Agricultural and Resource Policy Prospects and Challenges: A North American Perspective[1]

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Abstract

Differences in history and institutional structure have contributed to differences in agricultural and resource policy in Canada and the United States. These are one source of some differences in stance toward trade policy taken by these two nations. Trade conflicts and tensions have also arisen from the increasing integration of North American agriculture and food sectors. In Canada, trade policy has dominated farm policy for most agricultural sectors, but not for the supply-managed dairy, egg and poultry sectors. Future prospects for the forthcoming multilateral trade negotiations are of considerable interest in view of the impact that these may have on agricultural policy in both nations. Increasingly, however, agricultural and resource policy in North America is focussing on issues of the environment associated with agriculture and on policy related to food, rather than on the traditional concerns related to farmers' interests.

Introduction

The theme of this conference, and the title of this paper, allow the choice of two related approaches. One is to engage in a detailed examination of the past, for the lessons that this provides for the future; alternatively, major challenges that lie ahead for agricultural and resource policy can be assessed in the light of lessons of the past. Since there is already an extensive literature on the evolution of agricultural and resource policy that assesses this in a historical context for both Canada and the United States, attention is directed to the exploration of current and future policy challenges. This is necessarily based on the evolution of policy to this point.

To set the stage for assessing future policy challenges, some features affecting the policy making process and policy outcomes in both nations are outlined and a brief overview of the general evolution and current thrust of Canadian and US agricultural and resource policy is given. In the light of the increasing influence of international influences on agricultural and resource sectors, the prospects and challenges for international agricultural trade policy are one focus of the paper. The impacts of these influences on domestic agricultural and resource policy are an associated focus.

Differences in Policy Making : A Brief Overview for Canada and the United States

What are the major differences in US and Canadian agricultural policy and how do these arise? The differences in history and institutional structure, as well as associated differences in the "culture" of public policy-making, contribute to significant differences in the approaches and outcomes of agricultural and resource policy in these two nations. The process of agricultural policy making in the United States is well documented (see, for example Tweeten, 1989 or Knutson, Penn and Flinchbaugh, 1998). The institutional division of power between the Legislative (Congress), Executive (Presidential) and Judicial (Courts) branches of the Government of the United States provides a system of checks and balances between competing policy interests. Even so, the opportunity for an "iron triangle" affiliation of producers' associations, administering bureaucrats of USDA and the Congressional agriculture committees tended, for decades, to set the agenda for US agricultural policy. The consequent tendency for this to favour sectoral producer interests, and to persist over time, has been modified in recent decades, by Congressional reapportionment in line with population changes and, more recently, by turn-over in agricultural committee membership [Knutson, Penn and Flinchbaugh, 1998]. Consequently, in the 1980s and 1990s, the development and approval of agricultural legislation in the United States necessarily has

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[1]Copyright Michele Veeman 1999. Paper presented to the 43rd Annual Conference of the Australian Agricultural and Resource Economics Society, Christchurch, New Zealand, January 20, 1999.

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had to be built on coalitions of varied interests, including urban, food and environmental interest groups, in addition to the special interests of farm organizations and business. This feature can be seen, for example, in the 1996 farm bill.

In contrast to the United States, and barring a minority government, the Canadian parliamentary system tends to place more power to frame and enact legislation in the hands of the majority political party and its leaders, i.e. in the Prime Minister and Cabinet. However, the Canadian constitution divides jurisdictional power for agriculture between the federal and provincial levels of government, enabling producers' associations to pursue lobbying strategies directed at two levels of government. For example, the ability of farm groups to appeal successfully to the desire of provinces to engage in "province-building" was one major influence in the increase of support from provincial and federal levels of government to agriculture during the 1970s and 1980s.

Three additional factors currently have much influence on the Canadian agricultural policy. These are the regional differentiation in the patterns of agricultural production within Canada, the concentration of electoral strength in the Central Canadian provinces of Ontario and Quebec and the Separatist movement within Quebec [Veeman, 1995]. Together, these are dominant influences contributing to the increasing dichotomy in Canadian agricultural and trade policy between the two major sectors of Canadian agriculture. These are, on one hand, the export-oriented sectors of grains, oilseeds and red meats, which are major farm outputs of the Prairie region of the land-extensive, but less populated region of Western Canada. However, the supply-managed sectors of dairy, poultry and eggs tend to be concentrated in the populous Central Canadian provinces of Ontario and Quebec, which together control close to 60 percent of seats in Canada's House of Commons. In contrast, the majority, by a slight margin, of Canadian farmers are located in the three Prairie provinces of Western Canada.

