Background

The North American Free Trade Agreement (NAFTA) is a free trade agreement between Canada, the United States (US), and Mexico. NAFTA was built on the Canada-US Free Trade Agreement (CUSFTA), which was brought into force in 1989 and superseded by NAFTA in 1994. Designed to eliminate trade and investment barriers between the three countries, the agreement came into force on 1 January 1994. In addition to being one of the most ambitious trade agreements in history, NAFTA also created the world's largest free trade area. Since 1994, NAFTA has generated economic growth and rising standards of living for the people of all three member countries.

Like CUSFTA, NAFTA grants signatories "most-favoured nation" treatment, meaning each country can access the others' markets without barriers such as high tariffs. The objectives of the deal were laid out in the first chapter. These are to:

A. eliminate barriers to trade in, and facilitate the cross-border movement of, goods and services between the territories of the Parties;
B. promote conditions of fair competition in the free trade area;
C. increase substantially investment opportunities in the territories of the Parties;
D. provide adequate and effective protection and enforcement of intellectual property rights in each Party's territory;
E. create effective procedures for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and
F. establish a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits of this Agreement.

Trade

Total merchandise trade between the three NAFTA partners has more than tripled between 1993 and 2015, amounting to over US$1 trillion. In 2015, NAFTA represented 28 percent of the world's gross domestic product, which amounts to a combined total of US$20.7 trillion in trade, despite having less than 7 percent of the world's population.

Total merchandise trade between Canada and the United States more than doubled between 1993 and 2015, while trade with Mexico increased eightfold over the same period. In addition, 9 million jobs in the US rely upon Canadian trade and investment across all sectors.

One of the most important economic effects of the trade agreement was the establishment of regional supply chains. Much of the increase in inter-regional trade is the result of decisions by producers to reorganize manufacturing and assembly plants to carry out different parts of the production process in the site deemed most efficient. Many economic sectors, including agriculture and agri-food processing, have become extremely integrated across the North American region.

Agriculture and Food Trade

The liberalized trade conditions ushered in by NAFTA has been an incredible success for Canadian agriculture and indeed for agriculture throughout North America.

Over the 25 plus years of NAFTA, Canada's agri-food exports have grown by more than fivefold, from under $10 billion in 1988 to $56 billion in 2016. Together, the United States ($29.6B) and Mexico ($1.7B) accounted for well over half of these exports.

Canada is the United States' most important supplier of food. Canada is among the top suppliers for all of the United States' top ten agri-food imports. Canada's top five exports to the United States are:

1. Beef and Pork ($2.4B);
2. Baked Goods ($2.1B);
3. Vegetables ($1.7B);
4. Canola Oil ($1.6B);
5. Animal feed ($1.5B).

Canada is Mexico's second most important supplier of food after the United States. Canada is a top supplier in nine of Mexico's top ten key agri-food import commodities. Canada's top five exports to Mexico are:

1. Canola Seeds ($760M);
2. Non-durum wheat ($231M);
3. Fresh Boneless Beef ($76M);
4. Malt ($72M);
5. Fresh Hams ($61M).

NAFTA has been very good for the US and Mexico as well. Indeed, Canada's agri-food imports from the United States have grown more than six times. Canada is overall the primary agri-food export market for the United States. Specifically, Canada is the main agricultural export market for twenty-nine of the fifty states.

- Since the adoption of NAFTA, US agri-food exports to Canada and Mexico have more than quadrupled from $8.9 billion in 1994 to $38.6 billion in 2015.
- Our agri-food imports from Mexico have increased more than tenfold over the period NAFTA has been in place, reaching more than $2 billion in 2015.
- Most of all, both the United States and Mexico have a balanced trading relationship in agri-food with Canada.

