



The Washington Council on International Trade Presents:

THE NEW UNITED STATES-MEXICO-CANADA AGREEMENT

Implications for Washington State

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Overview of the New Agreement

USMCA was agreed to by the U.S., Mexico, and Canada on October 1, 2018 and signed by representatives at the G20 Summit in Buenos Aires, Argentina on November 30. The deal must now be ratified by legislative bodies in each country including the U.S. Congress. The schedule for ratification in each country is uncertain at this time.¹

Canada and Mexico are the United States' second and third largest trading partners, after China. The North American economy is highly integrated and goods flow back and forth across the continent as part of complex supply chains before reaching market. The U.S. and Canada trade large amounts of vehicles, agricultural products, mineral fuels, and services. U.S. trade with Mexico is dominated by agricultural products and machinery, with Mexico importing U.S. corn, soybeans, dairy, meat, electrical machinery, and fuel while supplying the U.S. with fresh fruit, vegetables, beer, vehicles, and medical instruments.²

Washington's Trade Ties with Canada and Mexico

Canada and Mexico have long been leading markets for Washington state goods exporters. In 2017, Canada and Mexico combined represented 12.8% of all Washington state goods exports, based on state-of-origin export data,³ totaling \$9.8 billion. Exports to these two countries combined increased 6% year-over-year in 2017, adjusted for inflation, though still below a recent peak of \$12.9 billion in 2013 (in 2017 dollars; [Exhibit 1](#)).

Leading export commodities and merchandise sales in 2017 include aerospace (\$1.4 billion across both markets), agriculture and food products such as fruits & nuts (\$572.2 million) and fresh or frozen seafood products (\$216.9 million), and other manufactured goods such as mineral fuels and waxes (\$1.4 billion) and industrial machinery (\$958.4 million; [Exhibit 2](#)).

Washington state services exports have grown nearly 80% in the last decade.⁴ In 2016, Washington exported \$1.6 billion in services to Canada and \$963 million (in 2017 dollars) to Mexico, supporting 9,250 and 6,378 jobs respectively. The state's leading services export was Royalties and License Fees which represented 42% of Washington's total exported services. Canada (6.1%) and Mexico (3.6%) accounted for approximately 10% of total Washington services exports. The proportion of services imported for each sector in [Exhibit 3](#) is assumed to be representative of Canada and Mexico's services imports from Washington state.

Washington state is a crucial gateway for international trade linking the Western U.S. with Asia and the Pacific. Because of this, substantial amounts of out-of-state products are captured in Washington's state-of-origin data. For example, soybeans are not grown in Washington but farmers rely on Washington ports to consolidate and ship their goods to market. By setting aside exports of oil seeds, like soybeans, and aerospace, which occupies a unique and outsized position in Washington's economy, we can highlight Washington-grown and produced

products. In 2017, more than 28% of these remaining exports went to either Canada (22.7%) or Mexico (5.5%).

Exhibit 1. Washington State Goods Exports to Canada and Mexico, 2002-2017
(Billions 2017 \$)



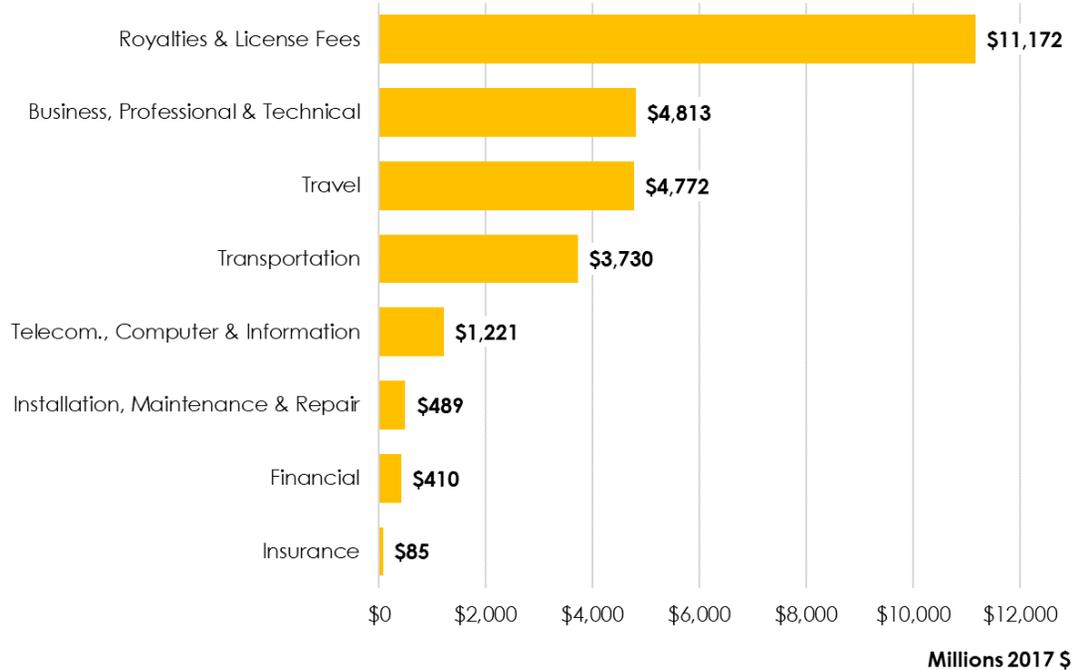
Sources: U.S. Census Bureau, 2018; St. Louis FRED, 2018; Community Attributes Inc., 2018.