The Evolution of Farm Policy in the United States and Canada

In both Canada and the United States, immigration and settlement policy was a major focus of early government policy for agriculture [Fowke, 1947; Benedict, 1953]. One current outcome of this is seen in the continued dominance of the owner-operator structure of primary agriculture, which in North America emanated from the "homestead" policy of each nation. Another current outcome is seen in one strand of resource policy in Canada, evident also in New Zealand and Australia, involving moves to recognise claims to the ownership of land and related resources by descendants of those native occupants whose early rights to these were either ignored, or insufficiently recognized, in the process of European land settlement.

Historically, Canadian agricultural policy served as an instrument of national policy and development [Fowke, 1947]. From the time of Confederation of the former British Colonies into the entity of Canada in 1867, until 1930, agricultural policy focused on expansion into previously unsettled areas and government initiatives to foster agricultural productivity, as through the early development of federal research stations. Government assistance for completion of the rail link across the nation and the related Crow's Nest Pass Agreement of 1897 was one component of Canada's settlement policy. Westward shipment of settlers and their goods and eastern shipment of their grain and other output to Central Canada was a major thrust of national policy, intended to forestall territorial loss to the United States. One outcome of this policy was the longstanding entrenchment of rail freight rates for grain which eventually became uneconomic for the railways, with consequent degradation in grain shipment infrastructure, service and throughput in the 1960s and 1970s.The subsequent use of rail subsidies for grain was discontinued in 1995.

Agrarian activism in the earlier part of the century also influenced politics and policy outcomes in both nations. This was a factor in the introduction of commodity programs in the United States, as part of New Deal legislation, in order to support agricultural prices consequent to depressed prices and persistent drought in the 1930s. The Agricultural Act of 1933 was the first comprehensive effort in the United States to support and stabilize farm prices and incomes. In addition to providing authorization for voluntary contracts that paid farmers to reduce acreage for specified “basic” crops, provision was made for advance payments for stored farm products, voluntary marketing agreements between farmers with middlemen, and levies on farm product sales to processors for processing or market expansion (shortly found to be unconstitutional as representing taxes on processing). The 1933 provisions, subsequently extended and modified, were the basis of the development and application of the parity price concept and non-recourse loans, the accumulation of Commodity Credit Corporation stocks and the early land-retirement programs [Benedict, 1953]. Subsequently the Agricultural Adjustment Act of 1935 gave the President of the United States the authority to impose quotas on imports that interfered with agricultural price supports. This Act also provided for a percentage of customs revenues from agricultural imports to be assigned to farm program expenditures.

Highlights of subsequent major US program innovations included bringing into effect the federal crop insurance program through the Agricultural Adjustment Act of 1938 which also initiated programs of food distribution and food-stamps.[1] As stocks mounted, the Agricultural Trade Development and Assistance Act, Public Law 480, was approved in 1953 and provided for disposal of farm surpluses in foreign countries. The Agricultural Adjustment Act of 1956 attempted to realign production and utilization of farm products through the establishment of the Soil Bank, providing for temporary (acreage reserve) and longer-term (conservation reserve) land retirement. Payment in cash for land retirement through acreage reserve provisions was soon dropped as too expensive (however this was, in effect, the basis of payment-in-kind procedures more than twenty years later). The procedure of land set-asides as a condition of receipt of program payments was first introduced in 1970 [Knutson, Penn and Flinchbaugh, 1998].

Subsequent refinements included the introduction of the farmer-owned reserve in the late 1970s. Designed as a price stabilizing mechanism, this innovation had the effect of increasing price supports and was removed in the 1996 farm bill. Target prices were introduced in 1973, at levels greater than loan rates, and deficiency payments were used to bridge this gap. In order to reduce increasing stocks, the payment in kind program was introduced in early 1983. With slippage of US export market share, in the early 1980s, high levels of loan rates were recognized to be acting as a price umbrella to other grain exporters. Loan rate levels were reduced in the 1985 farm bill. The export enhancement plan (EEP), proposed as a system of export subsidies targeted to counter unfair practices of other nations, was introduced. Conservation provisions were also strengthened in this bill. Even so, agricultural support continued to increase. By the end of the 1980s, the direction of farm policy to that point of time could be summarized as showing the growing commitment of the federal government to support farm income, using voluntary programs and direct payments, with consequent high treasury costs [Tweeten, 1989: 346].

