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Agriculture: A Canadian View

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The two aspects of United States-Canadian agricultural trade relations which must be examined are the bilateral relationship and the communalities and differences between the two countries as they face the rest of the world.

Earlier speakers have identified the broad issues which dominate the continental relationship. From a Canadian perspective these issues include the problems of a medium-sized economy living "cheek be jowl" with an economic super-power; the trauma of the abrupt attenuation in recent years of the special political relationship; Canada's increasing restiveness about foreign ownership and control of its resources and industries; the uneasiness caused by the United States' voracious appetite for minerals and energy; and the insistence of the United States on a favourable balance on bilateral merchandise trade (which raised the spectre of even larger imports of American manufactures and capital and is a further threat to economic sovereignty and industrial development). There are also specific irritants, such as the auto pact, defense procurement, regional development grants and D.I.S.C.

Compared with the weight of these matters, bilateral agricultural trade problems do not bulk large in the relationship. Indeed, the extent to which Canada and the United States already share a common continental market in farm products is not commonly appreciated. Thirty percent of Canada's agricultural exports to the United States enter duty free, and the average nominal tariff on dutiable items is only 6%. In the Kennedy Round there was an average cut of 65% in duties on 75% of the agricultural products exported by Canada to the United States. Similarly, 45% of American farm product exports to Canada enter duty free, and the average tariff on items subject to duty is only 9%. In the Kennedy Round 52% of Canada's agricultural imports from the United States were subject to tariff liberalization and duties were lowered by an average of 50%. To a substantial degree, therefore, exchanges of animals, meats, fruits and vegetables, and oilseeds (the main trade items in bilateral agricultural trade totalling over $1 billion in 1972) are already relatively unimpeded by tariffs.

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Trade barriers are important and restrictive for grains and grain products, dairy products, and tobacco, but in each case bilateral non-tariff and tariff barriers are an adjunct of the domestic supply management programs followed by each country for these commodity groups. With respect to grains and tobacco there seems to be a tacit agreement to live with the situation continentally and to compete vigorously with each other in third markets.

This is not to suggest that there are no contentious bilateral agricultural trade issues between Canada and the United States. On the contrary, a number of trade barriers and some features of domestic farm programs are the subject of continuing bilateral discussion and periodic exchanges of distinct asperity. For instance, Canada complains about the adverse effects of the American restrictive import quotas for dairy products on Canadian exports of specialty and Cheddar cheeses, and the United States' tariff quota on potatoes is unquestionably harmful to the economies of the Maritime Provinces. The United States has equally legitimate complaints about several features of Canadian commercial policy, agricultural programs, and marketing arrangements,[1] including the storage and transportation subsidies paid on prairie grains; freight assistance provided for prairie feed grains consumed in Eastern Canada; the residual tariffs on corn, poultry and eggs; the tariff calendar on some fruits and vegetables; the occasional use by Canada of value-for-duty; the discriminatory procurement and pricing practices of provincial liquor monopolies; and some of the practices of the Canadian Wheat Board and provincial producer marketing boards which distort and impede trade. However, these are aberrations and irritants in what is predominantly a benign and flourishing continental agricultural trade relationship. Of far greater interest and importance is the relationship between both countries in facing the rest of the world.

While both countries are commercial rivals, competing vigorously in the same overseas markets for sales of a similar range of temperate zone products, the common characteristics of their external situations are the sameness of the problems they face, the coincidence of their long-run aims and objectives, and the very considerable opportunities that exist for them to pursue a common course. The setting in which this communality of purpose will find its expression is the forthcoming round of G.A.T.T. trade negotiations.

[1] U.S. DEP'T. OF AGRICULTURE, NONTARIFF BARRIERS AFFECTING TRADE IN AGRICULTURAL PRODUCTS, ATP 3-72 (1972).

It will be recalled that the "Smithsonian Agreement" and the November, 1972 meeting of the contracting parties of the G.A.T.T. committed the international community to seek expanded opportunities for agricultural trade within the framework of comprehensive multilateral trade negotiations. Agricultural exports are so important to the economies of the United States and Canada, to other developed countries as Australia and New Zealand, and to developing countries, that it is inconceivable that the negotiations could begin, let alone succeed, without such an explicit commitment.

