During the past four years, Minnesota, North Dakota, and Montana farmers have been waging an increasingly hostile war of words with Canada over the rapidly growing volume of Canadian durum wheat exports into the United States. The U.S. producers argue the imports result from passage of the Canada/United States Free Trade Agreement (CUSTA) that gave Canadians an unfair advantage in the U.S. market. Canadians respond that they are simply playing by the new free trade rules.

Canadian farmers and the Canadian Wheat Board (CWB) have reacted to the enhanced access to U.S. markets resulting from CUSTA. Canadian durum sales to the United States reached 420,000 metric tons in 1993. Canadian sales to the United States have equalled 14 percent of U.S. durum production in recent years. The increased Canadian exports of durum wheat to the United States have contributed to the trade dispute between the two countries. The ensuing dispute has captured the attention of national policy makers and the popular press in both countries.

Policy analysts and policy makers have watched the dispute with great interest—as have farmers on both sides of the international border. Reaction by U.S. durum farmers to rapidly escalating imports of durum from Canada has been predictable and understandable. The U.S. farmers first were dismayed at the growth of imports, then angry with their government for not shielding them from the presumed adverse impact of CUSTA. A widely shared view among U.S. farmers was that the Canadian government subsidized durum exports into the United States. Different views have existed on how the dispute should be resolved. Much more important are the lessons that can be applied in resolving other localized disagreements.

This dispute could be viewed as a case in how similar disagreements will arise as trading partners implement CUSTA, NAFTA (North American Free Trade Agreement), and GATT (General Agreement on Tariff and Trade). This dispute is not an isolated instance, but can be viewed as a prototype of other disagreements to come.

**Why imports increased—rapidly**

Differences in policies, marketing systems, and durum prices between the United States and Canada have caused rapidly increasing imports of Canadian durum wheat into the United States.

**U.S. farm programs and trade policies**

A few years ago, U.S. farmers began to shift their wheat acres away from durum to hard red spring wheat production. This occurred for two reasons. First, plant breeders more successfully bred higher-yielding hard red spring wheat than durum varieties. Thus, part of the advantage of durum production, always a higher-risk crop to produce and subject to weather-induced damage to quality, was...
eroded as the yield differential shifted toward hard red spring wheat. Second, the durum price advantage over hard red spring wheat diminished as competition in export markets from other countries, including the European Union and the Canadians, increased.

More recently, the United States decided to compete head on with the European Union by using export subsidies to protect and/or gain market share. The United States began to use its Export Enhancement Program (EEP) in 1985 to hold its traditional U.S. markets and wrest market share from competitors. The EEP bonus, paid to exporters to compensate them for the difference between high domestic acquisition prices and export market selling prices, ranged from $16 to $48 per metric ton from 1986 to 1989 (table 1).

In 1992, North Dakota durum had an average farm value of $110.20 per metric ton. In 1993, it was $165.30 per metric ton. In 1992, the United States exported 0.9 million metric tons of U.S. durum under EEP bonuses. Bonuses averaged $47.65 per metric ton that year. In practice, the EEP program supported higher domestic prices while decreasing world market clearing prices for durum. In addition, the EEP has substantially restricted Canadian wheat exports to offshore markets. Canada, therefore, has increased wheat exports to the United States.

The United States had, over time, developed an export market for durum that used approximately 50 percent of its production (figure 1). The U.S. producers strongly supported efforts to increase the proportion of U.S. durum production moved in export markets, including the use of EEP bonuses and export credit programs.

An expanding U.S. pasta industry required access to a growing volume of high quality durum wheat, complicating the U.S. position on durum exports. U.S. durum wheat consumption grew at a rate of 3 percent annually over the past ten years. As a result, domestic use of durum for pasta production and other uses, along with export sales, exceeded domestic production in eleven of the past fifteen years (figure 1).

To assure adequate access to high quality durum supplies to fill its needs, the U.S. pasta industry has strongly urged continued access to Canadian durum in the event of inadequate U.S. production levels or of low quality U.S. production. The combination of strong U.S. export sales and low durum quality in 1993 validated the U.S. pasta producers' concerns about available high-quality durum and U.S. price premiums for that durum.