The most recent farm bill, the Federal Agricultural Improvement and Reform Act of 1996, can be viewed as a major change in direction for features of US farm programs. It reoriented support away from the target price that had long been used to subside certain individual crops (i.e. feed grains, wheat, cotton and rice), and provided instead for individual farmers to be able to sign contracts to receive payments based on their merged base acreage. These payments were intended to be reduced over time, with the prospect of eventually being phased out, although skeptics have queried the likelihood of this occuring.

The consequent decoupling of farm support from current farm production decisions and output levels is confined to the specified crops and does not apply to other major commodities such as dairy products, sugar, peanuts or tobacco. Loan rates, though modified, were retained in the 1996 farm bill. Provision was made for reduction in dairy loan rates and for some streamlining of federal milk marketing orders. Relatively minor changes were made for sugar and peanuts. For dairy, sugar and peanuts, considerable support continues to be provided from consumers. The export enhancement plan was continued. The conservation reserve program was retained and conservation provisions were extended. Although a change in the direction of US agricultural policy is demonstrated in the 1996 farm bill, the bill has been criticized for its incomplete reform, its potential impact in widening income disparities in agriculture and because it has not been framed to encompass a counter-cyclical effect [Stuart and Runge, 1997]. As has been the case with previous farm bills, the 1949 farm act is retained as the permanent, i.e. fall-back, farm legislation of the United States.

How does the history of farm policy developments in Canada compare with that of the United States? Canadian experience since the 1930s followed some different paths. However a major point of similarity is the feature that programs that were introduced in the 1930s and 1940s, viewed as temporary means to combat effects of depression and in war-time conditions, tended to persist subsequently. Initially, however, only occasional and conservative agricultural price support was provided in Canada, through the Agricultural Prices Support Act of 1944 and its successor, the Agricultural Stabilization Act (ASA), which was introduced in 1958. The Farm Credit Corporation was established in 1959. By the 1970s, however, Canadian agricultural support levels had appreciably increased and these grew rapidly in the 1980s.

The other facet of Canadian farm policy involves agricultural marketing boards. The history of their early development goes back to the 1920s and 1930s. By 1940 all but one province had passed agricultural marketing legislation and complementary facilitating legislation was developed at the federal level by 1949. Consequently, these institutions were established in many provinces in the 1950s [Veeman, 1987]. The form of market intervention that could be applied within this structure was considerably extended in the early 1970s, providing the framework for the national supply management programs. National supply-management programs in Canada have allowed restriction of supplies, increased prices, restrictions on the adjustment of production patterns across provincial boundaries, and a major inflation of the capital structure of a segment of farms, specifically those that produce milk, poultry, and eggs. These effects have been brought about by systems of provincial and producer-level marketing quotas and the rigorous restriction of imports of these primary commodities and associated dairy products. The structure providing this has been vigorously defended by Canada in the negotiations and outcomes of bilateral and multilateral trade negotiations [Veeman, 1997].

Revision of the ASA in the mid-1970s and the introduction of the Western Grain Stabilization Act in 1976 increased support levels to Canadian farmers during the 1970s. Support continued to increase during the 1980s, with the introduction of numbers of provincial programs, the adjustment of the WGSA in 1984 and the introduction of the Western Grain Transportation Act [WGTA] in 1985. The subsequent series of Special Canadian Grain Payments (rationalized as necessary in the light of export subsidization by the EU and the US) and the introduction of a variety of federal-provincial programs that grew out of the ASA also increased support levels. The joint federal-provincial arrangements attempted to arrive at commodity programs that were consistent between provinces and cost-shared between provincial and federal levels of government. As “tripartite programs” they involved funding by federal and provincial governments and the payment of premiums by participating producers. Together with the proliferation of provincial programs to stabilize (i.e. support) farm prices and/or incomes they contributed to the considerable increase in government expenditures to support agriculture in the 1970s and 1980s. The system of regulatory transfers to dairy, poultry and egg production became entrenched during this time. Expenditures to support transportation infrastructure and to subsidize rail shipment of grain increased in the1980s and early 1990s. Government expenditures to support Canadian agriculture reached a peak in 1992. By the late 1980s the need for major reform of Canadian agricultural policy was clearly evident.

Several major influences contributed to reform in the 1990s. At the economy-wide level, dissatisfaction with the slow progress of the Uruguay round of multilateral trade negotiations contributed to the Canada-United States Free Trade Agreement [CUSTA] and the subsequent North American Free Trade Agreement [NAFTA]. These excluded the products of the most politically sensitive farming sub-sectors (in Canada’s case, the supply managed sectors), but included other sectors of agriculture. There has been increased integration of major segments of the Canadian economy with the United States and a considerable increase in agricultural trade between these two nations.

