North American Agriculture in an Era of Trade Policy Turmoil: Reaffirming the Value of Open Markets:

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**Why Trade?**

1. Trade is *natural*, I would say a part of our genetic nature
2. Sentient beings trade, indeed all living organisms trade (recall Darwin was inspired by the “dismal” economist Robert Malthus)
3. The idea of a *nation* (or other geographic political grouping) followed trade by a few hundred thousand (or hundred million) years.
4. States and Nations must go to great lengths to interrupt trade and cannot really stamp it out (though North Korea does a pretty good job)
5. Trade benefits many (not all) of those not a party to the trade
6. Of course, those who face lower prices for what they sell or higher prices for what they buy often oppose trades among those who benefit directly
7. Imports may be more important than exports and growth impacts of global interactions may be most vital
Antecedents

This presentation is in the broad tradition of two famous books by one of my mentors, Professor D. Gale Johnson.

*Trade and Agriculture: A study of inconsistent Policies* (1950)

*World Agriculture in Disarray* (1973)

Some of the specific policy concerns highlighted by these publications have been partially remedied, in part because of the intellectual efforts of Johnson and others.

But, there remain issues to consider…
“My head hurts !!!!! Does he really not know who pays tariffs?”

-- @realDonaldTrump

…at 7:59 a.m.: "Tariffs are working big time. Every country on earth wants to take wealth out of the U.S., always to our detriment. I say, as they come, Tax them. If they don't want to be taxed, let them make or build the product in the U.S. In either event, it means jobs and great wealth....."

... at 8:06 a.m.: "..Because of Tariffs we will be able to start paying down large amounts of the $21 Trillion in debt…, while at the same time reducing taxes for our people. At minimum, we will make much better Trade Deals for our country!"
What is the most important free trade in North America? My candidate:
• My favorite trade agreement is the US Constitution.
• Fundamental point: open markets across the country is an accepted principle has prevailed for 230 years.
• The US constitution also established rules for settling disputes that mean going back to first principles.
• The WTO and the FTAs are fully consistent with these principles, except that sovereign nations (unlike citizens) can opt out of the system and even out of specific applications.
• Of course, not every Supreme Court decision or WTO Appellate Body ruling has protected trade from local interests.
• Linking the rule of law across jurisdictions is fundamental
Top Destinations for U.S. Fresh Fruit Exports in 2017

Total Exports = $4.7 billion (value in $million)
Top Destinations for U.S. Fresh Vegetable Exports in 2017
In California this is a big deal.

“First do no harm” is a reasonable motto for a trade official!

Total Exports = $2.2 billion (value in $million)
Let’s look at some cases

Shall we start with a case of wine. US and others have a WTO dispute now underway against Canada for a local rule that foreign wines must be sold only at the back of the store “ride in the back of the bus.”

Does it discriminate? Canada calls it “separate but equal.” We shall see if it meets the global rules.
The milk policy Muddle almost scuttled and obvious gain for almost every one. HOW? (The issue was not actually almond milk, which is has its own controversy)
Milk has a legacy of government control

- US dairy exports still not internalized by some political parts of the industry
- US milk pricing rules are largely domestic policy, but these policies raise prices of non-traded fluid products and implicitly subsidize tradeable products. This should sound familiar in Canada
- US has dairy tariff peaks—tariffs of 30% to 50% and import quotas for some specific products. Strange protection for country that exports 15% to 20%
- But, Canada sets the global standard in protection of its supply management quota system … a farm may own $200,000 in cows and $2 million in quota!
- The government-created capital asset value requires import protection. And, now needs exports at low prices to keep high Canada quota prices.
- Dairy policy is muddled on both sides of the border
The US was net dairy importer, not any more
Demand for lower-fat products was static while demand for things with higher fat like ice cream or butter.

That led Canada to relax its supply control and allow new milk to meet the domestic demand for butterfat, which in turn led to a surplus of skim milk powder that Canada began to export with a new class.
Comparison of Solid Nonfat Prices

- Canada SNF Price
- Northeast FMMO
- US SNF Price
Arithmetic on implications of Canada’s dairy programs

• Canada has the WTO and NAFTA right to keep high tariff walls
• Production and marketing quotas allow internal prices double border prices, while quota keeps down production.
• How much more would Canada produce without supply management??