Exhibit 2. Washington State Leading Exports to Canada and Mexico, 2017
(mils USD)

Export Category	Canada	Mexico	Total
A. Agriculture and Food			
Fruits & Nuts	\$405.2	\$167.0	\$572.2
Fresh or Frozen Seafood Products	\$214.9	\$2.0	\$216.9
Vegetables and Roots & Tubers	\$145.7	\$11.7	\$157.5
Prepared Fish, Meat, and Seafood	\$130.8	\$0.3	\$131.1
Prepared/Processed Vegetables, Fruits, and Nuts	\$87.8	\$40.5	\$128.3
Other Products	\$423.7	\$145.6	\$569.4
<i>Subtotal</i>	\$1,408.2	\$367.2	\$1,775.4
B. Aerospace	\$997.6	\$400.6	\$1,398.1
C. Other Products			
Mineral Fuels and Waxes	\$957.6	\$465.2	\$1,422.7
Industrial Machinery and Boilers	\$723.8	\$234.5	\$958.4
Electrical Machinery and Equipment	\$588.2	\$142.8	\$731.0
Paper and Paper Products	\$318.3	\$36.8	\$355.1
Toys, Games, and Sports Equipment	\$272.5	\$44.8	\$317.3
Other Products	\$2,445.5	\$342.4	\$2,787.9
<i>Subtotal</i>	\$5,305.9	\$1,266.5	\$6,572.4
Total (A+B+C)	\$7,711.6	\$2,034.3	\$9,745.9

Sources: U.S. Census Bureau, 2018; Community Attributes Inc., 2018.

Exhibit 3. Washington State Services Exports, Worldwide, 2016 (Mils 2017 \$)



Sources: Coalition of Services Industries, 2017; Community Attributes Inc., 2018.

How USMCA May Impact Washington State

Washington state's vast agricultural interests were concerned that nothing impede the important access that many of our farmers and ranchers have to Mexico and Canada. Washington state can continue exporting fresh apples, cherries, pears, dairy and other agricultural commodities tariff-free under USMCA as was the case under NAFTA. The new trade agreement preserves market access opportunities in Mexico, our most important market for agricultural exports, and expands market access in Canada.

The Canadian dairy market was a focus of USMCA negotiations, resulting in a more open market for U.S. dairy sales there. Canada will create new tariff rate quotas exclusively for the U.S. on a variety of dairy and poultry products. Canada has also agreed to eliminate Class 6 and 7 milk pricing, which disadvantaged U.S. dairy exporters. Proximity to Canada means Washington dairy farmers are well situated to capture this increased trade. Washington has 450 dairy farms, 10 dairy plants, and approximately 2,300 jobs linked to dairy exports. Washington state dairy farms exported worldwide \$208 million worth of dairy exports in 2017.⁵ Darigold, based in Seattle, exports 40% of its product and plans to increase that number in the coming years.⁶ In addition to expanding access to the Canada's dairy market, USMCA continues duty-free access to Mexico. This is critically important to all Washington state dairy farmers because Mexico became the largest consumer of U.S. dairy under NAFTA's duty-free access.⁷

USMCA establishes a state-of-art chapter on digital trade, with significant new disciplines important to continued U.S. competitiveness in this sector. The chapter includes provisions prohibiting customs duties on electronically distributed digital products like e-books, videos, music, software and video games. It also ensures cross border data flows, prohibits data localization, addresses intermediary liability for platform providers and increases source code and algorithm protections.⁸ USMCA's digital chapter has helped level the playing field for Washington service providers seeking to do business across the continent. Washington state is a hub for computer software services and digital media distribution, among others, and stands to benefit from this increased market access.