The importance to the Canadian farm sector of Canada-US agricultural trade has contributed to efforts by Canadian farm groups to avoid the imposition of trade remedy actions against exports from Canada by the United States. The procedures for establishment and operation of trade dispute settlement process within both CUSTA and its successor, NAFTA, have had significant benefits for the smaller trade partners of Canada and Mexico in countering the market power of their economically more powerful US partner.

The desire to avoid countervail actions directed at Canadian farm programs by the US has been an issue of importance for the hog, cattle and associated meat industries in Canada and this influenced the deletion of both the tripartite ASA programs and their 1991 successor, the Gross Revenue Insurance Program (GRIP). In addition, the necessity to reduce government expenditures, in the face of mounting fiscal deficits, provided a major incentive to reform of various programs that involve considerable government expenditures. Reductions in agricultural program expenditures to meet the commitments of the Agreement on Agriculture of the Uruguay Round of the General Agreement of Tariffs and Trade also influenced policy reform. The need to assess and modify farm programs in the light of that agreement became a major influence on Canada's domestic programs for agriculture.

The concept of a new generation of safety nets that could be more market responsive provided the rationalization for the rejection of the WGSA and ASA tripartite programs and their replacement by two new federal programs in 1991. The coverage of the new programs has excluded the supply-managed sectors, which are recognized to be extremely well protected from market vagaries. GRIP focussed on support in situations of depressed prices and yields of major crops. Despite some improvements over earlier legislation, it had high costs to provincial governments and the potential for resource misallocation [Gray et al, 1991]. These features, and its ability to attract countervail trade actions, eventually led to GRIP being rejected by most provinces. The companion federal legislation, also conceived to involve provincial funding and producer contributions, was the Net Income Stabilization Act (NISA). This provides for a subsidized form of savings account that may be opened by individual farmers. Potential withdrawals from these accounts are tied to a specified drop in an individual's farm revenue margin, relative to the average of the previous five years, or to a drop in taxable income below a specified level.

Currently NISA and crop insurance, which is also provided with joint federal-provincial funding that subsidizes the costs to individual producers of program participation, remain as the major farm programs for the Canadian crops sector. In contrast, the national supply management programs are the mechanism of support for dairy, poultry and eggs.

The need to reduce government expenditures, recognition of the perverse effects of the program of subsidization of rail freight rates for grains from Western Canada to export points, and the need for some reduction in these particular expenditures, classified as an export subsidy, were the factors that underlay the government decision to rescind the WGTA in 1995. There had been a protracted debate in the 1970s and 1980s about the shortfall in coverage of railway costs to ship grain and the resulting degradation in service. The 1980s debate about how to pay the subsequent subsidy to maintain low rail freight rates for grain was highly divisive and fragmented producer's interests along regional and commodity lines [Veeman, 1990]. Consequently the status quo prevailed in the decision of how to subsidize freight rates, in that this kept rail rates at artificially low levels. Under the Western Grain Transportation Act, introduced in 1985, subsidy payments were made to the railways, rather than to Western grain producers. The resulting distortions in grain prices continued to be of concern.

The "Crow subsidy" was eventually abolished on 1 August 1995, with the repeal of the Western Grain Transportation Act. The Feed Freight Assistance Program was also deleted; this was a hang-over of a war-time program to subsidize shipment of feed-grains to livestock industries in Central and Eastern Canada. Deletion of these two programs was accompanied by payment to landowners of C$1.6 billion as partial compensation of the loss of the subsidy. The deletion of the subsidized western rail freight rates for grain is currently transforming the structure of grain and livestock production and processing in Western Canada.

As a result of the deletion of the freight rate subsidies, unit costs of rail shipment of grain have approximately doubled, the export of feed-grains has fallen significantly, there has been a substantial increase in cattle and hog production in the Prairies, and in this region livestock slaughtering and packing facilities have been replaced or upgraded to provide modern facilities of efficient scale.[2]

Effects of Increasing Integration within North American Markets for Farm Products

A degree of integration of North American markets for agricultural and food products has occurred with increases in north-south trade flows that have accompanied national changes in domestic economic policy, the reduction of trade barriers and the removal of distorting national agricultural policies and programs in each nation. In Canada, considerable reorganization of major segments of the food industry occurred with the anticipation, and the realization, of access to the much larger North American market. Several years ago it was possible to characterize the Canadian food processing and distribution sectors as showing a relatively high level of concentration. Food manufacturing in particular tended to contain numbers of relatively small-scale, high-cost plants, sheltered behind protective tariff walls. However, more recently, benefits arising from industrial reorganization, with a move to lower-cost, larger processing units, are evident in the Canadian food-processing sector. The results are seen, for example, in the increased sales and exports of prepared and semi-prepared food by Canadian food processors.