• Canada could actually become a small net exporter!
• Of course, the LOSS in Canada would be a elimination of a very large capital value of dairy quota -- $15B to $20B.

• Does any of this violate a WTO deal? New Zealand should take the case to the WTO and we would find out.
A solution to the milk trade muddle?

BAN PRE-SHREDDED CHEESE
MAKE AMERICA GRATE AGAIN
Some basics of WTO dispute settlement in Geneva

• The WTO uses panels of trade experts from many countries as judges

• Allows detailed and professional argument with much background data and analysis from experts.

• The rules are still being defined by the cases.

• No enforcement and that is a good thing!
Many view the WTO as a monster

1. Is the WTO an uncontrollable fire breathing dragon?
2. These days, WTO is a modest tool to for settling disputes.
3. Enforcement is solely by members being allowed to change their trade policies to bring political pain to a member found “out of compliance”
4. There is no *ex post* compensation, only removal of offending policy.
5. If the policy is changed enough to be in compliance, the case is over.
Trade Rules

1. Government rules that try to inhibit trade will cause turmoil.

2. The most effective way to deal with cross-border turmoil is consultation, collaboration and recognition of the immense gains in economics, and culture and the dynamics of growth and wellbeing.

3. Because the informal approach does not always succeed we have formal contractual obligations across legal jurisdictions across legal jurisdictions.

4. The WTO is now the venue for resolution of formal international trade disputes. And, of course there will be disputes... dispute is as natural as trade.

- The WTO process works. We should use it even more. Rather than just complain, bring a formal legal complaint and settle the issue. Then stop complaining and comply with the result.
NOW for the COOL!

Cannot be more cool than Getz and Gilberto playing Jobim 60 years ago.

The economics and econometrics of Country Of Origin Labeling (COOL) is pretty cool too.

These issues arose in a practical case when Canada and Mexico Challenged the United States in the WTO.
Origins of COOL

• The United States adopted in the 2002 Farm Bill rules that mandate Country Of Origin Labeling (COOL) for red meat, fish and shellfish, fresh and frozen fruits and vegetables, and peanuts.

• Congress postponed the implementation of the regulation and the 2008 farm bill modified the labeling requirements of the regulation.

• COOL first became effective for beef under the preliminary final rule on September 29, 2008. The United States government published the final rule on January 15, 2009 and it became fully effective in March 2009.
Country of Origin Labeling (COOL)

• In 20010, Canada and Mexico claimed that COOL implemented for live cattle and hogs in 2008 and 2009 was inconsistent with WTO TBT agreement and National Treatment

• COOL is applied for lots of products and imported meat, but this case deals with labeling muscle cuts of beef and hogs by origin of animals.
  • Country of Origin Labeling is OK, but the US did not achieve its legitimate goals in the minimally trade distorting way
  • Canada and Mexican hog and cattle industries suffered harm as a result

• Panel agreed with Canada and Mexico on major issues: COOL treated imports less favorably, it did not really achieve its objective

• US lost an appeal and lost again after some program changes in 2012

(Disclosure I was a very COOL econometrician for Canada)
Indirect Policy-Induced Non-Tariff “Technical” Barriers to Trade (TBT)

• Lots of discussion economics of tariffs, but as tariffs decline governments turn to non-tariff regulation that reduce trade flows.
• The WTO agreements have rules limiting the use of TBTs
• Similarly the WTO has rules that prohibit export subsidies and limit domestic farm subsidies that suppress or depress market prices. Brazil established this clearly in its win over the US in the “cotton case.”
• Government rules for Country Of Origin Labeling (COOL) can mandate effective access barriers to imports that disadvantage imports relative to domestic competitors.
In 2009, Canada and Mexico began developing legal arguments and economic analysis of impacts and causation for WTO challenges to the U.S. implementation of COOL for muscle cuts of beef and pork that had been implemented in late 2008. The case entailed several sessions and appeals and a final 2015 decision on the amount $$$ of damages and retaliation.

