Montana Grain Growers Association

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In my earlier paper many of the economic and social differences in grain trading between the United States and Canada were outlined. In a 1992 study of variable costs of production between Toole County, Montana and Warner County, Alberta it was determined that most production expenses are equivalent cross border. Taxation policies tended to slightly alter that balance. But agricultural trade across the border is far from free. As major currency shifts occur, the relative value of grain can make marketing on one side or the other more attractive. But while some grains and farm inputs tend to trade freely, others are almost completely closed to cross border trade. I will take a quick look at various commodities and how they either are or are not possible to trade cross border.

Inputs

The major expenses in producing grain are machinery, fertilizer, fuel, herbicides, insurance, and the freight costs of reaching our customers. As for machinery trade, when the Canadian dollar plunged in value in 1998, new and used machinery on Canadian lots became a bargain to U.S. farmers. From values of near 75 U.S. cents, the Canadian dollar declined to under 65 U.S. cents in less than a year. While this machinery can be purchased by a U.S. farmer, by late 1998 U.S. customs was limiting the ability of Canadian retailers to provide warranty service across the border. In spite of this limitation, though, cross border sales to U.S. farmers continues.

Fertilizer is also traded quite freely across the border. In point of fact, for much of the northern plains, Canada remains the source for nitrogen fertilizer while much of their phosphorus is imported from the state of Idaho. This trade has been historic and seems to cause few trade concerns. Similarly, fuel trades quite freely across the Canada/U.S. border. Once again currency fluctuations can drive some of this trade but there remains few impediments to cross border arbitrage.

The trade in farm chemicals is much more contentious. Until a recent push for a more cooperative approach, the availability of farm chemicals was often vastly different on either side of the 49th parallel. Registrations for some chemicals of identical chemistry for wheat, barley, and canola in the United States lagged years behind their release in Canada. As U.S. producers were denied the newer, cheaper and more effective products, they chafed as grain raised with the benefit of those herbicides and insecticides was imported past their fields. Alternative technology, such as herbicide resistant varieties were likewise slow to be licensed by the EPA. Recently a push in part fueled by the 1998 border protests led to a pledge of great cooperation between the licensing agencies of the United States and Canada. The December 1998 Memorandum of Understanding recognized that pesticide harmonization was a worthy goal. What is disconcerting, though, is that nearly every chemical used by border states grower is less expensive in Canada than in the United States. Manufacturers cite high U.S. registration costs as one explanation but in reality they concede that higher price supports in the U.S. give them more room to price at levels that might create resistance in Canada. Grain prices are capitalized into more than land values it seems. Smuggling of chemicals of legal chemistry but not necessarily of legal formulation has led to two major arrests of farmers in Montana. The border limitation is simple. If the container contains an EPA registration number it may be legally imported; if it does not, regardless of identical chemistry and formulation, it is forbidden entry.

Freight costs associated with grain movements also vary greatly by nationality. In spite of the repeal of the Crow Rate subsidy, freight costs associated with grain movement from Alberta remain about half of the similar movement from Montana to port position. In response to the much higher freight tariffs imposed by BNSF, one company recently built a rail spur connecting a Montana elevator with the Canadian Pacific railway. In that town grain prices jumped 20 cents per bushel even as the company charges a higher handling fee due to its investment and the greater difficulty in loading Canadian freight cars.

Crop insurance is likewise considerably cheaper cross border, at least in a recent comparison between Montana and Alberta producers adjacent to the border. While hail insurance rates were \$3-\$5 per hundred dollars of coverage in Canada, the farmers immediately across the fence were paying \$10-\$15 per hundred for the same coverage. While no explanation of the relative rating systems was obtained, it does point out how vastly different costs of production can be depending on national origin. Truck freight costs also vary widely from country to country as does it from province to province and state to state. What has caused some cross border tensions, however, has been the exemptions which allow Canadian trucks to use designated portions of U.S. highways at weights far above those allowed U.S. carriers.

Grain

While the full implementation of our trade agreement has left virtually no tariffs on grain imports, not all grain can be traded freely. Feed barley and malting barley can flow freely into the United States as can milling wheat. An end-use certificate tracks quantities of these grains to assure they do not qualify for our export credit or food for peace programs. U.S. feed barley and corn likewise trade quite freely into Canada but a destination has to be declared before entry. Importing milling wheat and malting barley, however, create more problems in the Canadian system. Since these imported grains have to be kept physically separate from Canadian grain which may be bound for export, there is little marketing opportunity for these commodities except for direct shipment to malt plant or flour mill. Until such time as the Canadian system has a cash pricing system to closer tie CWB projected pool returns to cash prices, the Canadian system will remain largely opaque and untested.

Conclusion

The removal of tariffs and import quotas has not led to a complete integration of the U.S. and Canadian grain producing and marketing systems. It is imperative that emphasis be placed on creating more harmony. Additional cents per bushel translate into dollars per acre. These inequities have in part fueled many of the recent protests. Likewise reciprocal sales opportunities are a necessary part of price arbitrage. Trade in canola and hay have been quite harmonious since there are few restrictions on movements. Only when we achieve a perception of fairness in production and sales can we expect border protests to quiet.