The North American Trade Agreement [NAFTA] is also credited with contributions to this transformation. However, the removal of distorting agricultural programs in the member countries of NAFTA (such as the changes in Mexico's programs for maize and the deletion of Canada's transportation subsidies for grain, amongst other domestic policy reforms), as well as economy-wide changes in economic policy that are not directly related to NAFTA, are believed to be larger influences on trade within North America than NAFTA by itself [Burfisher et al, in Burfisher and Jones, 1998]. Corporate restructuring has not been confined to the meat packing industry but is evident in virtually all components of the food processing and distribution industries, including dairy foods. Most recently, a major reorganization of structure and operations is being pursued by grain handling companies, including the grain handling cooperatives of Western Canada.

The increase in the level and concentration of trade between the United States and Canada has also contributed to increased tensions over trade flows. In the case of Canada, these have encompassed US countervail actions on Canadian exports of pork and live hogs and a series of US actions and inquiries related to Canadian grains. US farm groups have sought the protection of the trade remedy legislation embodied in Section 201 of the US Trade Act of 1974 (this provides safeguard provisions that do not rely on unfair trade practices) and Section 301 of the same act (which provides for restrictions on imports, such as countervail duties, where unfair trade practices—such as dumping—and injury are involved).

The process and outcomes of these are discussed in more detail elsewhere [see, for example, Carter, 1995; Veeman, 1998]. In general, the trade dispute provisions of NAFTA and the WTO have streamlined the resolution of these cross-national disputes, although the form of resolution continues to be contentious in some instances. Examples of continuing tension include softwood lumber, for which Canadian exports to the US are effectively constrained, and the continuing US concern about single desk selling of Canadian wheat. Canada's trade policy for its supply-managed sectors is of concern to numbers of trading partners, including the United States.

Most recently, softer market prices for grains and red meats in late 1998 and in 1999 have been one cause of renewed trade tensions between Canada and the United States. In some states close to the border, harassment of shipments of farm products from Canada has occurred on a sporadic basis. For example, shipments through South Dakota were recently subject to the organized inspection of trucks, with requests for non-existent (ie, non-required) documentation on the compliance of these loads with US grading and related practices. This is a demonstration of periodic but persistent tensions over the increased trade flows from Canada to the United States, which reflects the increasing economic integration of the two nations.

Within agriculture, the regional integration of markets for farm products is most evident for red meats and for livestock. The cross-border markets for live cattle and beef in particular are fairly well integrated and highly interdependent. However, even in this sector, complete mutual recognition of the equivalency of beef grading standards has not occurred (consequently, in each nation the value of boxed beef imports is heavily discounted) [Young and Marsh, 1998]. Market integration for grains is hampered by differences in grain trading institutions and differences in grain grading and variety licensing practices.

For Canada's supply-managed farm products and the politically sensitive US sectors that are protected by tariff rate quotas, cross-border market integration is limited. However there are no tariffs, in either country, on the importation of prepared foods containing these products. In the Canadian dairy industry this was a contributing factor to the development of an elaborate system of price pooling, with end use pricing that accommodates lower dairy ingredient costs for domestic food processors.

Producer-level dairy price pooling was also adapted to enable export sales, at world market prices, of primary or semi-processed dairy products by the highly protected Canadian dairy sector. This was based on the incorporation of exports in "special milk classes" within the wider system of milk price pooling. The "special milk classes" include some specific negotiated dairy product exports (e.g. cheese under quota destined for the US and UK markets, and some other niche dairy exports) as well as provision for "surplus disposal". The extension of the practice of price discrimination that effected through these means was an outcome of reorganization of regulatory arrangements for milk and dairy products following the Uruguay round. It essentially results from the excessive tariff levels that prevent importation of quantities in excess of the minimum access commitments of the tariff rate quotas for these commodities. The practice could most effectively be reformed by reduction of those excessive tariffs. In contrast, increased minimum access levels are a much less effective means of ensuring trade liberalization in these circumstances [Fulton, Larue and Veeman, 1998].

