



Should This Canadian Dairy Giant Be Celebrating the USMCA?

Description

Saputo ([TSX:SAP](#)) stock spiked on October 1 after the United States and Canada agreed to [keep a trilateral trade agreement](#) on the North American continent intact. The new agreement, now called the United States-Mexico-Canada Agreement (USMCA), could bring changes to several key industries.

Back in early September I'd discussed why Saputo was an [interesting target](#) given the fierce debate over the Canadian dairy industry. Saputo has been supportive of lifting restrictions as it sees international growth opportunities as a suitable trade-off for loosening barriers into the Canadian dairy industry. The structure of the new USMCA suggests that Saputo has gotten its wish, but just how dramatic are the coming changes?

The U.S. has long sought more access to the Canadian dairy market. President Trump has been more explicit in the pursuit of eliminating barriers, but ironically also played a part in torpedoing more open access to Canadian dairy markets. Trump withdrew from the Trans-Pacific Partnership (TPP) in the first months of entering office, but that agreement would have severely liberalized cross-border trade in the dairy sector.

Canada had reportedly consented to these changes in 2015 without reciprocal access for Canadian dairy farmers to U.S. markets. At the time American negotiators reportedly sought dairy market access in the range of 9% to 10%.

The new USMCA also gives U.S. farmers greater access to Canadian dairy markets – worth approximately 3.6% of the Canadian dairy industry. Dairy Farmers of Ontario representative have said that this number could be as high as 3.9%. This has generated a backlash from dairy farmers across Canada. Foreign Affairs Minister Chrystia Freeland, who spearheaded the negotiations for the Canadian side, has said that farmers will receive compensation from the federal government.

Part of the backlash has been the emergence of a “buy local” Canadian dairy campaign. Dairy farmers are asking Canadian to continue supporting their products over their American counterparts. Campaign videos and social media posts have been met with significant support in early October. However,

experts have pointed out that it may be difficult for Canadians to maintain brand loyalty if they go by prices and product blend.

Some U.S. critics have denounced the new trade deal as inconsequential. A recent **Bank of America** Merrill Lynch Global Research Report estimated that the new quotas are expected to increase U.S. exports to Canada by \$70 million, or 0.0003% of U.S. GDP.

How will the deal impact Saputo in the long term?

Saputo is expected to release its fiscal 2019 second-quarter results in early November. The early news of the deal gave the stock a bump, but in truth it is difficult to see the new framework moving the needle for Saputo going forward. More details will be released leading up to ratification, but as of now it appears that Canadian farmers have not been granted increased access to U.S. markets.

This will not satisfy those hoping for a bump in Saputo's growth potential, and it also has the potential to degrade its position as a reliable defensive stock.

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