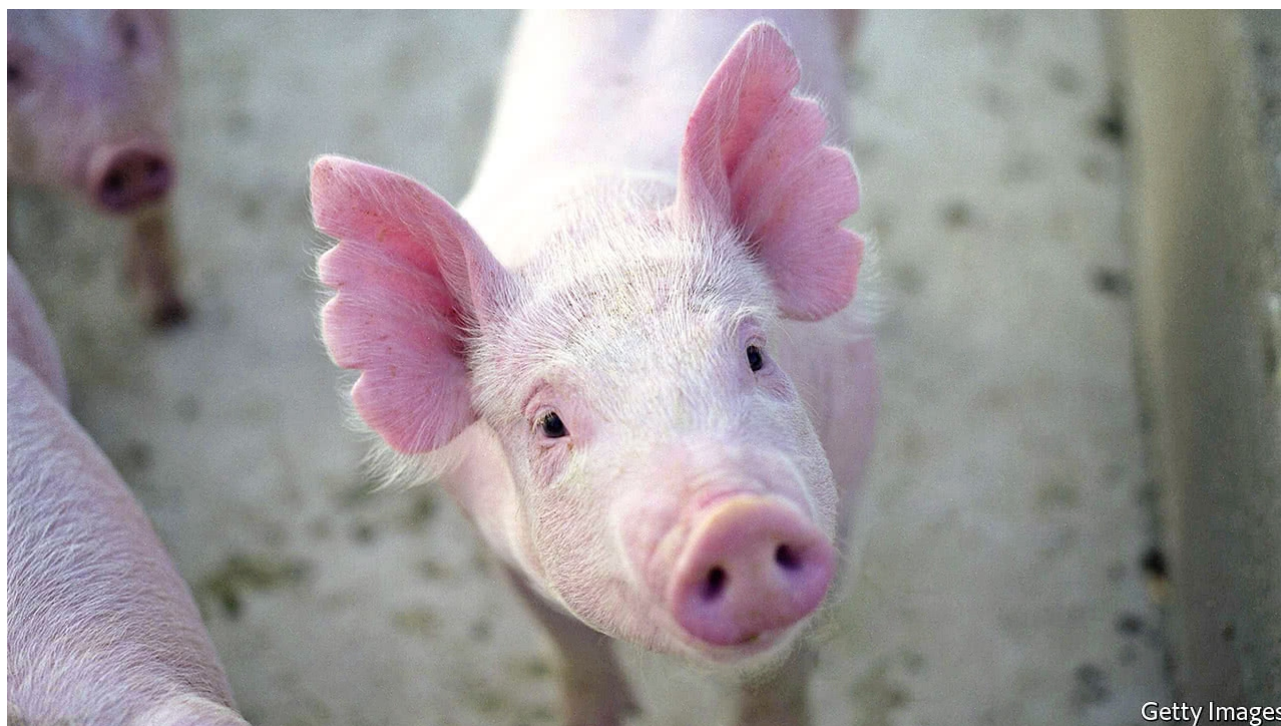


Farmers in the Midwest

Why farmers are anxious about NAFTA

Uncertainty over trade is the last thing they need

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“I HAVE always told you that I will either renegotiate or terminate NAFTA,” said President Donald Trump at a recent rally in Cedar Rapids, Iowa. He had been about to pull out of the North American Free-Trade Agreement with Canada and Mexico, he explained. But then he got a nice call from Justin Trudeau, Canada’s prime minister, and another from the president (“good guy”) of Mexico asking him to negotiate: “and I am always willing to negotiate.” Even so, Mr Trump insisted, NAFTA has been very unfair to the United States, so he will renegotiate successfully—or pull out. The audience applauded, but rather hesitantly.

Of America’s top ten farm states by cash receipts from production, six are in the Midwest, and Iowa ranks second, after only California. Farmers have benefited

from NAFTA more than other industries, which is why they are now fighting hard against messing about with the treaty. In 1993 America exported corn, soyabeans and other farm products worth \$8.9bn to Canada and Mexico; by 2015 farm exports were worth \$39bn. Some 30% of all American farm trade is with Mexico and Canada. The top three commodities exported to Mexico are maize (corn), soyabeans and pork; Iowa is a major producer of all these.

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On the first day of marathon public hearings on the renegotiation of NAFTA on June 27th, held at the offices of the United States Trade Representative (USTR) in Washington, Kevin Skunes, a leader of the National Corn Growers Association, said that exports account for fully one-third of corn farmers' income. American corn exports to Canada and Mexico have

increased more than sevenfold since 1994. Last year they supported 25,000 jobs and provided income for 300,000 farmers.

NAFTA has also created surprisingly integrated supply chains. Consider pork, writes Cullen Hendrix of the University of Denver in a paper for the Peterson Institute for International Economics, a think-tank. In 2014 America imported 3.9m eight-to-12-week-old piglets which had been born and weaned on Canadian farms. These were fattened up on farms in Iowa, Minnesota or Illinois until they were ready for slaughter and processing. Many of the resulting pork cutlets were then exported back into Canada. The beef industry is similarly integrated: around 300,000 head of cattle a year pass from one country to another. Most are weaned calves from Chihuahua state in north-western Mexico. These graze on slightly lush pastures in Texas, New Mexico and Arizona until they too are slaughtered for domestic consumption or export. American beef exports to Mexico reached almost \$1bn last year.

Agriculture accounts for a relatively small part of the GDP of NAFTA members, but it will be one of the thorniest topics in the renegotiation talks due to start in August. Farmers are feeling vulnerable anyway, so uncertainty over trade is the last thing they need, explains Charles Baron of the Farmers Business Network, a digital platform for farmers. Global grain supplies are outstripping demand, the Chinese

economy is slowing and demand for corn-based ethanol is stagnating. Net farm income fell from \$120bn in 2013 to an estimated \$62bn this year.

Farmers did not ask for a renegotiation, says David Salmonsens of the American Farm Bureau Federation, America's largest farm lobby. But he would like it to be updated and tweaked. Easier access to the Canadian dairy and poultry market, which is protected by high tariffs and quotas on production, would be welcome. (Extra access was negotiated as part of the Trans-Pacific Partnership, a deal Mr Trump ditched.) Some also object to the clout of the independent NAFTA panel that rules on anti-dumping duties, which a government imposes when it thinks its trading partner is competing unfairly. The panel has ruled, for example, that American duties on softwood lumber from Canada are illegal.

After Robert Lighthizer, the USTR, notified Congress on May 18th about the renegotiation of NAFTA, his agency received more than 12,000 comments from the public in a month, which crashed the server. Mr Lighthizer is now working on recommendations for the talks, which he will send to Congress on July 16th. Emotions ran high at the public hearings. Farmers noted that Mexican imports of American soyabean meal dropped by 15%, and imports of chicken by 11%, in the first four months of the year. Mexican stomachs count for more than Trumpian bluster.

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