The Canada-United States Free Trade Agreement (CUSTA) and the subsequent North American Free Trade Agreement (NAFTA) have contributed to increasing concentration of agricultural trade between the United States and Canada. This has heightened bilateral trade tensions and trade conflicts for numbers of Canadian farm products. These conflicts, and the need to accommodate domestic marketing policies to the obligations of the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO), have encouraged changes in Canadian agricultural marketing policies. Pressures to reduce government expenditures have also provided a compelling impetus to changes in numbers of Canada's agricultural marketing programs. However, despite some changes in the ways that the programs for the Canadian supply-managed farm products are organized and administered, there has been no reduction in the levels of policy-induced support provided to this group of producers. Indeed, adjustments in marketing and trade policy for dairy, poultry and eggs have increased the levels of protection for these sectors. High levels of protection for supply-managed farm products reflect the strong influences of regional political pressures in Canada; this is an influence that is expected to continue in the future. In contrast to the supply-managed dairy and poultry sectors, major changes have been made in marketing programs for the export-oriented Canadian grains and red meats sectors in response to trade and budgetary pressures. These have involved the removal of longstanding rail freight subsidies for grains and the phasing down or termination of several stabilization and safety net programs.


### 1. Introduction

The primary objective of this paper is to identify and assess the nature and major effects of recent changes in Canada’s agricultural marketing and trade policies that have occurred in response to the economic pressures and institutions of international trade for farm products. The focus is largely on adjustments in agricultural marketing policy that have resulted from the Canada-United States Free Trade Agreement (CUSTA), the subsequent North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico, and the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO). To fulfill this purpose, some background information on major influences in Canadian agricultural policy is outlined and a brief overview of the agricultural provisions of the CUSTA and NAFTA is given. The major influence of regionalism in Canadian agricultural marketing and trade policy is discussed. Reflecting this influence and the dichotomous nature of Canada's marketing and trade policy for agriculture, the discussion of marketing and trade policy that follows focuses on the very different approaches to policy adjustments for supply-managed commodities (dairy, poultry and eggs) as compared to the major export-oriented commodities (grains, oilseed, beef and hogs). In view of the impact that trade disputes with the United States have had on Canadian agricultural marketing policy, the paper also includes a discussion of Canada’s agricultural trade relationships with the United States and brief overviews of some current trade disputes.

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2. Background: Some Issues Affecting Canadian Agricultural Policy

Understanding of changes in agricultural marketing and trade policy requires identification of significant influences on Canada's agricultural policy. As in other countries, agricultural policy in Canada has arisen from and evolved in a complex interplay of political and economic pressures. In the case of Canada, these reflect also the joint nature of federal and provincial jurisdictional powers over agriculture, the power that each of these levels of government holds over the regulation of markets and trade and the considerable influence of strong regional political pressures on Canada's agricultural marketing and trade policies. These influences contributed to the major emphasis, within Canada's farm policy, on market stabilization and support programs during the last three decades (Veeman 1990, Barichello).

Federal and provincial governments' expenditures on farm programs grew appreciably through the 1970s and 1980s and reached a peak in 1992. Payments directly made to producers from such programs, net of producers' contributions, reached a level of C$3,130 million in 1992, amounting to 55 percent of net cash farm income in that year (Statistics Canada, 1995). Transfers to agriculture have appreciably fallen since then, reflecting deficit-induced reductions in expenditures by provincial and federal governments, adjustments in programs in response to the pressures of trade disputes with the United States and the need to adjust domestic programs in response to new trade rules, particularly those of the CUSTA and the GATT/WTO. These changes have been aided by the influence of stronger markets for many farm products in 1995 and 1996.

Canada is by no means unique in having established, over many decades, agricultural trade policies that have given a relatively high level of protection to some domestically-oriented agricultural sectors while simultaneously pursuing lower levels of protection in the world markets facing its export-oriented agricultural sectors. Even so, the apparent economic incongruity of this position, which has been pursued since the development of Canada's national supply-management programs in the 1970s, became particularly marked during the protracted negotiations of the Uruguay Round of GATT/WTO and subsequently. This phenomenon reflects the influence of regionalism within Canada's political economy. It arises from political pressures that are persistent, strong, and seem to be increasing, rather than diminishing.

Another major characteristic of Canada's trade policy is the simultaneous pursuit of both multilateral and bilateral or regional trade arrangements. These are not inconsistent. Canada's focus on CUSTA and NAFTA reflect particular pressures on trade relationships that arise from Canada's geographic proximity to and close trading relationship with the much larger economic entity of the United States.\(^1\)

2.1 The CUSTA/NAFTA Provisions for Agriculture

The provisions for agriculture of the CUSTA have eliminated many of the tariffs on agricultural and food products that are traded between these nations;\(^2\) this was originally proposed to occur over a ten-year phase-in period from January 1, 1989 to 1998 but was accelerated for many items. For example, oilseeds and products traded between the two nations became tariff-free in 1991. In addition, the two countries agreed to a prohibition on bilateral export subsidies and mutual exemption from meat import laws (with consultation and measures to avoid diversion should such laws be applied against third countries). Canada also agreed to eliminate Canadian import licenses for wheat, barley, oats and their products when grain support in the United States became equivalent to Canadian levels; a method was provided to calculate grain support levels.\(^3\) Canadian import licenses for oats and wheat were removed in 1989 and 1991 respectively.\(^4\)

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\(^1\) Most recently, Canada has pursued bilateral trade arrangements with Israel and Chile.

