



United States
Department of
Agriculture

Foreign
Agricultural
Service

FACT SHEET

North American Free Trade Agreement (NAFTA)

January 2008

The final provisions of the North American Free Trade Agreement (NAFTA) were fully implemented on January 1, 2008. Launched on January 1, 1994, NAFTA is one of the most successful trade agreements in history and has contributed to significant increases in agricultural trade and investment between the United States, Canada and Mexico and has benefited farmers, ranchers and consumers throughout North America.

With full implementation, the last remaining trade restriction on a handful of agricultural commodities such as U.S. exports to Mexico of corn, dry edible beans, nonfat dry milk and high fructose corn syrup and Mexican exports to the United States of sugar and certain horticultural products are now removed. The United States will continue to work with Mexico to build on the successes achieved to date. Since 2005, the United States has invested nearly \$20 million in programs and technical exchanges to assist Mexico in addressing production, distribution and marketing-related challenges associated with the transition to free and open trade.

The agricultural provisions of the U.S.-Canada Free Trade Agreement (CFTA), in effect since 1989, were incorporated into the NAFTA. Under these provisions, all tariffs affecting agricultural trade between the United States and Canada, with a few exceptions for items covered by tariff-rate quotas (TRQ's), were removed before January 1, 1998.

Mexico and Canada reached a separate bilateral NAFTA agreement on market access for agricultural products. The Mexican-Canadian agreement eliminated most tariffs either immediately or over 5, 10, or 15 years.

Benefits to U.S. Agriculture

In 2007, Canada and Mexico were, respectively, the first and second largest export markets for U.S. agricultural products. Exports to the two markets combined were greater than exports to the next six largest markets combined.

From 1992-2007, the value of U.S. agricultural exports worldwide climbed 65 percent. Over that same period, U.S. farm and food exports to our two NAFTA partners grew by 156 percent.

Trade with Mexico: It estimated that U.S. farm and food exports to Mexico exceeded \$11.5 billion in 2007 -- the highest level ever under NAFTA. From 2001 to 2006, U.S. farm and food exports to Mexico climbed by \$3.6 billion to \$10.8 billion. U.S. exports of soybean meal, red meats, and poultry meat all set new records in 2006.

In the years immediately prior to NAFTA, U.S. agricultural products lost market share in Mexico as competition for the Mexican market increased. NAFTA reversed this trend. The United States supplied more than 72 percent of Mexico's total agricultural imports in 2007, due in part to the price advantage and preferential access that U.S. products now enjoy. For example, Mexico's

imports of U.S. red meat and poultry have grown rapidly, exceeding pre-NAFTA levels and reaching the highest level ever in 2006.

NAFTA kept Mexican markets open to U.S. farm and food products in 1995 during the worst economic crisis in Mexico's modern history. In the wake of the peso devaluation and its aftermath, U.S. agricultural exports dropped by 23 percent that year, but have since surged back setting new annual records. NAFTA cushioned the downturn and helped speed the recovery because of preferential access for U.S. products. In fact, rather than raising import barriers in response to its economic problems, Mexico adhered to NAFTA commitments and continued to reduce tariffs.

Agricultural trade has increased in both directions under NAFTA from \$7.3 billion in 1994 to \$20.1 billion in 2006.

Trade with Canada: Canada had been a steadily growing market for U.S. agriculture under the U.S.-Canada Free Trade Agreement (CFTA), with U.S. farm and food exports reaching a record \$11.9 billion in 2006, up from \$4.2 billion in 1990. Fresh and processed fruits and vegetables, snack foods, and other consumer foods account for close to three-fourths of U.S. sales.

U.S. exports of consumer-oriented products to Canada continued to set records in 2007 in virtually every category. Additionally, new value highs were recorded for vegetable oils, planting seeds, and sugars, sweeteners, and beverage bases. With a few exceptions, tariffs not already eliminated dropped to zero on January 1, 1998.

In 1996, the first NAFTA dispute settlement panel reviewed the higher tariffs Canada is applying to its dairy, poultry, egg, barley, and margarine products, which were previously subject to non-tariff barriers before implementation of the Uruguay Round. The panel ruled that Canada's tariff-rate quotas are consistent with NAFTA, and thus do not have to be eliminated.

NAFTA Eliminates Trade Barriers

NAFTA helped to eliminate a number of non-tariff measures affecting agricultural trade between the United States and Mexico. Prior to January 1, 1994, the single largest barrier to U.S. agricultural sales was Mexico's import licensing system. However, this system was largely replaced by tariff-rate quotas or ordinary tariffs.

All agricultural tariffs between Mexico and the United States were eliminated as of January 1, 2008. Many were immediately eliminated and others were phased out over transition periods of 5, 10, or 15 years. The immediate tariff eliminations applied to a broad range of agricultural products. In fact, more than half the value of agricultural trade became duty free when the agreement went into effect. Tariff reductions between the United States and Canada had already been implemented under the CFTA.

Both Mexico and the United States protected their import-sensitive sectors with longer transition periods, tariff-rate quotas, and, for certain products, special safeguard provisions. However, now that the 15-year transition period has passed, free trade with Mexico prevails for all agricultural products. NAFTA also provides for strict rules of origin to ensure that maximum benefits accrue only to those items produced in North America.