Significant changes were made to intellectual property rules under USMCA. Notably, biologic drugs, developed from living organisms and expensive to create, now receive at least 10 years of protection from generic competition. This is an increase from 8 years in Canada and 5 years in Mexico, while the U.S. continues to give protection for 12 years. Raising the minimum makes U.S. pharmaceuticals competitive for longer and incentivizes biotech firms to develop new drugs.⁹

A side letter attached to USMCA removes British Columbia's law requiring imported wine to be sold in a separate "store within a store" that was physically separated from Canadian wine. Washington wine sold in B.C. restaurants and government-owned liquor stores can be twice as expensive as it is in Washington, reducing Washington state market share. Canada is Washington's largest wine market with \$10 million worth of wine exported in 2017.¹⁰

USMCA does not eliminate the duties and retaliatory measures imposed by the U.S., Mexico and Canada as part of the Section 232 tariffs on steel and aluminum. Many U.S. agricultural exports remain under Mexico's retaliatory duties; these include applied duties on Washington state products worth \$203.5 million in exports to Mexico in 2017, including 19% of Washington's apple exports worldwide.¹¹ Nation-wide, farmers are expected to lose \$1.8 billion this year in agricultural exports to these tariffs and gain \$450 million from increased market access.¹² Canada has also imposed retaliatory tariffs matching the Section 232 national security tariffs on steel and aluminum. Washington state's \$174 million worth of steel exports to Canada are subject to 25% tariffs, while \$507 million of aluminum face a 10% tariff.¹³ These retaliatory tariffs remain burdensome to many Washington state interests. While Section 232 tariffs and retaliatory measures are not tied to USMCA, they will continue to be a factor as USMCA is debated and ratified in each member state.

Key Differences Between NAFTA and USMCA

Before USMCA, the U.S. participated in negotiations for the Trans-Pacific Partnership (TPP), an international trade agreement between 12 countries in the Pacific, including the U.S., Mexico and Canada. After the U.S. withdrew from TPP in January 2017, the remaining 11 members

made minor revisions and renamed the deal the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).¹⁴ It was signed in March 2018 and will enter into force in the first quarter of 2019.¹⁵ The U.S. will not benefit from the preferential market access these countries have with each other under CPTPP. This makes preserving and enhancing preferential market access between the U.S., Mexico and Canada so important. Some of TPP's chapters were used as a model when crafting the USMCA.

The new USMCA differs from NAFTA in several important ways, discussed below.

- **Automobiles.** Under NAFTA, 62.5% of car components must be manufactured in North America to qualify for zero tariffs. USMCA raises this requirement to 75% North American content and 40% by workers making at least \$16/hour by 2023.
- **Dairy.** Canada has allowed access to 3.59% of its dairy market in USMCA, an increase from the 3.25% access Canada agreed to in TPP. The tariff rate quotas on Canadian dairy imports that existed under NAFTA remain in place, but now have higher levels set exclusively for the U.S. Canada has also agreed to eliminate Class 6 and 7 Milk, a pricing class for milk protein concentrates used to make cheese.
- **Sanitary and Phytosanitary (SPS) measures** have been strengthened and clarified in USMCA. These are standards designed to protect humans, animals and plants from diseases and pests during international trade. USMCA mandates greater transparency in these rules and requires them to be based on science. This prevents parties from using SPS measures as a non-tariff barrier.¹⁶
- **Environmental obligations** are a dedicated chapter in USMCA instead of a separate parallel agreement with NAFTA. New provisions specifically address illegal logging and marine litter, among others. It also prohibits subsidies that encourage over fishing.¹⁷
- **Labor** obligations in USMCA are central to the agreement and fully enforceable. New provisions to combat child labor and forced labor have been added. Also included are provisions specifically addressing equality of women in the workplace.
- **Minimum duty and tax threshold.** The *de minimis* threshold for cross border shipments has been raised slightly in USMCA. Canadians can now receive shipments worth up to C\$40 tax-free and C\$150 duty-free, up from C\$20 under NAFTA. Mexico's threshold has been raised from \$50 to \$117 and the U.S. remains at \$800.
- **Intellectual Property** safeguards have been strengthened, based on the TPP model. USMCA limits court's and government's ability to require

disclosure of trade secrets, including proprietary computer code and ensures that trade secrets are protected indefinitely.¹⁸

