $100 million in imports from the United States.

NAFTA improves incentives for buying within the NAFTA region and ensures that only North American producers will get the benefits of tariff preferences. Non-Mexican origin goods must be transformed or processed significantly in Mexico before they can receive NAFTA's lower duties for shipment to the United States.

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