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CONCLUDING SESSION ON WORKSHOP DIRECTIONS

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At the conclusion of the Workshop, participants assembled to determine the value of the exercise to themselves and to the process of understanding the grains disputes. This discussion also addressed the issues of whether, and how, to continue this approach to generating and distributing policy relevant information. The consensus was that the exercise was worthwhile and should be continued but with a rather low profile in the public arena. Several vehicles of communicating information from this and subsequent workshops were identified including publication and distribution of this proceedings.

There was considerable interest in conducting a similar workshop on Canada/United States/Mexico trade and policy issues, including further exploration of issues related to continental grain trade. The group agreed that it would be productive to pursue similar analysis in some related commodity areas. The dairy industry and dairy policy were identified as a strong candidate for the next workshop. Following the Workshop, the coordinating committee drafted plans for a dairy policy workshop for early March 1996.

The following record identifies themes that were articulated during the open discussion which took place in the closing discussion of the Workshop. The discussion reflects the substance of what was offered without trying to fit these comments into a balanced framework.

Policy Conflicts

The discussion began with a focus on the key elements of domestic grain policy in Canada and the United States. As is apparent in the papers presented at the Workshop, grain policy in Canada and in the United States have evolved over the past 100 years as these countries have changed from their agrarian roots into modern industrial economies. Grain policies in the two countries are designed to address similar problems: 1) periodic low returns to farmers; 2) instability of returns; and 3) technological change which has continuously reduced the number of people employed in agriculture. More recently, environmental concerns have been added to the policy agenda.

Although, the problems that agricultural policy was meant to address are similar in both countries, the institutional mechanisms and the policy instruments used to achieve

these objectives are quite different. These differences caused few conflicts between Canada and the United States, except for export competition in third country markets, until the mid-1980s. A number of events occurred during the last half of the 1980s which heightened trade tensions and strained trade relations between the two major grain exporters. The European Union emerged as a major exporter of wheat in international markets; in the 1980s Record setting supplies of grain led the United States to massive land retirement programs, government stockholding, support price (loan rate) declines and the reintroduction of explicit export subsidies. Canada followed in the late 1980s by sharply expanding its subsidies in the grain sector, primarily in the form of ad hoc payments. The end result was international, competitive subsidization of grain exports on a scale not previously witnessed. The realization that the level of support being provided to the grain industries in the United States, Canada and the European Union were not sustainable and counterproductive led to agricultural trade liberalization being placed at the top of the agenda during the Uruguay Round of multilateral trade negotiations.

The discussions which led up to the signing of the CUSTA and the NAFTA were emotional and heated, particularly north of the border for the CUSTA, and in the United States for NAFTA. Throughout these discussions Canadians were assured that the CUSTA and NAFTA did not compromise Canadian sovereignty, and its ability to follow "made-in Canada" economic policies. Even the border protection provided Canada's supply managed commodities was preserved. However, with the exception of ruling out export subsidies on Canada/United States trade, the CUSTA failed to identify acceptable and unacceptable agricultural policies. As a result, domestic farm policies were protected under both agreements. Although the GATT produced movement toward freer trade, it too failed to resolve many of the remaining conflicts.

It is, however, incorrect to state that the CUSTA negotiators did not anticipate that differential levels of support provided to the grain sectors in Canada and the United States could not lead to trade disputes. Article 705 of the CUSTA calls for the elimination of Canada's import licenses for wheat, barley and oats when United States grain support levels fall below Canadian support levels, and both countries retained the right to reimpose import restrictions on grain and grain products if imports increased significantly as a result of substantial changes in grain support programs. Annex 705.2 of the CUSTA sets out a formula (covering 18 pages) that is to be used to calculate grain support levels in the two countries. Essentially, the formula is a producer subsidy equivalent measure. What the formula failed to recognize is that certain policies are incompatible with a free trade area.

For a number of reasons, some related to United States agricultural policy, some related to Canadian agricultural policy, some reflecting comparative advantage and some reflecting weather, grain exports from Canada to the United States increased sharply in the early 1990s. These highly visible trade flows, concentrated in the Northern tier of the United States, resulted in mounting trade tensions. It was quickly recognized that the dispute settlement provisions of the CUSTA were not well designed to deal with cross border trade disputes arising, at least partly, from domestic agricultural policy differences. This led to the 1994 voluntary export restraint agreement in wheat, and the appointment of the Blue Ribbon panel to analyze the sources of cross border trade.

Conflicts over agricultural trade including trade in grain and grain products are unlikely to go away. While the GATT agreement on agriculture identifies "green" policies and support to the agricultural sector is ratcheting down in both countries, the visibility and political sensitivity of trade in agricultural products will keep agricultural issues high on the list of trade irritants. The inclusion of Mexico in the free trade area could intensify these tensions. The Workshop participants were unanimous in believing that educational programs could help to minimize trade tensions by dispelling myths and refuting inaccurate information.

Educational Issues

Although neighbours, United States and Canadian producers know very little about the institutional setting of grain farming and marketing across the border. The initiative to provide facts and basic definitions is one step that can be taken to further understanding. As part of this policy system information initiative extension economists in the United States are planning to work with Canadian counterparts to develop educational leaflets on several issues. These will be disseminated and used for further enhancement of understanding. Basic information packages will be developed dealing with the trade agreements, the ways in which subsidy programs work in each country, factors that affect competitiveness, the impact of domestic and export policies on both domestic and international markets, and specific issues such as wheat quality and grading or inspection systems.

There is also a professional responsibility attached to this debate that must be addressed. Without a clear agreement on what the facts are, objective economic analysis conducted on both sides of the border may be based on incorrect assumptions. Given this, it is not surprising that the general public often reaches incorrect conclusions regarding the causes of cross border trade. The profession has a responsibility to understand the institutions in both countries, to develop appropriate theoretical frameworks and to provide defensible empirical analysis of international trading relations. This does not mean that every study will reach the same conclusion. However, the areas of professional disagreement should be sharply delimited so that further economic analysis can resolve these unanswered questions. Coordination of research and extension efforts through groups such as the one put together for this Workshop is seen as one method of reaching this level of clarity and consistency.

Conclusion

Much remains to be done to produce a harmonious policy and trade balance between Canada and the United States. Some recent developments, while long sought by some interest groups, provide the potential to aggravate the situation. For example, termination of the grain transportation subsidy in Canada is likely to mean more pressure to trade into the United States. The Canadian Wheat Board, while only about the size of one of the top four U.S. private companies raises suspicions about government backed monopolies in the international grain trade. CWB monopoly trading practices continue

to draw fire in both the United States and Canada. Canada's grain grading and inspection services draw concern even though they operate on a fully cost recovered basis.

On the American side the spectre of the Export Enhancement Program depressing off-shore wheat markets such that other suppliers are unable to remain competitive still rankles the image of fair and free trade in export markets. The activities of the U.S. government in administering target prices, set asides, the Conservation Reserve Program and the intricacies of "flex acres" cause some to view these activities as a direct intrusion in to the day to day activities of the market. All await development of the 1995 Farm Bill which is expected to be more trade oriented with lower subsidies.

There is much to be done before trade irritants can be handled rationally. These irritants must be analyzed with care and objectivity on both sides of the border if greater understanding is to be achieved and fears are to be alleviated.