Agriculture is on the agenda at the insistence of the United States. The United States has a real comparative advantage in the production and export of many, but not all, temperate zone agricultural products. A sustained expansion of farm product exports is seen by the administration as a means of achieving a trinity of objectives, that is, an improvement in the balance of payments, a reduction in government intervention in agriculture and expenditures on farm programs, and an increase in farm income. Recent research has suggested that under substantially free trade American farm exports (mainly of grains, oil seeds, and livestock products) could increase by $10 billion annually, commodity program expenditures could fall by $4 billion annually, and aggregate net farm incomes would be raised by $4 billion annually.[2] For these reasons the United States has consistently viewed the G.A.T.T. trade negotiations as an opportunity to lower the agricultural protection accorded West European farmers by the common agricultural policy of the European Community; to minimize the impact of the Community's enlargement; to terminate the discrimination against American agricultural exports embodied in the E.E.C.'s association and trade agreements with countries in the Mediterranean basin and Africa; and to ensure that Japan's liberalization of agricultural imports proceeds at an accelerated pace.

The E.E.C. is not anxious to negotiate on agriculture despite growing internal dissatisfaction with its farm program. The French are adamant that the essential features of the C.A.P. are not negotiable. The Community will be preoccupied with assimilating three new members into the agricultural policy over the next few years. Necessary changes in the policy will be difficult enough to effect without the futher complication of external pressures. Thus the

[2] U.S. DEP'T. OF AGRICULTURE, AGRICULTURAL TRADE AND THE PROPOSED ROUND OF MULTILATERAL NEGOTIATIONS, Report to the Council on International Economic Policy (1972).

Community is following a different timetable than the United States. Insofar as the Community is concerned with mitigating the external effects of its farm program, it appears to emphasize international market stabilization through organization of world commodity markets, rather than trade expansion through liberalization.

Japan's demographics, resource base, rising incomes, changing tastes, and desire to limit yen revaluations seem likely to result in her offering a growing market for exports of farm products from the United States, Canada, Australia and New Zealand. The major questions concerning Japan appear to be the extent to which she can retard the pace of liberalization in order to wring concessions from countries which discriminate against her exports of manufactures; the extent to which she can be dissuaded from restricting imports of intermediate and finished food products and adding value domestically to imports of feed grains, oil seeds, and other agricultural raw materials; and the validity of the trading company system of procurement and distribution.

Canada's farm and food exports account for 10 percent of total merchandise exports and 33-40 percent of gross farm receipts. Continued expansion of farm exports is important in balance of payments, farm income and regional development terms, and Canada shares the American interest in agricultural trade liberalization and expansion. "Fortress Canada" is not a viable alternative for Canadian agriculture as a whole, or for most commodity sectors.

In the main, Canada is competing for the same markets and with the same or similar products as the United States. Canada shares the American interest in containing and rolling back agricultural protectionist policies abroad and incorporating farm product trade more surely into a multilateral, market-orientated trading system.

In negotiations conducted upon the principles of mutual advantage, mutual commitment and overall reciprocity, one must anticipate that Canada will be asked to make changes in some of the commercial policies and domestic farm programs which restrict imports of commodities in which Canada is a high-cost producer. A prime target will likely be the national policy of self-sufficiency in butterfat, with the pressure for change coming from the E.E.C. and Australia. The United States will face the same demand. There will be strong pressure on Canada to reduce her tariffs on manufactured products, tariffs which happen to be among the highest in the industrialized world. However, the ability of Canada to secure improved access for exports of farm products to Europe, Japan, the United States, and elsewhere by making reciprocal concessions on imports of agricultural and industrial products is limited. Indeed, the overall outcome of the whole G.A.T.T. negotiations on improving access for exports of farm products is dependent upon the compact attainable between the United States, the enlarged European Community, and Japan. Fortunately, the interests of Canada are identical to those of the United States vis-à-vis Europe and Japan. This does not, of course, imply that Canada can sit back and let the United States do the negotiating for her. This would be a prescription for ending the negotiations for better arrangements for corn and soybeans (which are of prime interest to the U.S.) but increase her standing unrestrained with respect to the closely competitive barley and rapeseed which Canada exports. Canada's appropriate negotiating strategy certainly seems to be to support the United States in its negotiations on agriculture with Europe and Japan, to assert its particular interests, and to be ready with well-prepared compromise solutions on the more difficult issues.

There will be no shortage of difficult issues, with agriculture likely to be the most difficult element of the whole negotiations once they are commenced. The circumstances of agriculture which impede agreement include wide international differences in productivity, historically low and unstable farm incomes and returns to resources, and difficult, socially disruptive structural adjustment problems. All governments intervene heavily in the industry. Production, consumption and trade are influenced by tariffs, quotas, variable import levies, export subsidies, direct payments, mixing regulations, state trading, subsidized inputs, market discrimination, multiple exchange rates, etc. Frontier measures are frequently the instruments or residuals of national farm policies. Scant heed has been paid in the past to the external effects of national farm programs, and indeed, passing the burden of adjustment to foreign suppliers has been the easy option. World trade in farm products is dominated by the interactions of contending domestic farm programs.