This was the birth of the COOL at the WTO.

(Disclosure: I was a COOL economist as Canada’s economic expert in the WTO case. I wrote Canada’s first economic papers for the WTO and the methodology paper used by the arbitration panel to calculate damages.)
Key facts: livestock and meat markets in North America

✓ Integrated North American market before COOL
✓ Labeling responded to US industry lobby not market demand from consumers or retailers
✓ No retail labels for COOL. Lots of labels by breed or “local” or brand.
✓ Firms label wherever buyers demand it and are willing to pay
✓ Geographic origin labels are common … made in USA enhance sales for some products, but not beef or pork

✓ Most (muscle cuts) meat in the U.S. was and is from animals born, raised and slaughtered in the U.S., with about 10% of animals imported from Canada (pigs and cattle) or Mexico (feeder cattle only)
COOL Dispute and Economics of Segregation

The steps in the economic logic, may be sketched briefly:

1. Costs of imposing COOL include segregation of animals and meat along the marketing supply chain.
2. Vast majority of livestock supplies in the U.S. market are of domestic origin, so most feeding operations, processors and retailers, use little or no imports and could easily continue to operate with no imported livestock or meat.
3. Consequently, the part of the U.S. supply chain that relies on U.S.-origin livestock and meat faces very low costs of COOL because they have no costs of segregation.
Spot the Canadian or the Mexican-born steer in this pen.

That’s easy.

Now try to identify the meat half way through the slaughter process.
COOL Dispute and Economics of Segregation

The steps in the economic logic, (continued):

4. With COOL, the part of the U.S. market system that uses imports faces costs of segregating to meet the labeling rules so that their meat from U.S.-origin animals can be labeled as U.S.-only products rather than as mixed origin products.

5. Firms (animal feeders, processors and retailers) that use imported livestock must compete for U.S.-origin livestock or meat with those that buy and sell U.S.-only livestock and meat.

(Recall supplies of imported livestock are small so almost all firms that use imports also use domestic livestock.)
That could cause illness if the product is miscooked improperly. For your protection, follow handling instructions. Keep raw meat and poultry separate from other foods. Wash working surfaces (including cutting boards). Keep hot utensils, and hands after touching raw meat or poultry immediately.

USDA Choice Beef KC Strip
Bone In
Born, raised, and harvested in the U.S.A.

<table>
<thead>
<tr>
<th>Time</th>
<th>Store #</th>
</tr>
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<tbody>
<tr>
<td>01:01 PM</td>
<td>94</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Net Wt/Ct</th>
<th>Unit Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.95 lb</td>
<td>$12.99/lb</td>
</tr>
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</table>
COOL Dispute and Economics of Segregation

The steps in the economic logic (completed):

6. Because of competition, firms that use imported livestock cannot pay less to suppliers of U.S.-origin livestock and products nor can they raise prices to their customers.

7. Therefore, almost the full cost of implementing COOL is borne by suppliers of imported livestock and meat.

The issue is the cost of segregation and who bears those costs, not the small cost of labeling, which is borne by all.
Country-of-Origin: From Cattle
Born in Mexico, Raised and
Slaughtered in the United States.
## Implications: decline in willingness to pay for Canadian fed cattle

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Base parameter set</th>
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<tbody>
<tr>
<td>Retail segregation costs,</td>
<td>$3.50</td>
</tr>
<tr>
<td>Packer segregations costs,</td>
<td>$1.00</td>
</tr>
<tr>
<td>Markups from animal to wholesale, to retail price</td>
<td>2.00, 3.00</td>
</tr>
<tr>
<td>Share of U.S. livestock in mixed packer plants</td>
<td>0.80%</td>
</tr>
<tr>
<td>Share of A-label meat in sales of mixed plants,</td>
<td>0.75%</td>
</tr>
<tr>
<td>Share of A-label meat in sales of mixed stores,</td>
<td>0.75%</td>
</tr>
<tr>
<td>Fall in willingness for Canadian fed cattle</td>
<td>$4.25 or about 5% of Canadian price</td>
</tr>
</tbody>
</table>
Beef labeling policies can affect cattle trade by discouraging import quantities or lowering the import price.
Figure 1. Market Effects of COOL on Canadian Livestock Prices and U.S. Import Quantities