The outcome of the recent challenge to Canadian dairy price pooling practices that was brought to the WTO dispute settlement process by New Zealand and the US is of some interest to other nations that also pursued dirty tariffication in applying the 1994 Agreement on Agriculture. Had Canada won this case, other nations with protected farm groups might have been pressured by those groups to adopt extended systems of price discrimination, effected by price pooling, in order to increase exports. This would, of course, require market separation and the maintenance of higher domestic prices associated with the import barrier of a tariff rate quota. Use of this practice of price discrimination between domestic and export markets, accompanied by price pooling had, for example, been suggested by US producers of dairy products and this had also been discussed by some EU farm groups. The panel that examined this complaint to the WTO found that the procedure constituted an export subsidy and that in following this procedure, Canada's export subsidy reduction commitments arising from the Uruguay round had not been met. [3] Questions relating to price pooling by state trading enterprises are likely to continue to be discussed in future WTO negotiations on agriculture.

The Forthcoming Multilateral Agricultural Trade Negotiations: Prospects and Issues

The importance of the pursuit and adoption of the multilateral rules-based approach to trade policy for Canada, as for the other nations of the Cairns group, arises from their individual situations as relatively small open economies that are considerably dependent on world markets. As was noted already, Canadian trade policy for agriculture has also been influenced by sharing a large portion of the North American continent with the world's largest economic power. Canada and the United States each have an interest in further reform of the multilateral trade rules for agriculture, although their interests and priorities are rather different. The United States opposes the practice of state trading as applied through agricultural marketing boards and is also highly concerned with issues of import access, including the restrictions on imports of dairy, poultry and eggs by Canada. The latter concern is not confined to the United States, being shared by many other exporters, including other members of the Cairns group.

The provision of the Agreement on Agriculture for tariff reductions was for an average unweighted cut of 36 percent (and a minimum cut of 15 percent) over the six years of the implementation period. The application of minimum tariff reductions and the exorbitantly high tariffs that have been specified by Canada for importation beyond the minimum access commitment levels are the source of the ability of the Canadian dairy industry to extend the practice of price discrimination. The prospective new round of agricultural negotiations could pursue the introduction of minimum tariff levels, or the specification of larger tariff cuts on individual tariff lines, as means of tackling this particular problem. External pressure along these lines will be necessary for reform of this feature of Canadian farm policy.

The interests of Canada, also shared by the Cairns group, will place much attention on the need to eliminate export subsidies for farm products. The maintenance of agricultural support at relatively high levels is also of concern. In particular, Canada opposes the maintenance of the "blue box" which was, in effect, introduced into the 1994 Agreement on Agriculture to accommodate the systems of direct payments to farmers of the US and the EU. These were viewed as production limiting programs and expenditures on them are excluded from the reduction commitments. The extent of de-coupling of farm support that has actually been applied by the US is an allied concern. Clarification of the criteria for farm programs to be classified as "green box", and thus be considered as non-distorting, is another issue of interest for Canada.

The availability and use of programs of generous export credit, and the lack of agreement on limits to this practice, is also an issue of unfinished business for international trade negotiations. Export credit arrangements are available for Canadian exporters; these are less generous than in the United States.

There are continuing concerns with the extent of liberalization that was actually achieved in the 1994 Agreement on Agriculture. However, these are not the only issues that will be on the agenda for the prospective agricultural negotiations. Attention will also be placed on issues related to the changing policy agenda for food and agriculture. This is expected to include increasing attention to technical barriers associated with sanitary and phytosanitary issues. International trade in genetically modified farm products is already a point of contention with the EU. Increasingly "green" issues and food safety concerns are likely to be major facets of North American agricultural and resource policy. Consequently it is expected that differences in national practices relating to standards, encompassing such issues as labeling relating to genetically modified foods, will be of increasing importance to trade policy in the future.

What are the prospects for a substantial outcome from the forthcoming multilateral trade negotiations for agriculture, scheduled to start in 1999? Numbers of factors have been suggested that favor the possibility of substantive agricultural negotiations. These include the fact that the opportunity for trade reform for agriculture starts from a much stronger point than in the previous round, given the existence of the Agreement on Agriculture and the general interest in further reform [Anderson, 1998; Miner, 1998].

Miner [1998] has argued that there is a widespread consensus that further reform of domestic farm policy is necessary to successfully adjust to global integration. He points out the environment for policy reform in the EU is influenced by its prospective enlargement and consequently is much more favorable to agricultural policy reform than was the case during the last round.

One of the strongest potential factors encouraging meaningful negotiations may be the expiry in year 2003 of the "peace clause" [IATRC, 1997]. This clause has limited the application of trade remedy provisions, such as countervail actions, against programs for which countries are in conformity with the provisions of the Agreement on Agriculture. This currently benefits the US and the EU, shielding them from challenges of trade-distorting farm policies that might otherwise be appealed to the World Trade Organization (WTO) by other countries. Challenges of this type are much more accessible to small nations than was the case prior to the 1994 Agreement on Agriculture.