Protection for Import-Sensitive Products

Under the General Agreement on Tariffs and Trade (Article XIX), and the U.S.-Canada Free Trade Agreement (Chapter 11), countries may take emergency action if increased imports cause injury to domestic producers. This concept was carried over into the NAFTA. Chapter 8 of the NAFTA permits, under specified conditions, the parties to impose a temporary, emergency safeguard measure – that is, an increase in the tariff to the prevailing MFN level - in the event imports cause, or threaten to cause, serious injury to domestic producers. In 2008, a NAFTA partner could, assuming the associated conditions are satisfied, invoke a Chapter 8 safeguard provision until 1 year following full implementation of the NAFTA commitments, i.e., until January 1, 2009. Beyond January 1, 2009, the NAFTA Partner could maintain a safeguard arrangement only with the consent of the Party against whose good the action would be taken.

Other Key NAFTA Provisions

Sanitary and Phytosanitary Measures: The NAFTA imposes disciplines on the development, adoption, and enforcement of sanitary and phytosanitary (SPS) measures. These are measures taken to protect human, animal, or plant life or health from risks that may arise from animal or plant pests or diseases, or from food additives or contaminants. Disciplines contained in NAFTA are designed to prevent the use of SPS measures as disguised restrictions on trade, while still safeguarding each country's right to protect consumers from unsafe products, or to protect domestic crops and livestock from the introduction of imported pests and diseases.

Although NAFTA encourages trading partners to adopt international and regional standards, the agreement explicitly recognizes each country's right to determine the necessary level of protection. Such flexibility permits each country to set more stringent standards, as long as they are scientifically based. NAFTA also allows state and local governments to enact standards more stringent than those adopted at the national level, so long as these standards are scientifically defensible and are administered in a forthright, expeditious manner.

Export Subsidies: The three NAFTA countries work toward the elimination of export subsidies worldwide. The United States and Canada are allowed under the NAFTA to provide export subsidies into the Mexican market, under certain conditions, to counter subsidized exports from other countries. Neither Canada nor the United States is allowed to use direct export subsidies for agricultural products being sold to the other, and both countries are required to consider the export interests of the other whenever subsidizing agricultural exports to third countries.

Internal Support: Under NAFTA, the parties should endeavor to move toward domestic support policies that have minimal trade or production distorting effects, or toward policies exempt from domestic support reduction commitments under the World Trade Organization.

Grade and Quality Standards: The United States and Mexico agreed that when either country applies a measure regarding the classification, grading, or marketing of a domestic product destined for processing, it will provide no less favorable treatment for like products imported for processing.

Rules of Origin

NAFTA improves incentives for buying within the North American region and ensures that North American producers receive the primary benefits of all newly established tariff preferences. Goods not originating from the United States, Mexico, or Canada must be significantly transformed or processed in one of those countries before they receive NAFTA's lower duties for shipment to one of the two other countries.

The NAFTA rules of origin for agricultural products were constructed to prevent Mexico from becoming an export platform for processed products made from subsidized raw materials originating in non-NAFTA countries. There are also strong rules of origin for U.S. import-sensitive commodities, such as citrus and dairy items.

Bulk Commodities: All bulk agricultural commodities, and certain processed products such as orange juice and cheese, are exempt from the *de minimis* provision, which otherwise allows up to 7 percent of non-NAFTA-origin product to be included in final NAFTA goods.

Citrus: All single-fruit juices (fresh, frozen, concentrated, reconstituted, fortified) must be made from 100-percent NAFTA-origin fresh citrus fruit. The *de minimis* provision does not apply to any citrus products.

Dairy Products: Only U.S. or Mexican milk or milk products can be used to make cream, butter, cheese, yogurt, ice cream, or milk-based drinks traded under NAFTA preferential rates.

Vegetable Oils: With the exception of certain industrial fatty acids and acid oils, refining of crude oils within a NAFTA country does not confer NAFTA origin. Making margarine and hydrogenated oils from imported crude oils does not confer origin.

Sugar: Refining does not confer origin. In order for sugar to be considered of North American origin, all processing of sugarcane or sugar beets must take place in NAFTA territory.

Peanut Products: Mexico must produce the peanuts to qualify for NAFTA preferential rates on peanuts and peanut products exported to the United States. U.S. exports of peanut products to Mexico are subject to this same rule.

Committees Help Implementation

The NAFTA Committee on Agricultural Trade monitors and promotes cooperation on the implementation and administration of the agricultural provisions. The committee provides a forum for the three countries to consult on trade issues and other matters related to the implementation of the agreement.

The NAFTA Committee on Sanitary and Phytosanitary (SPS) Measures promotes the harmonization and equivalence of SPS measures, and facilitates technical cooperation, including consultations regarding disputes involving SPS measures. This committee meets periodically to review and resolve issues in the SPS area.

The NAFTA Advisory Committee on Private Commercial Disputes Regarding Agricultural Goods provides recommendations to the three governments for resolving private commercial disputes that arise in connection with transactions in agricultural products. The intent is to achieve prompt and effective resolution of commercial disputes, with special attention to perishable items. The committee is composed primarily of private sector representatives but also has government participants. Lastly, bilaterally, the United States maintains annual meetings with both countries called the Consultative Committee on Agriculture (CCA). The CCA meeting is used by both countries to ensure the full and proper implementation of the NAFTA.