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UNDERSTANDING CANADIAN/UNITED STATES DAIRY DISPUTES

Ronald D. Knutson and R.M.A. Loyns

The root cause of many, if not most, agriculture trade disputes lies in differences in domestic farm policy. This is certainly the case for dairy where the United States and Canada have pursued different policies designed to achieve the same objective—raise farm income and stabilize prices. Dairy disputes between the United States and Canada have their origins in the limitations that both countries place on imports to achieve these basic policy objectives.

Tension in the dairy sector between these two trading neighbours was the subject of the second in the series of trade dispute workshops. This workshop was ideally timed. It coincided with the U.S. Congress finalizing the provisions of the 1996 Farm Bill which included major changes in dairy policy. In a seven-year bill designed to reduce government costs and provide transition to a much freer market, the fragmented U.S. dairy lobby suffered some organizing defeats; price supports will be removed in five instead of seven years. During the debate in the U.S. Congress leading up to passage of the Farm Bill, many alternative dairy policy approaches were considered. These proposals are evaluated in the papers by Cox and Sumner, and Cropp and Harris. North of the border, policy and program change have proceeded relatively quietly and unnoticed, but change has occurred as documented by all of the Canadian contributors in the workshop. Still, many changes need to be made on both sides of the border to achieve the level of free trade envisioned by the NAFTA.

As policy and program change is occurring on both sides of the border, structural adjustment is occurring on farms and in dairy processing. Yet structural change in Canada bears little resemblance to the 1000-2000 plus cow dairies that characterize parts of the U.S. industry, often only a relatively short driving time from the Canadian border. The comparative efficiency of the U.S. and Canadian dairy production and processing sectors was a contentious workshop issue that sparked discussion and certainly was not resolved.

But the purpose of the workshop was not to resolve these issues—that will be done at the negotiating table, through the interaction of market forces, and perhaps with the aid of research and education programs like this one. Rather, as in the previous workshop, the objective was one of fostering improved mutual understanding by participants and decision makers of policies, programs, institutions and economic forces of change. Our overall

objective is to foster more harmonious trading relations by improving the information base on the industry and its policy framework.

THE WORKSHOP PROGRAM

The workshop was built around three researchable questions (called Themes in this publication) that bear directly on policy and the nature of adjustments that might be anticipated as we move toward freer trade:

- What impacts have past U.S./Canadian dairy programs had on structure, efficiency and trading relationships?
- What impacts will contemporary policy changes have on structure, efficiency and trading relationships?
- What is the potential for increased trade?

The first workshop on Grains Disputes resulted in discussions that were considered rather academic due to the absence of industry participants. As a result, in this workshop we utilized several industry discussants to react to the papers prepared by university and government economists. Government and industry perspectives on all issues were encouraged throughout the workshop. The presence of industry interests changed the entire rapport of the discussions, made the workshop discussion more relevant and lively, and improved the overall value of the program.

Each of the themes was addressed by U.S. and Canadian analysts. Likewise, discussants from each country provided their perspective on the papers. This publication maintains that format. Authors were selected to give geographic and perspective diversity. For example, in analysing the impacts of past policies, the perspectives of the Upper Midwest (Cropp) and the Southeast (Harris) dairy industries are quite different. Likewise, in Canada, Veeman from Alberta was paired with St. Louis from Quebec. Discussants included a U.S. marketing order regulatory perspective (Nicholson) and a Canadian dairy farmer perspective (Proulx).

Assessment of the impacts of contemporary policy changes is a difficult task because policy is a moving target in both the United States and Canada. U.S. analysts Cox and Sumner were put in an unenviable position of analysing a yet undefined dairy program. The Cox and Sumner paper presented in this publication has been revised to reflect Farm Bill information available only during the workshop. Barichello and Romain's job of analysing the impacts of the evolving Canadian policies was equally difficult. For these papers Blakeslee, a cooperative manager, spoke on behalf of U.S. dairy farmers, and Schildroth provided a Canadian regulatory perspective.

The testy topic of the potential for increased trade was provided by Novakovic and Stephenson, both from the Northeast U.S., and by Meilke from Ontario. The discussants of this sensitive issue were provided by Young and Weersink, both from academia. The results of these analyses indicate that the opportunity for trade will be conditioned to some extent by how the ice cream/yogurt dispute is settled, but freer trade in dairy products is unlikely to mean the Canadian industry will be subsumed by its U.S. neighbour. This latter conclusion was typical of most discussion in the workshop and it is significant because it is contrary to much apparent belief.

The last half day of the dairy workshop provided an opportunity for government, producer and processor representatives to react and develop their thoughts on the policy process and program assessment needs. Government economists Crawford (USDA) and Tudor Price (Agriculture Canada) provided the perspective of policy analysts. The producer perspectives were presented by advocates Vitaliano (United States) and Phillips (Canada). Processors were represented by Glenn (United States) and Matte (Canada). Discussion in this session covered a wide range of policy, political, economic and analytical issues—a fitting wrap-up to a productive and provocative workshop.

In preparing for the workshop, the coordinating committee believed that it would be useful to the workshop itself and to the general function of distributing information to prepared detailed background papers on the industry in both countries. The papers were intended to be strictly descriptive in content but reasonably exhaustive in providing the kind of background data that analysts, policy makers and industry participants could use to better understand the structure of dairy production and the policy framework in Canada and the United States. The USDA and Agriculture and Agri-Food Canada agreed to prepare and circulate these documents in advance of the preparation of papers, and all participants had access to these papers before the workshop. We believe that these two background papers are valuable sources of basic information that is not readily available elsewhere.

Consequently we have included the two papers at the beginning of this publication to set the stage for the papers that follow.

The coordinating committee for the workshops is composed of two U.S. economists: Ronald D. Knutson from Texas A and M University, and Dan Sumner from the University of California at Davis; and three Canadians: Karl Meilke from the University of Guelph, Jack Gellner from Agriculture and Agri-Food Canada, and R.M.A. Loyns from the University of Manitoba.