Two additional factors may have affected the U.S./Canadian trading environment. First, CUSTA set both the United States and Canada on a trajectory to remove all tariffs on wheat, including durum, between the two countries. Tariffs on wheat moving in each direction were already low prior to CUSTA, $7.70 per metric ton on Canadian wheat entering the United States and C$4.41 per metric ton for U.S. wheat entering Canada. On January 1, 1995, the tariff on Canadian wheat entering the United States was $2.30 per metric ton and U.S. wheat entering Canada was C$1.32 per metric ton.

Second, U.S. farm programs focused on domestic supply management to stabilize U.S. wheat prices and contain taxpayer cost of government farm programs. The programs controlled planted acreage and provided storage mechanisms to slow the flow of production onto the market. This system worked to benefit U.S. farmers. However, in the post CUSTA world, the Canadian Wheat Board (CWB) exported durum to the United States and captured part of the U.S. farm program benefits when the

![Figure 1. United States durum supply and consumption](Image)
U.S. durum price was higher than the Canadian price.

**Canadian Wheat Board and subsidies**

A number of factors helped the CWB export to the U.S. market. The Canadian farm policy to promote full production and provide government monopoly marketing contrasted with that of the United States. Canadian policy had focused on moving all its grain at world market prices, holding no government-owned stocks and using its rail transportation subsidy to help move grain into export markets.

The CWB controls Canadian durum sales. The CWB, exclusively, markets each year's production. The CWB discloses neither sales prices nor terms of its export sales, which often include multiyear supply provisions. On the other hand, U.S. grain export firms must compete among themselves for exportable supplies. The U.S. Department of Agriculture (USDA) makes information on tonnage of grains exported by U.S. exporters, export destinations, and EEP subsidies per ton by recipient country available to the public on a regular basis. U.S. grain exporters report grain tonnage sold and destinations to the USDA.

Most Canadian durum production occurs in Canada's Prairie Provinces and within 150 miles of the U.S. border, making Canadian grain relatively easy and inexpensive to transport to the United States either by rail or truck. Most of the 21.1 million bushels exported to the United States in 1993 came by rail or by a combination of rail and Great Lakes shipping. However, some did come directly across the international border by truck and was marketed at U.S. grain elevators.

The Canadian government has, since before the turn of the century, provided a rail transportation subsidy to Western Canadian grain moving into export markets. Western shipments by the CWB to the United States do not qualify for rail subsidy. Western Canadian grain moving east for export to the United States does qualify for rail subsidy.

The subsidy affects Canadian exports by lowering the cost to Canadian farmers of moving grain into offshore export markets. The 1994–95 transportation subsidy for western Canadian wheat moving from a midpoint prairie location to Thunderbay, Ontario, or Vancouver, British Columbia, is C$17.10 per metric ton. Producer costs for transportation are C$16.20 per metric ton. The Canadian rail transportation subsidy, therefore, does make Canadian grain more competitive in export markets.

However, it does not appear to directly cause increased sales to the United States. In fact, removing the transportation subsidy would tend to make the U.S. market more attractive to the CWB, mainly because of shorter transportation distances to the U.S. markets compared to other offshore export markets. Bending to United States and GATT pressure, Canada may soon eliminate the rail transportation subsidy for export grain.

The U.S. farmers believed CUSTFA was also flawed because Canadian government subsidies were permitted to offset CWB operating losses. While the CWB is supposed to operate at no cost to Canadian taxpayers, the Canadian government has, on rare occasion, covered its losses out of tax dollars.

**The solution**

U.S. commodity groups and farmers attempted to convince politicians and national policy makers to limit Canadian grain exports to the United States. As durum imports soared during the 1992–93 and 1993–94 marketing years, both Northern Plains states congressional delegations and the U.S. trade representative searched for justification to limit Canadian imports. A suit filed by the wheat commissions of some Northern Plains states and other grower groups finally triggered hearings by the U.S. International Trade Commission (ITC) on the question of whether these imports unfairly damaged U.S. farmers and added to the operating cost of U.S. farm programs.

In the summer of 1994, the ITC found that Canadian imports had depressed domestic U.S. durum prices and, as a result, added to the cost of operating U.S. domestic farm programs. That set the stage for Mickey Kantor, U.S. trade representative, to seek a tariff agreement with the Canadian government to limit Canadian durum exports to the United States, citing authority embodied in Section 22 of the U.S. Agriculture Adjustment Act (AAA) as amended. Section 22 empowered the
president of the United States to establish tariff levels, limiting imports to levels that did not adversely impact the operation and cost of U.S. domestic farm programs.