\(^2\) A 20-year snap-back provision applies for vulnerable fresh fruits and vegetables.

\(^3\) Amongst other features, articles of the agreement also: provided for some increase in poultry and egg import quotas; exempted Canada from future United States import restrictions on products containing ten percent or less sugar; and retained GATT rights and obligations for agricultural trade issues not dealt with in the CUSTA such as GATT Article XI (Government of Canada, 1987).

\(^4\) As a consequence of the GATT/WTO agreement, Canada subsequently converted import licensing for barley and products to a tariff-rate quota in 1995.
One of Canada’s objectives in the negotiation of the CUSTA was to seek mutual agreement on the nature and application of appropriate trade remedy rules. This was not achieved and each country retained its own set of rules, including antidumping, countervail and safeguard measures. However, the CUSTA does provide a dispute settlement mechanism based on bi-national panel review of the final antidumping and countervailing duty determinations by each nation. A similar mechanism is provided by the NAFTA.

In contrast to the trading relationship between Canada and the United States, relatively little trade currently occurs between Canada and Mexico. For example, in 1995, Canada’s agricultural exports to Mexico were valued at C$361 million and amounted to only two percent of Canada’s total agricultural exports. In that year, Canada’s agricultural exports to the United States were valued at C$8,714 million or 50 percent of total agricultural exports (Statistics Canada, 1996). One of Canada’s major interests in the NAFTA, therefore, was to maintain the benefits already established through the CUSTA.

In the NAFTA negotiations, Canada continued to treat its supply-managed sectors as non-negotiable, whereas Mexico was willing to negotiate the replacement of its import-licensing regime in exchange for exemption by the United States from the Section 22 import restrictions of its Agricultural Adjustment Act of 1933, as amended in 1935. Consequently, three separate sub-agreements of NAFTA apply to market access for farm products, one between Canada and Mexico, and another between Mexico and the United States, while the CUSTA provisions for agriculture continue to apply to the United States and Canada. The NAFTA came into effect in January 1994. Under this agreement, by 1998 tariffs on agricultural and food products traded between Canada and Mexico will be eliminated, except for dairy, poultry, eggs and sugar.5

2.2 Regionalism and Canadian Agricultural Marketing and Trade Policy

There is a considerable dichotomy in both Canada’s regional and commodity interests in freer agricultural trade. There are major potential benefits from more liberalized agricultural trade for the farm sectors of Western Canada, particularly within the prairie region which is the source of most of Canada’s exportable surplus of grains and much of Canada’s red meat exports. However, freer trade conflicts with the sectoral interests associated with the supply-managed dairy and poultry industries which have benefited from substantial transfers from consumers. The aggregate policy-related transfers to producers of these products in 1993 were estimated to be C$2,528 million for milk (of which C$2,118 million was from consumers) and an aggregate of C$612 million for poultry and eggs (of which C$389 million was from consumers) (OECD, 1995).6 Benefits have also accrued as windfall profits to importers of the regulated primary products (mainly for chicken and cheese) for whom annual rents have been estimated at about C$100 million (CITT). The aggregate policy transfers to the more numerous producers of grain (including oilseeds) and livestock (beef and hogs) were estimated to be C$2,164 million and C$1,064 million respectively in 19937 (OECD, 1995). Very little support is provided for these producers by policy-induced transfers from Canadian consumers.

One basis of the regional differentiation of agricultural trade interests is the tendency to regional specialization in Canadian agricultural production as seen, for example, in the emphasis on crop production, particularly of wheat, barley and canola, in the land-abundant and relatively less populated prairie region of Canada. Beef cattle production also tends to be concentrated in this region, particularly in Alberta. In contrast, much dairy, poultry, hog and specialized crop production is located in Ontario and Quebec, the most populous and highly industrialized regions of Canada. In particular, more than two-thirds of dairy and poultry production is located in these two provinces.

Canadian exports show a considerable orientation to off-shore export markets for grains which continue to be dominant Canadian agricultural exports. However, the United States is a market of particular importance for Canada’s pork, beef and live animal exports, all of which are very significant contributors to total agricul-

5 Mexican tariffs on corn and beans will be phased out over a longer period: safeguards apply for specified products.

6 Such measures are necessarily based on reference prices that may be affected by limited and distorted world markets; thus their precise levels may be viewed with caution. They do, however, provide an indication of the relative levels of protection for different farm products in different markets.

7 The 1991 Census of Agriculture reported 29,910 dairy farms, 4,211 poultry farms, 66,282 cattle farms, 10,464 hog farms and 42,888 wheat farms. In addition to 47,400 other small grain farms and 11,861 other field crop farms (Statistics Canada, 1992). Thus policy-related transfers per farm are much higher for the supply-managed sector.
tural exports. In contrast, primary production of milk, chicken, turkey and eggs, the major supply-managed products, which account for some one-fifth of aggregate Canadian farm receipts, is largely oriented to the domestic Canadian market and these sectors are virtually isolated from world markets.