The problems of trade in farm products have been documented and discussed for decades in G.A.T.T., O.E.C.D. and elsewhere. They were postponed in the Dillon Round. They were confronted in the Kennedy Round but no significant improvements were effected. G.A.T.T. rules for trade in farm products are ambiguous, frequently waived, or simply ignored. The general level of protection remains high, and for some products and some regions it is widely believed to be increasing.

At present there is no agreement on whether agricultural trade expansion is to be secured by trade liberalization, as the United States would prefer, or through international market organization, which is the preference of the E.E.C. Equally, there is no consensus with respect to the extent to which, and the means by which, national agricultural policies are to be constrained in the future by internationally negotiated and binding constraints and commitments. The depths of the gulfs in interest and philosophy which separate the main protagonists are already apparent. Thus, the report of O.E.C.D.'s High Level Group on trade and related matters[3] which, *inter alia*, was supposed to identify feasible negotiating objectives and strategies for agriculture, was characterized by bitter differences between the American and European participants and a thunderous silence on the position of Japan.

Canada's position, as usual, is pragmatic and eclectic. While the content of Canada's negotiating brief is, of course, not known, it is believed to contain a two-level approach. First, Canada is believed to consider it worthwhile to pursue an agreement on a set of ground rules to guide the conduct of domestic agricultural programs. Such a code of conduct — which might be expressed in a declaration of intent — might commit governments, among other things, to avoid a transfer of costs of adjustment to farmers and traders of other nations; to continue and accelerate agricultural structural adjustment; to tackle rural social problems with social and regional policies rather than agricultural programs; to alter commodity price relationships so as to favour products with better market prospects and to stimulate consumption; to move to systems of direct price and income support which are neutral in their production and consumption efforts; and to manage supplies and limit price supports to agreed quantums of output. The purpose of this code would be to channel domestic farm programs in internationally constructive directions.

Within the framework of the code more specific international commitments might be negotiated for particular commodities. These might include: straightforward lowering of specific trade barriers; more far-reaching agreements to bind existing degrees of support

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[3] ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT, POLICY PERSPECTIVES FOR INTERNATIONAL TRADE AND ECONOMIC RELATIONS, Report by the High Level Group on Trade and Related Problems to the Secretary-General (1972).

and to reduce them by measured steps over an agreed period; agreements on market sharing; agreements on minimum export prices to be observed in international trade and the freezing, reduction and elimination of export subsidies; and agreement on the joint management of stocks. Such arrangements would be incorporated into binding multilateral agreements, and cumulatively would mold trade in farm products more securely into an economic world of order soundly based on rules and institutions.

The situation in 1972 and early 1973 in the lead-up to the Nixon Round of trade negotiations bore worrisome similarities to that of 1962-63 on the eve of the Kennedy Round, insofar as the United States and the E.E.C. seemed set on a collision course on agriculture. The United States appeared belligerent in its determination to terminate Europe's common farm policies and incorporate farm products in an open, market-orientated world trading system. The E.E.C. seemed equally determined in its resolve to preserve the essential fabric of the one major accomplishment of the economic union, although the C.A.P. clearly needed modification. One feared that the whole negotiation would be held hostage to progress on agriculture. This would be unwarranted and unfortunate since world farm trade seems bound to continue to expand even in the absence of liberalization, and other aspects of international economic collaboration are more decisive.

More recently, the course of the agricultural negotiations has been obscured by the uncertainties which beset the world agricultural economy. The earlier implacable resolve of the United States to use the negotiations to effect a radical change in the conditions under which world agricultural production and trade has been conducted in the post-war years seems to have weakened somewhat in recent months as record-high farm exports and the effects of successive dollar devaluations have boosted farm incomes, permitted a radical change in United States farm programs, and promised a dramatic turn-around in the American balance of payments. Similarly, the possibility that world supplies of foods may lag behind effective demand for a protracted period has shifted international concern from considerations of inadequate and deteriorating conditions of access for exports to deficit regions to questions of the availability of exportable supplies from the major surplus producers, their reliability as suppliers, and the adequacy of international reserves. Also a largely unanticipated development which must be considered is the mounting resistance of consumers in agricultural exporting countries to the expansion of exports because of the upward pressure placed upon domestic food prices. The possibility that the prior commitment of supplies of food (and energy) to domestic consumption may be an important means by which exporting countries can combat inflation and sustain their international competitiveness is a new element in the calculus of international economic relations and in attitudes towards expanded agricultural trade.

The extent to which recently experienced shortages are prolonged or transitory will certainly have an effect on both the tone and the content of the agricultural negotiations. Hopefully, the absence of pressures from surpluses and excess capacity will enhance the opportunities for a constructive approach to the problem of reconciling national farm program objectives with the goal of an expansionist and market-orientated regime for world agricultural trade.