The U.S. and Canadian governments reached a negotiated agreement on tariff rates and the import level of Canadian durum moving into the United States. In practical terms, that agreement will add strength to U.S. domestic durum prices and limit the cost of farm support programs to U.S. taxpayers.

In the agreement reached on August 1, 1994, Canada can export any amount of durum below 300,000 metric tons to the United States with the tariff rate under CUSTA. Canadian durum faces a $23 per metric ton tariff on exports to the United States from 300,000 up to 450,000 metric tons. On exports of 450,000 metric tons or more, the tariff increases to $50 per metric ton. Figure 2 illustrates recent annual U.S. import levels of Canadian durum and the trigger levels for imposing import tariffs under the recent agreement. The higher of the two tariff levels represents a practical cap on annual durum imports.

The governments of the United States and Canada appointed a binational commission of private sector experts from the two countries to explore, during the upcoming year, more lasting solutions to the durum import dispute. Those recommendations will not be binding on either government. The commission will look at issues more broadly than only those affecting durum; wheat, barley, oilseed crops, and other crop issues will be considered as well.

Two important caveats limit the scope of tariff agreement victory for U.S. durum producers. First, the agreement is effective only through September 11, 1995. The authority under which this action was taken, Section 22 of the AAA, will no longer be permitted under the new GATT agreement. Second, while Article 28 of the new GATT agreement will still permit imposing such tariffs, the process is daunting. Action would require passage of legislation by the U.S. Congress, signed by the president. The Canadian government would then be entitled under the Article 28 language to receive compensation for losses its citizens incurred as a result.

As long as the United States subsidizes export sales of durum and limits acreage as part of a price support mechanism, the rapidly growing U.S. pasta industry will insist on access to Canadian durum to assure their required supply of high-quality durum for domestic pasta production.

The U.S. pasta industry faces growing price competition in both export and domestic markets from foreign-based pasta manufacturers, such as those in France, Italy, and Turkey. Consequently, it cannot pass along to consumers substantially higher costs resulting from higher domestic durum prices. Foreign pasta manufacturers likely would underprice U.S. pasta and gain market share in U.S. supermarkets, especially under more open trade terms of the new GATT. Thus, even if tariffs limiting durum imports were to become permanent, the U.S. domestic pasta market likely could not support markedly higher prices for U.S. durum producers without facing sharply increased competition from pasta imports into the United States.

Ironically, EEP bonuses on U.S. durum exports could result in subsidizing the input costs of for-
eign pasta manufacturers, enabling them to even more effectively penetrate the U.S. domestic pasta market.

The recently imposed tariffs provide only a brief breathing spell in which to consider more permanent solutions. The success of the special commission in working out recommendations for more permanent protection for U.S. durum producers remains to be determined.

As long as the United States and Canada maintain different farm programs and use different marketing systems, trade disputes between the two countries will continue. If the United States continues to provide farmers a safety net in an open border trading environment, subsidization must shift toward direct farmer subsidies, and the United States and Canada must harmonize their farm programs.

Commercial farmers in western Canada are lobbying for major changes in the CWB authority. Large-scale commercial farmers in western Canada are calling for an end to the CWB’s monopoly role in marketing Canadian grain. Small-scale family farmers favor maintaining the CWB’s authorities, however. Nonetheless, higher U.S. durum prices will always be a magnet attracting Canadian durum.

Many analysts have treated the durum dispute as a unique issue resulting from CUSTA. We believe this is naive. This dispute and the process by which it is being resolved are a model of many sharply focused trade disputes that will occur across national borders, within and across trading blocks.

Future prospects—harmony or dispute?

In the cases of CUSTA and NAFTA, the United States, Canada, and Mexico are all in the early stages of developing a North American continental market. Production and processing of agricultural products in these countries will occur where comparative advantage exists. In the longer term, international boundaries will mean little in producing and marketing food and fiber products.

The trade dispute on durum has only been solved temporarily. Imposing a tariff rate quota on Canadian durum wheat under authority of Section 22 of the AAA will not be permitted under the new GATT agreement. The alternative is to maintain the tariff rate quota under GATT Article 28, which requires compensation to Canada.

Similar trade disputes will occur for other commodities as long as both countries maintain their own farm and trade policies for agricultural products. Harmonizing agricultural policies between the two countries would be an alternative. In the meantime, U.S. farmers might have to adjust to the new trade environment.

For more information


