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Manitoba Grain and Livestock Farmer

Owen McAuley

This paper reminds us that there is always a political implication associated with any public decision, and that all good work may be derailed by political pressure. Although this situation is disconcerting, it is reality.

My first comments will focus on a particular era in dispute resolution between Canada and the United States, from 1994 to 1996. The U.S./ Canada Joint Commission on Grain (JGC) was established in 1994 and reported in 1995. Within a year of establishing the JGC, another panel - - the Western Grain Marketing Panel (WGMP) - - was established within the prairie region of Canada[†]. The WGMP built upon some of the recommendations made by the JGC, followed by a federal government decision in Canada to adopt a go-slow process to reform of the prairie grain sector.

J G COMMISSION AND W G M PANEL RECOMMENDATIONS

The JGC identified a need to provide a consultative process through a bilateral commission in order to analyze issues and provide for positive action with the objective of heading off disputes before they surface. The Commission also identified several areas where change and harmonization of the grain marketing systems in the United States and Canada were required:

- work towards a more common grading system and improved understanding of grading in each country;
- the need to eliminate use of end-use certificates in both countries;
- the need to provide for opening up of the rail system in Canada, and infrastructure between the two countries;
- the need to resolve the ownership issue on publically owned grain cars in Canada;
- the need to harmonize competition policies in each country.

[†] Editors note: Owen McAuley was a member of the Western Grain Marketing Panel.

The difference in grading grain in the two countries, and Canada's licensing of varieties, are a constant source of misunderstanding and friction. With wheat trade growing, these tensions take on increased significance. Comments by a Cargill production line manager may help understand why U.S. mills access part of their wheat from Canada..."American wheat is variable in quality, wheat from different areas is based on wide variety differences but Canadian quality is much more consistent. If Cargill is providing flour to McDonald's, the buns in San Diego must be the same size as buns in New York, and consistent quality is absolute". Canadian wheat is not necessarily the cheapest to grow and not necessarily better wheat, but our system does provide a process of more consistency in quality. Varieties are not licensed in Canada if they do not fall within a certain baking quality. Better quality, or worse quality, is not accepted.

There are many factors in the Canadian system which contribute to consistency of quality: Canadian Grain Commission licencing, the grading system, and the Canadian Wheat Board (CWB). U.S. millers demand this consistency, if they cannot find it in U.S. wheat, they look to Canada. Better understanding of the systems may offset some of the irritations.

Certainly there is need for a more open and competitive transportation system in Canada. The publically owned hopper cars are a source of conflict with the United States (because they are viewed as an indirect subsidy), and within Canada (because they are viewed by some as a tool of increased competition). The cars are supposed to be sold commercially but that has not yet occurred. Certainly there is a need for competition policy to be harmonized and applied uniformly with the agri-food industry.

The JGC report also talked about reducing and eliminating export subsidization. Both countries did a good job on this issue in the mid 1990s - - by 1995 the Canada and U.S. PSEs had come together. However, since 1995, U.S. has increased its support to farmers while Canadians have reduced theirs. The OECD numbers show that, for wheat, the U.S. number is about 40% and rising, and Canada's is about 12 %. Production technology is almost identical, and producers are competing for the same basic resources. Subsidization is reflected in land prices and the differential in subsidization means land prices are much

higher in the United States. An informal telephone survey recently indicated that prices in Mohall, North Dakota are about \$200/acre higher than just across the border at Pierson Manitoba. The land is similar and the difference is mostly subsidization. This support is at risk in the United States because farmers now represent approximately 2 percent of the vote. At risk is a 30 percent drop in revenue flow to U.S. farmers if public support were significantly reduced. We need to recognize this risk and move in front of the issue.

The JCG also mentioned CWB discretionary pricing. As Alston and Gray indicate in their paper, there have been several investigations into CWB practices. The WGMP made several recommendations which would make CWB pricing more transparent and, perhaps, more acceptable inside and outside Canada. The organizational structure of the CWB has been reformed and now includes producers on the board of directors. The federal government has withdrawn provision for guaranteeing increases in initial prices after the initials have been set.

OTHER ISSUES

There is a need to continue working within WTO and NAFTA to clarify rules. Our consumers have become accustomed to an unfettered Canada/U.S. border. The United States imports \$36 billion of food products, of which about one-third is from Canada. Canada gets half of its food imports from the United States. Consumers are also accustomed to high quality, safe and reasonably priced food. I would not want to be the agency that stands between consumers and these expectations. The point here is only to point out the role of consumers: consumers do not only expect these products, they now “need” them.

On another matter, we need to understand that when you get involved in a spraying contest, once you’re wet it doesn’t matter who persists the longest; basically both parties lose. The impact of trade actions is felt throughout the economy. But the largest impact is felt by producers and processors who have built infrastructure around the product. A processor may access raw product elsewhere, but the producer is usually locked into a fixed asset which has been capitalized into an asset reflecting expectations. Producers can not just shut off the tap. The Canadian grain transportation subsidy is a good example.

On our farm, my grandfather, my father, and then I have built a farm operation and capital around a market for exporting bulk grain. With a single policy shift, we now have to build a new infrastructure for a different market as well as pay off facilities which were financed in yesterdays market. Government policy (in this case legislation from the last century and a subsidy paid out over several decades) left our operation with the belief that we were the cheapest place in the world to grow grain. The freight bill I saw for moving grain to tide water was about \$10/tn. less than my competition in Texas and Australia faced despite enormous differences in distance.

The shift in policy moved my freight costs to almost the highest in the world. We spent 100 years designing and financing infrastructure, responding to the signals. The response cannot occur over night. Sunk capital like the railroads, elevators, granaries, equipment are still there accumulating costs. If we were to send sustainable signals, reflecting true costs and market advantages, my bet is that many policy and trade frictions would decrease.

We have made significant changes in Canada. As I look at the source of revenue flow for my U.S. competition, I see that government is again a major factor. U.S. farmers are efficient in the use of technology, and they are good producers. But, are the signals they are receiving sustainable? If they are not, somewhere down the line more pressure for sanctions will be applied to minimize the impacts of incorrect signals.