Issues Watch

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NAFTA Renegotiations, Round 1

As of this writing the first round of the North American Free Trade Agreement (NAFTA) renegotiations has just concluded, and at least publicly it seems there is not much to report specific to agriculture.

NAFTA came into force on January 1, 1994, among Canada, Mexico, and the United States, and, according to most reports, nearly one-third of all U.S. agricultural exports are to Mexico and Canada. The United States also relies on fruit and vegetable imports from Mexico to maintain year-round supplies. On the campaign trail presidential-candidate Donald Trump talked repeatedly about renegotiating or pulling out of NAFTA entirely. In May 2017, President Trump held to his campaign promise and formerly announced his decision to renegotiate NAFTA.

A total of seven rounds is planned for the NAFTA renegotiations, with the second round set for early September (which will have finished just before this article goes to print). As it stands now, just a few days after the first round was completed, there remains tremendous uncertainty and anxiety regarding the future of NAFTA. At a political rally in Phoenix on August 22, President Trump signaled a willingness to scrap NAFTA altogether when he said, "Personally, I don't think we can make a deal. Because we have been so badly taken advantage of. They have made such great deals — both of the countries, but in particular Mexico — that I don't think we can make a deal. So I think we'll end up probably terminating NAFTA at some point."

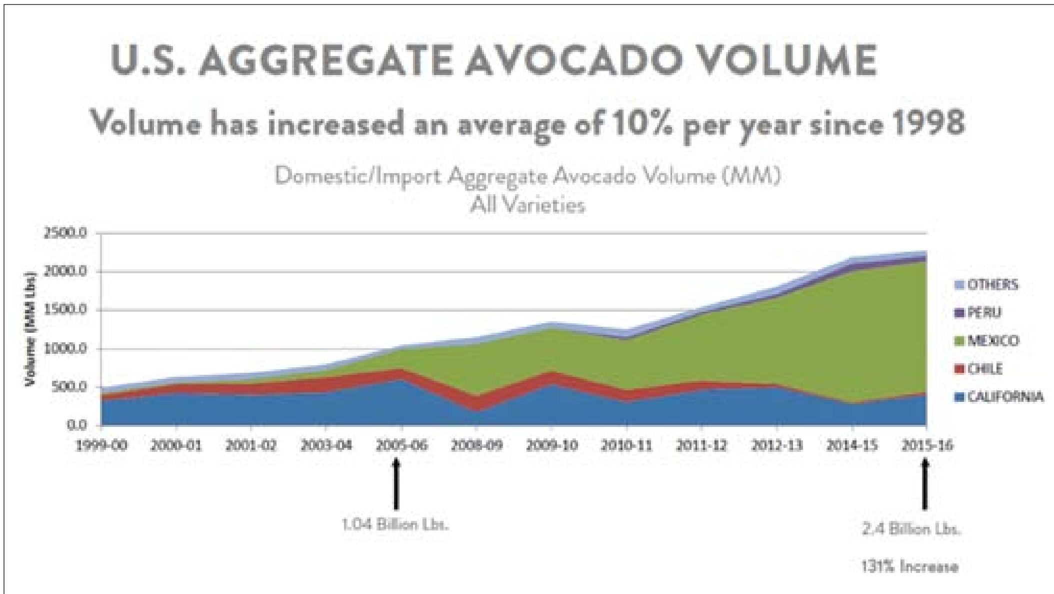
For 2016, the largest U.S. agricultural export markets were China, Canada, and Mexico (respectively). If the U.S. were to pull out of NAFTA it would have significant impact on exports of major program crops like corn and soybeans, along with pork and poultry exports. A majority of these export commodities are produced in the Midwest, in states known as the Farm Belt that helped carry Trump to the presidency. Should the administration terminate NAFTA, the potential for political fallout is huge. While there is some speculation that President Trump's comments were a ploy to apply pressure on Mexico and Canada, uncertainty remains.

The Agriculture Technical Advisory Committee (ATAC) for Fruits and Vegetables, on which I serve, has taken a position of "Do No Harm" as it relates to agriculture and the NAFTA renegotiations. The consensus (in general) of the ATAC is that, overall, U.S. agriculture has benefitted from NAFTA.

For the California avocado industry, it's worthwhile to look back at historical data that illustrates the increase in U.S. demand and the shift in supply sources. In 2000, U.S. demand was about 500 million pounds annually and California produced 321 million pounds – nearly 65 percent of the total. In 2006, U.S. consumption surpassed 1 billion pounds, of which California produced 600 million pounds. Jump now to 2016 when U.S. total volume exceeded 2.4 billion pounds. The California production for that year was 400 million pounds, about 16 percent of the total U.S. volume.

If you looked solely at those supply figures, you would assume California producers have suffered because of the increasing supplies from Mexico. However, even as avocado supplies from outside the U.S. have increased, California pricing has remained strong. With the 2017 California avocado season almost complete, the average price is $1.59 per pound on California fruit — *the highest average price of all time*. During the past five years, California's average per pound price is $1.14 and for the last 10 years it is $1.09 per pound. Even as supplies have increased to meet U.S. demand, California pricing has remained strong, defying the laws of supply and demand.

Although it seems unlikely the U.S. will pull out of NAFTA altogether, if that did occur it stands to reason that pre-NAFTA tariff levels might be reinstated. This may sound appealing to many California avocado growers at first blush, but other factors must be considered. At the California Avocado Commission's August Board meeting, the NAFTA renegotiations were discussed along with the question of what, if anything, the Commission should ask for during the renegotiations. Over the last few years some in the industry have questioned whether dumping into the U.S. has occurred and speculated that grower subsidies were being provided in offshore producing countries. The Commission monitors for potential unfair trade activities and has found no



evidence of any unfair trade practices. Granted, the cost to produce avocados in California is greater than in most other offshore producing countries, but free trade agreements do not "level the playing field," they open trade channels.

So, the question then becomes: what could be pursued in the NAFTA renegotiations? Ideas ranged from placing a tariff on imported avocados to controlling imported volumes, or even providing a guaranteed price to growers. Of the options, a tariff seemed to be the only legitimate consideration. The Board discussed the tariff, and the consensus was it would be difficult to achieve based on likely opposition from other commodities. In addition, concern surrounding possible unintended consequences was voiced. Would retailers try to leverage a tariff against California and drive pricing down? Could other trading partner countries reciprocate a tariff on the U.S.? Would U.S. supplies be diverted elsewhere, resulting in an undersupplied U.S. market? Would this lead to periods of market instability and possibly negatively impact consumer demand? While all this is speculative, the potential for harm to the California avocado industry must be considered.

Ultimately, as the Board reflected on the California industry's strength and position in the growing U.S. avocado market, it was determined that a "Do No Harm" approach was the best course of action. Through the ATAC, the Commission will continue to work with the current administration on the NAFTA renegotiations to seek a modernized NAFTA by updating the provisions in the areas of Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT). The Commission will track the NAFTA renegotiations and when possible provide a voice for the industry.