The supply-managed farm products are relatively minor contributors to agricultural output in the prairie provinces, providing on average only six percent of gross farm receipts in 1994 (Statistics Canada, 1995). In contrast, the dairy and poultry industries are important components of agricultural output in the farmland-scarce province of British Columbia and in the small-scale mixed farm sectors of the Atlantic provinces. In both these regions, milk and poultry (including egg) sales account for more than one-third of farm revenues. This is also the case, in aggregate, for Quebec and Ontario which, with 62 percent of the population in 1991, represent the largest Canadian markets for food and are the location of much food processing activity. For Quebec in particular, milk sales (including the dairy subsidy) accounted for nearly one-third of farm receipts in 1994. More than half of the commercial farms in Quebec are dairy farms and dairy processing is a major manufacturing sector in both Quebec and Ontario (Statistics Canada, 1994, 1995).

In view of the magnitudes of the transfers from consumers to producers that have been associated with the supply-management programs and the consequent inflation of the asset structure of dairy and poultry farms, groups representing these sectors have strong incentives to lobby very actively, at both provincial and federal levels of government, against significant changes in the supply-management system. One factor in the considerable success, particularly of the well organized dairy groups, in lobbying for their sectoral interests relative to Canada’s marketing and trade policy, is the regional distribution of electoral strength. Ontario and Quebec currently elect nearly 60 percent of Canada’s House of Commons representatives. The rural vote is more than proportionally represented in the House of Commons and in the provincial legislatures, relative to the numbers of voters in urban areas, and all Canadian political parties have an incentive to attract farm voters.

The inflexibilities of the federal-provincial agreements that underly the national supply-management programs (essentially requiring unanimous approval for change) have also contributed to the difficulty of changing supply-management programs which have come to be viewed, by small provinces in particular, as programs for regional development and employment. However, the major factor in Canada’s efforts to maintain import protection for supply-managed commodities in recent years, as in the last round of GATT negotiations, is based more on political than economic pressures. These political pressures are now associated with the issue of national unity.

Increasing public acceptance in Quebec of political separation from Canada has heightened the longstanding political sensitivities of the federal government to the supply-managed farm sectors, particularly the Quebec dairy industry. Quebec separatist sentiment is stronger in rural than urban areas, as seen in the tendency for support of this position by leaders of the highly organized Quebec farm organization ’l’Union des producteurs agricoles (UPA)8 and the existence of stronger support for Quebec sovereignty in rural ridings than urban areas in the October 1995 Quebec referendum on this issue. The federalist position achieved only a slight majority in this referendum. For these reasons, supply management and dairy policy is likely to continue to be a highly sensitive political issue. The political costs of making program changes that have not been developed or fully accepted by these sectors are likely to continue to be viewed as unacceptably high, at least while Quebec remains as a province within Canada.

This sensitivity was a major influence in Canada’s position on agriculture during the last round of multilateral trade negotiations. Together with other influences noted above, the political sensitivity of this issue contributed to the lack of success of a federal review of policy for agriculture and food, instituted in 1989, that attempted to reach a broad-based consensus on policy changes to reduce the inflexibilities and increase the market-responsiveness of the supply-managed sectors prior to the conclusion of the GATT negotiations. Consideration of major program changes for these particular commodities was delayed until the conclusion of the GATT negotiations and is the subject of continuing debate in Canada (Veeman and Arthur, 1996).

8 UPA is the only farmers’ organization in Canada with compulsory membership. This organization has a very close relationship with the Quebec government.
3. The Impact of New International Trade Rules on Canada’s Supply Managed Sector

The establishment of national supply-management programs in the 1970s provided a mechanism to accommodate conflicting regional interests arising from the activities of some supply-restricting provincial marketing boards, specifically for eggs and chicken, through formalized national market sharing arrangements. There is a considerable literature on the political, institutional and economic influences and effects of the programs (Forbes et al.; Skogstad; and Veeman, 1987).

The basic framework of the Canadian supply management schemes is broadly similar for each commodity although some details vary. In essence, the programs were established to achieve administered farm-level or wholesale-level prices of the regulated commodities, typically using an average-cost-based formula. Aggregate marketings are constrained to be generally consistent with regulated price levels through the specification of national market quota levels which have been divided among provinces under the terms of federal-provincial commodity agreements. In turn, provincial supply-management boards administer the system of farm-level marketing licenses or quotas that restrict each farmer’s entry to the regulated market and limit individual farmer’s sales.9

The final major component of the supply-management system has been the requirement for import controls. These have enabled the structure of Canadian prices for the regulated farm products to be maintained at consistently higher and more stable levels than those in world markets. The extent of the protection and support provided by the supply-managed programs is indicated by the estimates of producer subsidy equivalents (PSE) and consumer subsidy equivalents (CSE) or implicit consumer taxes calculated by the OECD for these commodities. The PSE estimates, expressed as percentages for 1993, are: milk, 73%; poultry, 29%; and eggs, 48%. The CSE estimates of the OECD for 1993 are: milk, -60%; poultry, -16%; and eggs, -35% (OECD, 1995). These levels of protection, and the marketing schemes associated with them, have yielded income levels for farmers in the regulated sectors that are significantly higher and more stable than those for the unregulated Canadian farm sectors (FPTF).

