



NAFTA Negotiations: Is Supply Management a Trump Card?

Description

NAFTA renegotiations have thrust a number of key trade disputes into the spotlight. The Canadian supply-management system provides a way for farmers to control the supply or quantity of commercially sold dairy, eggs, and chicken. Presidents from the Canadian Federation of Agriculture, the American Farm Bureau Federation, and the Consejo Nacional Agropecuario from Mexico, penned a joint letter to officials from all three countries imploring a “do no harm” approach. The leaders emphasized that a disruption of relationships that has developed since the original agreement could be detrimental to industries for all parties involved.

However, there were calls for increased regulatory alignment and the improvement of flow of goods across borders. Though the language is mild, it is possible that tweaks could put supply management in the crosshairs in renegotiations.

President Trump held a rally at a Wisconsin factory in April and took aim at the Canadian supply-management system as being an “unfair” trade practice. Wisconsin handed Trump a surprise win during the 2016 U.S. election, bearing fruit for his protectionist rhetoric that resonated in the so-called rust belt.

Saputo Inc. ([TSX:SAP](#)) is a Montreal-based company involved in the marketing, production, and distribution of dairy products. Saputo is one of the top 10 dairy processors in the world. The company released its fiscal first-quarter 2018 results on August 1. Net earnings saw a 13.4% increase to \$200.3 million compared to the same period in the previous year. EBITDA saw 11.6% growth to \$355.2 million and revenues also increased 9.9% to \$2.89 billion.

CEO Lino Saputo Jr. expressed a desire to see the end of the supply-management system in an interview in June 2016. For Saputo, a more competitive system has the potential to spur growth and opportunity for the company. Though supply management provides reduced volatility in local markets, the company has the desire to expand into global markets that benefit from more liberal regulations.

The stock has fallen 9% in 2017 as of close on August 16. Investors can also benefit from a dividend of \$0.16 per share, representing a dividend yield of 1.5% as of offering.

The United States has made clear that it is willing to throw its weight around as the biggest export customer of the three countries. Agriculture is not high on the list of concessions the U.S. is seeking. Changes to manufacturing, the automotive industry, and softwood lumber are subject to intense debate. Canada has made clear that it wants to prevent crippling duties placed on lumber and wants to keep Chapter 19, the review process in NAFTA.

Supply management could be a crucial bargaining chip during the negotiation process. Though it is not high on the list of desired changes for the U.S., it would score a big political win for the Trump administration and the economic nationalism that contributed to the victory in Wisconsin. Keep a close eye on negotiations, and if supply management is put on the table, be ready to gobble up Saputo stock.

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Author

aocallaghan

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