- **Digital trade and Services.** NAFTA, enacted in 1994, lacked digital provisions. USMCA's rules are based on TPP's and reduce digital trade barriers by ensuring cross-border data transfers, prohibiting data localization and encouraging access to government-generated data in machine readable formats.¹⁹ This increases access to digital services across the continent. Financial services were also covered by these provisions, including ones that increase transparency obligations and liberalize financial services markets.
- **Copyright.** USMCA raises copyright length minimum to 70 years after the life of the author, or 75 years after publication. Under NAFTA, Canada's was 50 years after the life of the author. The U.S. and Canada now have the minimum 70-year copyright length while in Mexico it is 100 years. For copyright enforcement, the U.S. and Mexico continue to use a notice-and-take down system, and Canada keeps its notice-and-notice system. Both systems protect copyrighted content while allowing internet platforms that rely on user content and interaction to continue growing.
- **Dispute resolution mechanisms** in NAFTA have been carried over into USMCA. This includes the NAFTA Chapter 19 mechanism for challenging anti-dumping and countervailing duties, which is now under USMCA Chapter 10. Investor-state dispute settlement has been removed in Canada and limited in Mexico to key industries like telecommunication and energy. Under NAFTA, this had allowed investors to sue governments. NAFTA/USMCA members can continue to use the WTO as a forum to resolve trade disputes.

Footnotes

¹ Blackwell, Tom. “Uphill battle to get USMCA through Congress could become ‘mountain’ after midterms.” *Financial Post*, October 29, 2018.

² USTR.gov

³ State-of-origin data attributes goods to their final stop before export.

⁴ “U.S. Service Exports Washington” *Coalition of Services Industries*. PDF.

⁵ “got jobs? Washington Dairy Works for the World”. *U.S. Dairy Export Council*. PDF.

⁶ Mulhern, Jim. “Washington: Darigold Revs Up to Sell More Than Half its Production Abroad.” *Medium*, August 29, 2018.

⁷ Ryan, Stan. Written Testimony before House Ways and Means Trade Subcommittee Hearing on the North American Free Trade Agreement, July 18, 2017.

⁸ USTR.gov

⁹ “BIO Statement on the United States-Mexico-Canada Agreement.” Biotechnology Innovation Organization, October 4, 2018.

¹⁰ Rappeport, Alan. “Trump hails revised NAFTA deal as a campaign promise kept.” *The Seattle Times*, October 1, 2018.

¹¹ Based on analysis of Washington state exports across 27 HS codes included in Mexico’s retaliatory list. Data source: U.S. Census Bureau, 2018.

¹² Abbot, Chuck. “Four Times More Tariff Pain Than Financial Gain in ‘New NAFTA’”. *Successful Farming*, November 1, 2018.

¹³ “Canada-Washington Steel & Aluminum Trade: Fair & Secure” PDF.

¹⁴ Schott, Jeffery J. “The TPP: Origins and Outcomes.” *PIIE*, October 10, 2018.

¹⁵ Vu, Khanh. “Vietnam becomes seventh country to ratify Trans-Pacific trade pact.” *Reuters*, November 12, 2018.

¹⁶ “Agricultural Provisions of the U.S.-Mexico-Canada Agreement”, *Congressional Research Service*, October 5, 2018.

¹⁷ Vaughan, Scott. “USMCA Versus NAFTA on the Environment”. *International Institute for Sustainable Development*, October 3, 2018.

¹⁸ Lipkus, Nathaniel and Jaymie Maddox. “A need-to-know guide on IP in the U.S.-Mexico-Canada Agreement.” October 2, 2018.

¹⁹ “The Coming North American Digital Trade Zone.” Council on Foreign Relations, October 9, 2018.