NAFTA has encouraged highly coordinated supply chains spanning all three countries. Canada takes advantage of its strengths and is more competitive. For example, Canada exports live piglets to the United States where they are fed on locally grown corn and soybeans. Fresh meat is then imported into Canada and Mexico for processing and can then go on to be consumed in North America or around the world. The

Canadian and US Livestock associations are highlighted as an example of the benefits that industry-level cooperation can bring. The collaboration between these groups allows for issues and trade irritants to be quickly addressed. In particular, the cooperation between these groups helped to resolve the trade dispute over country-of-origin labelling (COOL) for meat in the United States.

CAFTA Position on NAFTA renegotiation

Due to the importance of NAFTA to North American and Canadian agriculture and agri-food trade, the Canadian Agri-Food Trade Alliance (CAFTA) supports a "do no harm" approach to NAFTA renegotiations and modernize it where possible. Specifically, the renegotiation should not allow new tariffs, new non-tariff barriers, or any other provisions that could be used to limit trade. Retaining the existing market access is of the utmost importance to Canadian agriculture and agri-food sectors.

However, NAFTA can be improved. Modernization of NAFTA could serve as a model agreement that can be used by the partners to promote trade liberalization in other multi-lateral and plural-lateral negotiations. CAFTA has identified several areas where improvements to NAFTA could enable further growth:

For all agriculture and food products, greater regulatory alignment for food, crop, and animal health products would provide equal access to these products and remove barriers to trade. This includes closer cooperation for product approvals, Maximum Residues Limits, new plant breeding techniques and policies that accommodate a low-level presence of biotech crops.

For meat, despite Canada and the U.S. considering each other's systems equivalent, Canadian meat exports to the U.S. still have greater barriers to entry at the U.S. border than do U.S. meat exports to Canada. For example, after clearing U.S. Customs, Canadian meat exports are sent for a second inspection.

For sugar, NAFTA did not liberalize trade for Canadian exports of sugar and sugar-containing products containing over 10 percent sugar. The U.S. significantly protects its sugar sector. Canada has a competitive advantage to use sugar as an ingredient for food processing. However, US protectionism has deteriorated our export opportunities. In fact, U.S. import quotas have steer sugar-containing product manufacturing away from Canada.

For canola, despite having a globally competitive industry on both sides of the border, further processed products like margarine and shortening cannot cross the border without having tariffs applied. This should be fixed.

For wheat and barley, significant changes to the Canadian system over the last ten years have substantially addressed long standing U.S. concerns with cross border trade. While many concerns have been addressed, there are remnants of former systems in the Canada Grain Act. Industry supports the reintroduction of legislation to amend the Canada Grain Act so that Canadian grades can be given to wheat and barley varieties registered in Canada, no matter where they have been grown.

Regulatory Cooperation

Central to agriculture and agri-food sectors is the need for regulatory coherency. It is not enough to resolve disputes related to the trade agreement, but to ensure regulatory cooperation between states and sectors. Additional tests, reviews, approvals, or inspections when accessing markets negatively affects importers and exporters alike. Different regulations across borders can lead to increased costs, disrupts regional and global supply chains, and disproportionately affects small and medium-sized enterprises.

A modernized NAFTA agreement must continue to strengthen opportunities for communication and cooperation among North American regulatory authorities. This outcome can be achieved by incorporating the Regulatory Cooperation Council (RCC) under NAFTA while improving the RCC's overall capacity and scope. These efforts could also build on the success of existing initiatives, such as the NAFTA Technical Working Group on Pesticides. Further to this, there is potential in a concept that has been suggested by organizations in Ontario for the establishment of a joint North American organization to undertake science-based risk assessments and to address other technical and regulatory issues such that trade disruptions due to differences can be averted.

Trade Dispute Resolution

Given the North American economy has become substantially more integrated during the time NAFTA has been in effect, it is important that dispute settlement mechanisms continue to exist. In addition, it is important that dispute settlement mechanisms are seen by all parties to operate effectively and on a timely basis. CAFTA draws particular attention to issues arising from antidumping and countervailing duty investigations and we view it as essential to retain the existing provisions of the NAFTA Chapter 19 dispute settlement chapter, which have been used in all three countries to effectively address disputes arising from trade remedy proceedings.