At that time, in 1988, Canada had added ice cream and yogurt to its import control list at the urging of the dairy industry, in anticipation of phased-in decreases in tariff schedules under the provisions of the CUSTA. The ice cream and yogurt import quotas were immediately challenged by the United States which requested that a panel be formed to investigate whether these were valid under the provisions of GATT. As was widely anticipated, the conclusion of this GATT panel went against Canada in a decision that was consistent with a previous GATT finding that Japan’s use of import restrictions for a variety of agricultural and food products could not be justified under the exemption clauses of Article XI. In essence the GATT panel found that ice cream and yogurt were not “like products” to Canadian raw milk and their free importation would not be likely “to render ineffective the Canadian measures on raw milk production” (GATT, 1989). This ruling potentially placed in question all Canadian import restrictions on processed dairy products.

Canada postponed action on ice cream and yogurt import restrictions pending the outcome of the Uruguay Round negotiations. The strongly-held negotiating stance of Canada on import protection for its supply-managed products during these negotiations, namely to clarify the wording and broaden the exemptions provisions of Article XI, put Canada at odds with its Cairns group partners. Canada’s preoccupation with this issue may also have lost some of the benefits

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9 Farm-level quotas typically are transferable between farmers, subject to the taxes on transfers and other transfer rules that are applied by the various provincial marketing boards. To date, transferability has essentially only applied within provincial boundaries despite proposals since 1991 and tentative moves since 1994 to allow quota to be traded between farmers in different provinces.
Table 1: Canadian Tariffs for Over-Quota Imports of Supply-Managed Products, 1995 and 2001\(^1,2\)

<table>
<thead>
<tr>
<th>Product</th>
<th>1995 Tariff Per cent</th>
<th>Minimum</th>
<th>2001 Tariff Per cent</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk</td>
<td>283.8</td>
<td>$40.60/hl</td>
<td>241.3</td>
<td>$34.50/hl</td>
</tr>
<tr>
<td>Cheddar Cheese</td>
<td>289.0</td>
<td>$4.15/kg</td>
<td>245.6</td>
<td>$3.53/kg</td>
</tr>
<tr>
<td>Butter</td>
<td>351.4</td>
<td>$4.71/kg</td>
<td>298.7</td>
<td>$4.00/kg</td>
</tr>
<tr>
<td>Yogurt</td>
<td>279.5</td>
<td>$0.55/kg</td>
<td>237.5</td>
<td>$0.47/kg</td>
</tr>
<tr>
<td>Ice Cream</td>
<td>326.0</td>
<td>$1.36/kg</td>
<td>277.1</td>
<td>$1.16/kg</td>
</tr>
<tr>
<td>Skim Milk Powder</td>
<td>237.2</td>
<td>$2.36/kg</td>
<td>201.6</td>
<td>$2.01/kg</td>
</tr>
<tr>
<td>Chicken</td>
<td>280.4</td>
<td>$1.96/kg</td>
<td>238.3</td>
<td>$1.67/kg</td>
</tr>
<tr>
<td>Turkey</td>
<td>182.1</td>
<td>$2.30/kg</td>
<td>154.7</td>
<td>$1.95/kg</td>
</tr>
<tr>
<td>Eggs</td>
<td>192.3</td>
<td>$0.94/doz</td>
<td>163.5</td>
<td>$0.80/doz</td>
</tr>
<tr>
<td>Chicks</td>
<td>280.4</td>
<td>$0.36/unit</td>
<td>238.3</td>
<td>$0.31/unit</td>
</tr>
<tr>
<td>Hatching Eggs</td>
<td>280.4</td>
<td>$3.43/doz</td>
<td>238.3</td>
<td>$2.91/doz</td>
</tr>
</tbody>
</table>

\(^1\) The specified over-quota tariffs will be reduced by 15% over the 6 years subsequent to 1995; the much lower within-quota tariffs will fall by 57%, satisfying the 1994 GATT/WTO agreement requirement for tariffs to fall by 36% during implementation.

\(^2\) Tariff rate quotas now also apply to the non-supply managed grains of wheat and barley, margarine and beef, replacing previous import licensing requirements for the specified grains, a long-standing import prohibition on margarine and the restrictions of the previous Meat Import Act. These 1995 tariffication rates vary from 25.1% for feed barley to 111.4% for malting barley.

Source: Agriculture and Agri-Food Canada.

The minimum import access provisions specified in the 1994 GATT/WTO agriculture agreement for products that are subject to “tariffication” are for initial minimum import levels equivalent to some three percent of consumption, rising to five percent during the agreement period (GATT, 1993). Canada’s imports of some supply-managed commodities already exceeded these levels. However, Canada did not follow the minimum import access guideline for some dairy products, justifying its commitments as being equivalent, in percentage terms, to the dairy import access commitments of the United States. Canada’s import commitments for dairy products provide for very modest increases in butter and ice cream imports.\(^{11}\)

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\(^{10}\) These high tariffs will decline by 15 percent over the agreement period; the balance of the GATT/WTO commitment for a 36 percent reduction in tariffs will be met by “within quota” tariff reductions of 57 percent.