- Can Demand Price,
- COOL Export Supply
- Imports, COOL
- U.S. Demand, COOL
- U.S. Demand, no COOL
- Can Demand
- Can Supply
- Price, No COOL
- Q Demand Can, COOL
The U.S. response to the COOL challenge

On the legal arguments:
1. COOL is a response to demand for consumer information and is required for many products in many countries
2. The COOL regulations require the same labeling for U.S.-only products

On the economic arguments:
1. Segregations costs are actually quite small
2. Evidence of price declines and reduced imports are overblown or result of misunderstand and timing does not line up with COOL implementation
3. Many other market conditions may have caused imports to fall.
4. Should use simulations, such as Brazil used in the cotton case, for the economic analysis of the impact of COOL

US Bottom line: COOL is perfectly legal and causes no harm to trade
Hog shipments from Canada

- Fed hogs
- Feeder hogs

Key Dates:
- Sept. 29, 2008
- May 23, 2013
- Nov. 23, 2013

Graph showing hog shipments from Canada with two lines representing Fed hogs and Feeder hogs.
LOSSES from COOL

Annual values that would have occurred but for COOL minus the actual amounts that did occur with COOL in place.

• The losses in export revenues that are attributable to the amended COOL measure reflect a combination of reduced Canadian livestock exports to the United States and suppressed prices received for those livestock exports to the United States that did occur.

• In addition, the amended COOL measure depressed prices for livestock in Canada causing additional losses

• BUT the WTO did not allow that to be counted.
Mandatory labeling of pork based on where the pig was born affects trade in live hogs by reducing quantities shipped and price.
## Estimation of impacts on export revenue

<table>
<thead>
<tr>
<th></th>
<th>Original COOL</th>
<th>New COOL</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fed Cattle</strong></td>
<td>-425</td>
<td>-157</td>
<td>-583</td>
</tr>
<tr>
<td><strong>Feeder Cattle</strong></td>
<td>-602</td>
<td>-36</td>
<td>-638</td>
</tr>
<tr>
<td><strong>Fed Hogs</strong></td>
<td>-374</td>
<td>-102</td>
<td>-476</td>
</tr>
<tr>
<td><strong>Feeder Hogs</strong></td>
<td>-32</td>
<td>-9</td>
<td>41</td>
</tr>
<tr>
<td><strong>Total all types</strong></td>
<td>1,433</td>
<td>304</td>
<td>1,738</td>
</tr>
</tbody>
</table>
IT’S OFFICIAL
COUNTRY OF ORIGIN LABELING HAS ENDED
HOUSE: 300-121 (PASSED)
SENATE: SLIPPED INTO SPENDING BILL
PRESIDENT: SIGNED INTO LAW

NOW YOU WILL NOT KNOW WHICH COUNTRY
YOUR MEAT COMES FROM
HAPPY HOLIDAYS AMERICA!
Key elements of a model Trump trade agreement

1. Rules of Origin Percentages & Loopholes

... 

3. Dumping, Diversionary Dumping, and Evasion of AD/CVD Duties

... 

15. Country of Origin Labeling ...

16. Evasion of Antidumping and Countervailing Duties

... 18. Geographical Indications to restrict trade ...

20. Phytosanitary standards, 21. Processed foods, 22. Stumpage ...

Could COOL or similar policies be coming back?
Finally, Optimism about trade economics and policy

• In the past two years, we have observed a huge increase in broad media attention to trade

• Moreover, major mainstream media has for the first time in decades been heavily slanted toward stories that provide support for the value of open markets

• Rather than stories of how farmers are hurt by competing imports, stories stress how farmers must pay more for inputs and face restricted export access.

• A whole new group of politicians now express support for trade and agreements, they use to oppose trade.

• Perhaps having the anti-trade message made so stridently by today’s messenger, has caused a broader group to give sensible trade economics a second look. And, maybe this is a opportunity for common sense economic influence.
Thank you
Questions and Discussion?