However, there are cautionary factors suggesting that positive but more minor outcomes may be achieved in the next round of multilateral trade negotiations. The indications that this will be a mini-round, rather than a major round focussing on a much broader range of sectors and issues, reduces the ante for major agricultural outcomes. The failure, to this point of time, by the US President to achieve fast track authority for trade negotiations does not suggest a major political commitment of Congress to US leadership in international trade negotiations. Such leadership would be necessary for a substantial outcome.

The Current Policy Agenda and the Prospects for Further Reform of Farm Policy

Concerns about the low levels of world prices for some farm products that were evident during 1998, and consequent lobbying by some North American farm groups for “farm crisis” assistance, could be hypothesized as likely to reduce the interest of some farm associations for further trade liberalization. However, this is a two edged sword. Recent low levels of prices for wheat and hogs can be attributed in large measure to depressed demand arising from economic and social disarray in Eastern Europe and Asia, coupled with increased supplies of these products. However, low farm prices also focus attention on agricultural export subsidization, involving export restitution by the EU and the use, at least for some commodities, of the EEP by the US. [The US has, however, refrained from using its export enhancement program for wheat since 1995]. The consequence of lower world prices could place more focus on the need for reform to delete these export subsidy programs. However, depressed world prices are also contributing to skepticism of the perceived benefits from previous international trade negotiation outcomes by some North American farm groups.

There was pressure in early 1999 to increase farm support levels by some grain and livestock farmers in both the United States and Canada. The advent of slightly increased price levels, as forecast for 1999-2000 for grain [AAFC, 1998], arises from anticipated supply-side adjustments and may modify these pressures. However, demand-side recovery seems more likely to improve the receptivity of farm groups to further reform of domestic policy.

What are the prospects for further policy reform of agricultural and resource policy in Canada? The removal of transport subsidies eliminated most of Canada’s export subsidies and removed a large component of Canada’s aggregate measure of support, with an associated significant reduction in transfers to the farm sector. A high proportion of agricultural imports now enter Canada duty free. This proportion is higher than for any other OECD country [OECD, 1997]. However, the levels of tariff protection afforded the Canadian supply managed sector are extremely high. When these are included, the average tariff rate on agricultural imports by Canada is calculated to be about the same as in the United States. This was 21 % in 1996, according to WTO Secretariat calculations [WTO, 1997]. The continuing distortions in Canada’s supply-managed sectors are reflected in the existence of 22 different tariff rate quotas. Most of these apply to the supply-managed commodities[4]. The fact that the supply managed sectors have escaped meaningful reform can be attributed to the receptivity of regional sensitivities to effective lobbying and the absence of fiscal pressure, as the cost of support for these is borne mainly by consumers, whose ability to influence farm policy has been minor in Canada.

There are some internal pressures for reform of the poultry and egg sector that arise from the reaction to the rigidities of these systems. There has been a degree of decentralization of administered intervention and pressures in some Western Canadian provinces to move to more efficient scale and to export marketing opportunities. However, this industry is far from accepting a move to open borders. The prospects for internally generated reform of the dairy sector are even more remote, despite the economic benefits of such a move.

The precedent for a lump-sum payment involving partial compensation to accept the deletion of a longstanding farm program has been established with Western Canadian grains. Applying this concept to the Canadian supply-managed sectors could facilitate reform, but the political costs of reform of supply management are currently viewed to be very high. Consequently, reform of Canada's supply-managed sectors will require external pressure. Acceptance of the inevitability of reform is now more prevalent than was the case five years ago and may be facilitated by some degree of compensation for capital losses involved in the devaluation of quota. This could be costly.[5]

The other area of internal contention concerning Canadian agricultural policy is the single-desk role of the Canadian Wheat Board. This applies to wheat and barley exports and the sale of these grains in domestic Canadian food-grain markets. There are clear parallels to recent and ongoing debates on questions of fruit and dairy exports from New Zealand and wheat exports from Australia. In Canada the debate on single-desk selling has focused on the CWB and encompassed also the smaller Ontario Wheat Marketing Board. In Western Canada this debate has been directed mainly at barley exportation. Disagreement about the role and impact of the CWB is long-standing. Some producers' groups hold strong opposing views on the costs and impacts of single desk selling, as do some economists [a summary of some of this debate is in Veeman, 1998]. At the political level there have been extensive processes of consultation. Carefully designed exercises of producer-level voting have been conducted provincially and by the federal government. The outcome at this time, which is unlikely to quell further debate on the appropriate role of the CWB, has involved recent revision of the CWB Act. The revision focuses mainly on the governance of the CWB, in addition to providing for more flexibility in its operations. The CWB will in future be governed by a board of directors, half of whom will be farmer-elected, rather than being in the sole charge of appointed commissioners. The new directors took office on 31 December, 1998.