\(^{11}\) Butter imports will increase from 1964 tonnes in 1995 to 3,274 tonnes in 2000, and ice-cream imports will increase from 347 tonnes in 1995 to 484 tonnes in 2000.
Canada’s access commitments for eggs and poultry are essentially those negotiated under CUSTA/NAFTA.\textsuperscript{12}

Changes in agricultural marketing policies for the supply managed sectors have largely been developed through processes of consultation between primary producers and primary processors that have been fostered by the federal government. The joint interests of food processors and primary producers became particularly evident as provisions of the CUSTA came into force and considerably lowered tariffs between the United States and Canada. By the late 1980s, Canadian food processors were expressing concerns about increasing cost-price pressures from the simultaneous pressure of the high priced domestic ingredients of supply-managed farm products and increasing competition from processed food imports. These pressures were particularly evident for processed foods in which dairy or poultry ingredients are appreciable inputs, as is the case for frozen dinners, frozen pizza and chocolate products. This was the cause of the introduction, in 1992, of an administered system of price rebates on dairy ingredient inputs to food processors.

Following the 1994 conclusion of the GATT/WTO negotiations, the federal government facilitated discussions between primary producers, processors and distributors to develop mechanisms to conform with the obligations arising from the WTO and to overcome some conflicts between producers and processors. Adjustments in the supply-managed poultry sector since 1994 have allowed poultry processors to negotiate provincial quota utilization (or marketings) and wholesale prices for chicken. This contributed to an appreciable increase in chicken consumption in 1994/95 associated with increased marketings and lower prices (NFPC). In order to adjust to the requirements of the 1994 GATT/WTO multilateral trade agreement, price rebates on dairy ingredients and the long-standing use of producer levies to subsidize exports of butter, skim milk powder, and egg products, as well as subsidies for exportation of cheese\textsuperscript{13}, are being replaced by an extended system of price discrimination by end use of product and associated producer price pooling (CDC; NFPC). The impetus for these changes, which are being administered by the marketing boards associated with the regulated farm products, is the understanding that the use of differential prices for exports and concurrent price pooling of farmers’ returns will not be considered to involve export subsidization under the provisions of the GATT/WTO agreement for agriculture.

In summary, the above-quota tariff rates adopted by Canada under the 1994 GATT/WTO agreement have increased the level of protection afforded its supply-managed sectors. The changes in marketing programs that have been adopted in response to that agreement have fostered an extension of the price discrimination that was already inherent in the domestic marketing programs for dairy products (involving differential prices of milk by use-classes for fluid and various industrial uses) and eggs (involving price discrimination of table eggs relative to eggs used for processing). These and related program changes have given some boards and processors of supply-managed farm products more flexibility in pricing. However, the changes are currently being used to increase the transfers from Canadian consumers to dairy and egg producers\textsuperscript{14} and there is a potential for increased exportation of these regulated products. Reduction of the level of support and protection afforded these sectors remains as a challenge for future trade negotiations.

4. The Impact of New International Trade Rules, Budgetary Pressures, and Trade Tensions on Canada’s Grain and Red Meat Sectors

In contrast to the resistance to change in Canada’s agricultural supply-management programs, farm programs that apply to Canada’s more trade-oriented farm products have been considerably adjusted in recent years. Some programs have been substantially reduced in scope or deleted; expenditures on others have

\textsuperscript{12} These are specified relative to production levels rather than consumption levels. For example for chicken, global access to the Canadian market was set annually at 7.5 percent of the previous year’s domestic production; for turkey this figure was 5.5 percent and access will increase in accord with WTO. Canada’s access commitments also indicate some increase in imports of eggs, butter, yogurt and margarine.

\textsuperscript{13} Subsidies on cheese exports have been provided through the "Dairy Product Export Assistance Program" rather than levies on producers' prices.

\textsuperscript{14} From the extension of the pattern of price discrimination noted above and through increases in administered levels of industrial milk prices which are being applied in order to cover the reduced levels of the federal industrial milk subsidy, a diminishing subsidy which is directly paid to producers.
been reduced. Recent major changes in grain transportation policy, a long-established and much debated component of federal policy for the grains sector, are one case in point.

The CUSTA provided for changes in Canada’s system of subsidized freight rates on rail shipment of grains and oilseeds from Western Canada to export points. Specifically, subsidies on grain shipments to the United States through west coast shipping points were discontinued. Subsequently, a much-debated and long-delayed decision was made by the federal government in 1993 to phase in, over several years, a change in the manner in which the western grain transportation subsidy or “Crow benefit subsidy” was paid. A longstanding debate had occurred on whether the “Crow benefit” would be paid to producers with grain shipments being made at “compensatory freight rates” or whether this subsidy would continue to be paid to the railways, in order to maintain lower grain freight rates. Draft legislation to direct the Crow subsidy to farmers over a period of four years was tabled in 1993 and a Producer Payment Panel was established to assess ways in which this benefit should be paid to producers. Annual federal payments towards the rail shipment of western grains amounted to C$726 million at that time (1992/93); this was reduced by subsequent federal budgets.

The 1993 proposals on rail freight subsidies for grains were superseded in 1994, in part by the necessity to reduce grain transportation subsidies to be consistent with the export subsidy reduction obligations of the 1994 GATT/WTO agreement. However, the final decision of the federal government, announced in 1994 and implemented in 1995, to discontinue both the Crow benefit subsidy and the federal Feed Freight Assistance subsidy, was motivated largely by budgetary concerns and involved termination of the expensive and distorting programs of grain transportation subsidies. Since August 1995, grain shippers have paid the unsubsidized rail freight rates for grain. These are currently specified under the Canada Transportation Act. The consequent appreciable increase in rail freight rates for grain moving to export has essentially been masked by the increased levels of prices for grains in world markets in 1995 and 1996.

One feature of marketing policy for Canadian grains and livestock that became evident in the 1970s and persisted until the early 1990s, was an increasing emphasis on program development and associated increases in the levels of expenditures on stabilization and “safety net” programs, designed to reduce farmers’ exposure to production and price risks. The safety net programs for both the grains and livestock sectors have been considerably modified as some of these programs have been phased out or phased down. Thus, program expenditures have been substantially reduced in recent years, in part because of the efforts of federal and provincial governments to reduce budgetary deficits, but also at the urging of some producers’ groups concerned that these programs would lead to United States countervail actions or other restrictions on access to the United States’ market for their products.

Hog producers’ concerns to reduce the imposition of countervailing duties on exports to the United States and the concern of beef producers to retain unimpeded access to the United States’ market for their products have been major influences in recent decisions of provincial governments to withdraw from the national tripartite livestock stabilization programs. These programs, which are funded by federal and provincial contributions and producers’ premiums, proliferated in the mid to late 1980s. They are, in essence, agricultural price stabilization programs that provide participating producers with deficiency payments when market prices fall below pre-set formulae levels. The tripartite stabilization programs for cattle, hogs and lambs have been phased out since 1993, in large measure due to the United States’ determination that these are countervailable programs.

For grains, Canada’s national safety net programs have included, in addition to crop insurance, the western grains stabilization program from 1975 through 1990 and its 1991 successor, the gross revenue insurance program (GRIP) which also replaced a series of ad hoc grain programs that had been applied during the “grain export subsidy war” of the United States and the European Union. The grain safety net program of GRIP, which was developed for producers of grains, oilseeds and certain specialty crops, built a revenue-support component related to the trend in market prices onto the yield-insurance features of crop insurance. Like the tripartite livestock stabilization programs,

15 Named after the Crows Nest Pass through which the rail track to the west coast was built.
16 For example, by September 1987, such plans applied for slaughter cattle, feeder cattle, feeder calves, hogs, lambs, white beans, coloured beans, sugar beets and apples (Statistics Canada, 1995).
GRIP has recently been less attractive to producers than formerly. Many producers have withdrawn from the GRIP program in recent years, as have some provinces. Saskatchewan terminated participation for 1994/95. Participation by Alberta and British Columbia will be discontinued by 1997.

Budgetary concerns, the fears expressed by livestock producers of possible countervail actions and the desire that new programs be "GATT-green" are the major reasons underlying a lack of agreement arising from extended discussions by representatives of federal and provincial governments, with producers' groups, on development of a new farm income protection program to replace both GRIP and the national tripartite livestock plans. Thus, the program of all-risk crop yield insurance and the current form of the net income stabilization plan (NISA), which was introduced in 1991, are the continuing national safety-net programs for Canadian farmers at this time.

NISA is a voluntary "buffer fund" type of subsidized savings plan for Canadian farmers that allows producers to deposit in their individual accounts up to two percent of the value of eligible net sales, to a specified maximum value; these deposits are matched by shared contributions by federal and provincial governments. Withdrawals may be made when an individual's gross margin is less than the five year average or if total income is lower than the specified level. The crop insurance and NISA programs are supplemented by various provincially-based "companion" programs including GRIP in some provinces and a variety of provincial programs in others.

Another major component of marketing policy for farm products concerns regulatory interventions directed at such issues as product inspection, other quality provisions, licensing of marketing agencies and facilities, and so on. Reviews of many of these provisions have been conducted in recent years. These have been stimulated more by budgetary than trade concerns, although some of these interventions or programs do have trade implications. Some regulatory processes have been streamlined and more emphasis has been placed on moving the costs of such services to their immediate users. However, changes in marketing programs and policies to date show a pattern of more rapid adjustment in the programs that involve direct government expenditures than in other forms of regulatory interventions. Among other regulatory issues, the role and activities of the Canadian Wheat Board, the monopoly seller of Western Canadian wheat and barley for human consumption and in export markets, is currently subject to much critical examination and extensive debate.

5. Canada's Agricultural Trade Relationship with the United States

Canada has been a long-standing supporter of the multilateral approach to world trade rules. It was an early advocate, with Australia, Argentina and New Zealand, among others, of the inclusion of agriculture in the Havana Charter in the post-war effort, during 1946-48, to establish a comprehensive world trade agreement (Jackson; Stone). Canada was subsequently a strong supporter both of GATT and, most recently, the establishment of the WTO. In recent years, Canadian trade policy has also involved the pursuit of bilateral trade agreements, most notably the CUSTA and the subsequent NAFTA. Both approaches to trade relationships express Canada's interests as a relatively small open economy in the liberalization of trade and in the development of well defined trade rules and procedures to govern trade relationships and to settle trade disputes since these often occur with larger more powerful economic entities.