It is doubtful that these changes will satisfy the concerns of some farm groups for more choice in export sale avenues. Nor will it satisfy the US desire for deletion of single-desk exporting agencies. Although the US preoccupation with these seems to be more reflective of perception than reality, this is a high priority issue for that nation. Agricultural producers in Canada and some other nations would be advantaged if they could trade off their single-desk institutional structures for the deletion of export subsidies by the EU and US, but the prospects of this coming about are less likely in the context of a smaller round.

The Future Policy Agenda for Agriculture

Although farm policy will continue to be of importance in North America, the focus of agricultural policy is changing. Resource and food policy issues are receiving much more emphasis and this change in orientation can be expected to continue. Public attention is increasingly directed at agriculture's impacts on the environment. Concern with food safety is also a major focus of public interest and concern.

Issues relating to resource use are increasingly engaging the attention of government. At the various levels of federal, provincial and municipal government, there is increasing focus on questions of land use, water use and pricing, procedures relating to planning and locating large-scale intensive animal operations, manure management and disposal and other aspects of sustainable agricultural operations. Farm organizations, public groups and governments are also increasingly concerned about questions related to food safety and the ways to ensure this. For example, procedures to develop trace-back recording, enabling farm and animal identification in cases of impaired food safety, is only one of the many food policy questions currently being considered by farm organizations. Increased public interest in animal welfare by requiring the humane treatment of animals is also evident. Public concerns related to biotechnology in agriculture, procedures for regulatory approvals of foods from plants or animals that are viewed to exhibit novel traits and associated debates about labeling of foods is another issue that is expected to be a continuing focus of public attention. Governments, farm associations and a variety of other participants are already engaged in these types of issues and increasing focus is being placed on resource and food issues in the educational programs of faculties of agriculture and the research programs of agricultural economists.

The emerging trends that are noted above are not unique to any one continent or country. They reflect the reality of increasing globalization and the outcome of increased economic integration. In earlier years, trade policy for agriculture tended to be a byproduct of farm policy. Today, however, it is clear that agricultural policy is increasingly led by trade policy, rather than the reverse. This feature is much more evident in the smaller nations for which agricultural exports are particularly important, like Canada, Australia and New Zealand and their Cairns group colleagues. It is less evident in the largest nations that hold more economic power, like the United States or the European Union, in which national or internal policy issues generally dominate over international issues. Although further reform of farm policy and agricultural trade policy is of importance, the agricultural policy agenda is changing away from a predominant focus on farm programs to encompass much more attention on issues of resource and food policy. In North America these will be dominant features of the policy agenda for agriculture in the next century.

Endnotes

[1] Food stamps were discarded in 1943 but subsequently reinstated shortly after President Kennedy took office in 1961 [Tweeten, 1989].

[2] Overall, North American hog supplies increased appreciably in 1998. This sector suffered low returns in the last quarter of that year, with price pressures that reflected increased supplies and less demand from Asian import markets. In particular, there was a drastic fall in hog prices in December 1998, reflecting these features and some transitional hog processing capacity constraints.

[3] In itself, this panel finding, which at the time of writing is expected to be appealed by Canada, if adopted by the Dispute Settlement Body of the WTO, will not interfere substantially with the way in which the Canadian supply-management program for dairy operates. That is, from the panel report, it appears that relatively minor changes in the current way that this program operates will allow Canada to meet its Uruguay Round commitments for dairy products. (Some three percent of Canada's current milk supply could be affected by the finding.) The panel also found that the way in which Canada is applying its tariff-rate quota for fluid milk imports does not meet its GATT 1994 commitments. Fluid milk imports are currently restricted to importation of restricted quantities by individual cross-border shoppers.

[4] Tariff rate quotas also apply for cereals, meats and margarine.

[5] Recent quota values in Ontario, for example, have been estimated by Brinkman [1998] to be about $532,000 for an average size dairy farm in that province (50 cows); $910,000 for eggs (13,000 layers); $840,000 for broilers (28,000 birds for 6 cycles /year) and $969,000 for turkeys (1.14 million lbs).

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