Canada's trade is strongly and increasingly linked to the United States' market, reflecting an increasing integration of components of the economy of the two nations. Proximity to that much larger market, the large volume of trade that occurs between these two nations, and the tendency for political and institutional support in the United States for the pursuit of fair trade at the expense of free trade, are all factors contributing to Canada's interest in the bilateral CUSTA. Canada's concern to preserve the advantages of this association with the United States were one motivating factor in its pursuit of NAFTA.

The history of agricultural trade relationships between the United States and Canada includes a long list of countervail actions imposed on imports into the United States from Canada. The primary products on this list include softwood lumber, hogs and pork, potatoes, other fruit and vegetables, horticultural products and a variety of other products. Three current issues of conflicting agricultural trade relationships of the two nations are briefly outlined here. These involve Canadian exports of grain to the United States, a series of countervail cases on Canada's exports of hogs and pork to the United States and Canada's import restric-
tions on dairy products from the United States. A related issue of interest that is briefly explored concerns the bilateral trade relationship for beef products and cattle.

5.1 United States-Canadian Trade in Beef

Canada tends to be a net importer of beef, a net exporter of beef cattle and calves and, as a nation, constitutes a relatively small proportion of the North American market for beef. The maintenance of relatively high North American prices for beef was achieved, prior to the agricultural agreement of the 1994 GATT/WTO, by meat import control legislation of the United States which provided for export restraint agreements with major off-shore suppliers when imports reached specified levels. Canada avoided action by the United States to limit Canadian beef and cattle exports by developing its own somewhat less rigid meat import legislation against off-shore supplies in 1982. This was applied once, in 1985 (GATT, 1994). Nonetheless, a high priority has been placed by Canada on avoidance of United States’ restrictions on imports of beef from Canada that might occur either because off-shore imports could be “passed through”, or because these might displace Canadian supplies.

Avoidance of retaliation by the United States was fundamental to the imposition of countervailing duties against subsidized European Community manufacturing beef in 1986 and its subsequent extension in 1991 (Huang, Krakar and Uhm). This was also the reason for recent safeguard actions taken by Canada to limit increasing levels of off-shore imports of beef. In June 1993, the Canadian International Trade Tribunal (CITT) determined that Canada faced the threat of serious injury due to a surge in boneless beef imports. A tariff-rate quota, with over-quota tariff rates of 25 percent, was imposed on extra-quota imports from countries other than the United States. This safeguard was continued in 1994 (Huang, Huff and Uhm; Standing Committee). The importance for the Canadian beef and cattle industry of maintaining access to the United States market is highlighted by a recent report on the cattle and beef industries by the CITT (1993). Under the agricultural agreement of GATT/WTO, the meat import legislation of each country has been replaced by harmonized tariff-rate quotas. The three NAFTA countries have exempted each other from their meat import legislation and subsequent tariff-rate quota provisions.

5.2 Challenges by the United States to Canada’s Exports of Pork and Hogs

Canada is a major international exporter of pork; exports have increased in almost every year of the past decade, an indication of the revealed comparative advantage of this Canadian industry. This increase in exports has been based largely on technological advances embodied in genetic selection of high quality, lean carcasses, facilitated by hog grading systems that have transmitted consumers’ and processors’ preferences for lean meat, through pricing incentives, to the farm gate (Sandhu). Canadian exports of pork to the United States have also tended to increase over time and are now equivalent to about two and a half percent of United States production. Administrative protection, applied through a series of countervailing duty actions on hogs imported from Canada, has been pursued by the United States since 1985 (Melike and van Duren, 1990; Veeman, 1994). Countervail duties were also levied on imports of Canadian pork from 1989 until 1991 when the United States accepted a GATT panel ruling that these were not consistent with world trade rules. Subsequently, countervail actions by the United States continued to be directed at imports of hogs from Canada.

A series of CUSTA panels have reviewed the countervail procedures of the United States for pork and hogs. Canada also appealed the countervail duties on pork to the GATT, focusing on the procedure of the United States of assuming a subsidy flow-through from swine to pork. The 1990 GATT panel finding, that this practice of the United States was inconsistent with GATT rules, was finally accepted by the United States in 1991 in the aftermath of CUSTA panel rulings (GATT, 1992).

As practices subject to countervail have been reduced in Canada, there have been protracted delays in the posting, by the United States, of the results of the series of annual administrative reviews of Canadian programs for hogs. These delays allowed the United States to maintain countervail deposits at higher levels than will finally apply. Duty refunds will be made but the process that is used adds to the complexity and costs of the procedures. Thus, preliminary results of the seventh, eighth and ninth administrative reviews (for 1991/92 through 1993/94) were delayed by the United States and were not expected to be released until 1996. Overall, CUSTA review panel rulings for hogs have led to lower determinations of countervail duties applied by the United States on hogs imported.
from Canada and been instrumental in Canadian decisions to change stabilization and support programs for beef and hog farmers in order to avoid countervailable actions.

5.3 Canada-United States Trade Conflicts for Grains

Growth in Canadian exports of grain to the United States in 1989 following implementation of the CUSTA sparked a series of trade disputes for both durum wheat and milling wheat. One factor encouraging this import growth was the use of export subsidies by the United States which increased price levels for wheat and barley in the United States, relative to Canada, and thus encouraged movement of grain south from Canada. However, politicians and farm groups in the United States continue to be suspicious that export boards such as the Canadian Wheat Board (CWB) may be the mechanism for hidden subsidies and unfair pricing practices and this has been one focus of the trade disputes (Alston, Gray and Sumner; Carter).

In 1989 the United States International Trade Commission (USITC) was instructed to investigate conditions of competition between the United States and Canada for durum wheat. This body reported that drought, rather than dumping or transportation subsidies, was a significant cause of increased wheat imports. Nonetheless, the United States subsequently referred the issue of durum wheat to a CUSTA panel, arguing that wheat was sold by the CWB at prices less than acquisition costs. The panel ruled in 1993 in that this was not the case.

In response to continuing political pressures, the President of the United States requested the USITC to review milling wheat imports from Canada in early 1994. The United States also notified the GATT that it intended to introduce tariff-rate quotas on wheat, flour and barley imports from Canada. The USITC reached a divided decision on the issue of whether wheat imports from Canada had materially increased the costs of the United States’ wheat program; nonetheless a recommendation for import quotas was made. Negotiations between the two nations led to an administrative agreement to establish a Joint Commission to examine the programs affecting grain producers in each country. This agreement included a “peace clause” on trade actions during the period of one year during which Canada agreed to a limit on exports, effected through United States’ tariff-rate quotas on imports from Canada of durum and non-durum wheat. These quotas expired in September 1995.

The report of the Joint Commission contained numbers of wide-ranging recommendations directed to policy coordination, the standardization of grading and regulatory regimes and changes in domestic and export programs and institutions, amongst other issues. This report has not, however, materially influenced policy in either country. The trade disputes for grains have been a background element to the current very active debate, in Canada, of the appropriate role of the CWB with respect to export marketing of wheat and barley.

5.4 The Challenge by the United States to Canada’s Tariff Schedules for Dairy and Poultry Products

A NAFTA dispute resolution panel review was recently requested by the United States under the dispute settlement provisions of that agreement. This challenged Canada’s tariff rates on imports of supply-managed poultry, egg and dairy products that exceed the minimum import access commitments for these items. A discussion of the NAFTA panel process is given by Meilke (1995). The United States argued that CUSTA/NAFTA should prevail over the GATT/WTO provisions for these products. Thus, the submission of the United States contended that Canada’s new WTO duties are inconsistent with those articles of NAFTA which prohibit its members from increasing existing tariffs or imposing new ones (Government of the United States, 1996). Canada challenged that position, citing provisions of the agreement concerning the ability of each party to retain their GATT rights regarding bilateral agricultural trade and to adopt import restrictions in accord with their WTO obligations (Government of Canada, 1996). This challenge was viewed in Canada primarily as an expression of political action to force negotiation of more favourable terms of import access to the higher-priced Canadian market for supply-managed dairy and poultry products. The finding of the panel, in Canada’s favour, was not based on the issue of which trade agreement should prevail but on the feature that the CUSTA retained GATT rights and obligations for agricultural trade.

6. Further Discussion and Conclusions

Overall it can be concluded that the CUSTA and NAFTA have contributed to the increasing integration
of the economic structure of Canada and the United States. The resulting increase in the concentration of trade between these two nations has heightened trade tensions for some politically sensitive sectors. Within agriculture, grains, hogs and Canada's supply-managed dairy and poultry products are prime examples. Trade disputes are also occurring for trade in sugar and potatoes, among other commodities. Fear of the effect of trade disputes on the Canadian beef industry, which forms a relatively small part of the integrated North American market for red meats, has had a considerable impact on marketing and trade policy for that sector.

The agreements of the CUSTA/NAFTA have made it possible for each country to request reviews of the administrative processes that apply to each nation's application of antidumping and countervailing legislation. This process does not assess whether these laws are appropriate but focuses on whether the existing laws are correctly applied. This is a relatively narrow mandate. Nonetheless, the review process has contributed to the precision with which national countervail legislation is applied and has encouraged modifications of Canadian support programs for hogs and beef cattle.

Considerable adjustments have been made in Canadian grain transportation policy and in the market stabilization and safety net programs for grains, livestock and speciality crop producers during the past three years. These have been motivated mainly by the need to reduce government expenditures, reinforced by the pressures of the trading obligations and rules of GATT/WTO and the application of countervail processes by the United States. The consequent reductions in the levels of support afforded Canadian farmers have been concentrated in the grains and red meats sectors.

Support has not been reduced for the supply-managed sectors and the level of protection for these sectors has increased. Transfers from consumers to producers of eggs and dairy products recently increased, rather than decreased, as changes were made in supply-management programs for these products. There are economic costs to the national strategy of continuing to protect so highly the supply-managed sectors. One component of these is the opportunity cost of the foregone improvement in market access for Canada's export-oriented farm products that could be negotiated in exchange for increased access to the highly protected markets. The lack of pursuit of these opportunities provides a compelling example of the dominance of political costs and benefits over economic costs and benefits in the adjustment of Canadian agricultural marketing policy to new trade rules and institutions.

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