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# **A CANADIAN PERSPECTIVE ON NORTH AMERICAN AGRICULTURAL TRADE FLOWS (1988–98)**

*Brian Rattray*

## **INTRODUCTION**

This paper is designed to outline the Canadian perspective on North American agricultural trade flows. 1988, the year prior to the implementation of the Canada-U.S. Free Trade Agreement (CUSTA) was chosen to provide an indication of the size and composition of Canada/U.S. agricultural trade before the agreement came into effect. CUSTA was designed to foster increased trade and investment between Canada and the United States. The second agreement extending the free trade area to Mexico, the North American Free Trade Agreement (NAFTA) came into force in 1994. Its purpose was to increase trade and investment among the partners by eliminating tariffs and by reducing non-tariff barriers, as well as establishing comprehensive provisions on the conduct of business in the free trade area.

In 1988, the United States and Mexico supplied 55 percent (53.3% and 1.6% respectively) of total Canadian agricultural imports. By 1998, they supplied 64 percent (61.6% and 2.4% respectively), an increase of almost one percent per annum over the past 10 years. It is expected that growth in the share of total Canadian agricultural imports captured by the United States and Mexico will continue.

*In this paper and each of the figures, all data are given in Canadian dollars and are derived from the Statistics Canada Merchandise Trade Database.*

## **CANADA/U.S. AGRICULTURAL TRADE FLOWS**

Canada/U.S. agricultural trade has continued to expand since 1988. Canadian imports from the United States increased from \$ Cdn 4.0 billion in 1988 to \$ Cdn 10.12 billion in 1998, or about 150 percent (Figure 1). During the same period, Canadian exports to the United States increased from \$3.4 billion to \$12.81 billion, or about 275 percent. Two-way agricultural trade between Canada and the United States reached \$22.9 billion in 1998. The largest year-over-year increase in Canadian imports from the United States occurred between 1996 and 1997 when they increased 15 percent (from \$7.9 billion to \$9.1 billion). The largest year-over-year increase in Canadian exports to the United States occurred between 1991 and 1992 when they increased 31 percent (from \$4.5 billion to \$5.9 billion).

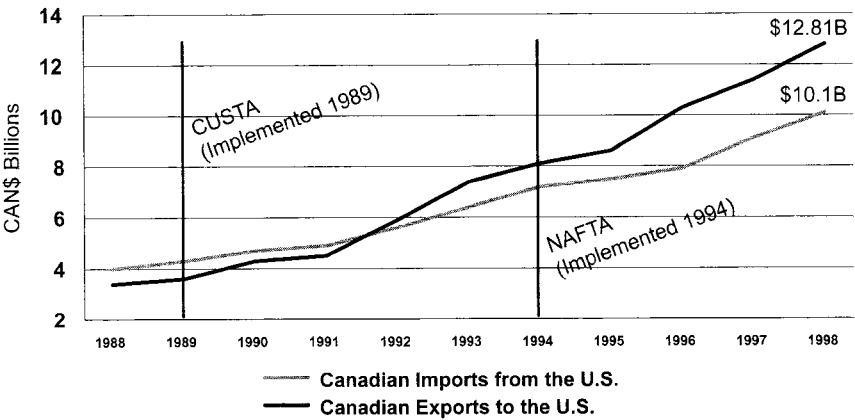
In general, since 1992 agricultural trade flow between Canada and the United States favours Canada, i.e., there are more Canadian exports to the United States than Canadian imports from the United States.

## **CANADA/MEXICO AGRICULTURAL TRADE FLOWS**

Although agricultural trade between Canada and Mexico is small relative to the trade between Canada and the United States, it is an increasing aspect of North American agricultural trade. Canadian imports from Mexico increased from \$120 million in 1988 to \$390 million in 1998, or about 225 percent (Figure 2). During the same period, Canadian exports to Mexico increased from \$160 million to \$ 580 million, or about 262 percent. Two-way agricultural trade between Canada and Mexico reached almost one billion dollars (\$ 970 million) in 1998.

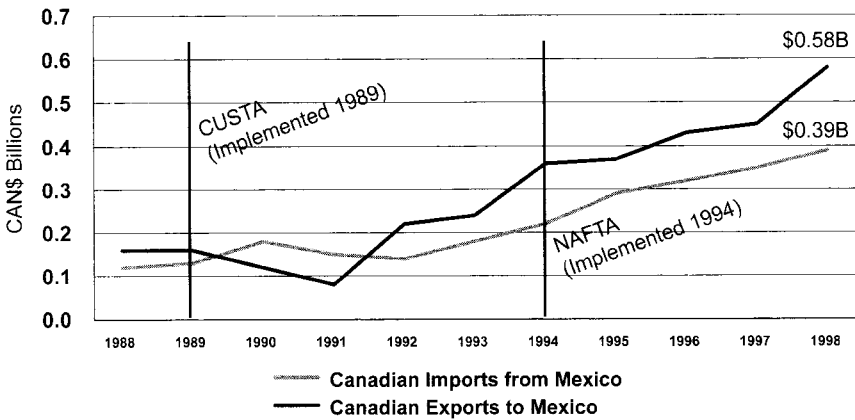
In general, since 1992 agricultural trade flow between Canada and Mexico favours Canada, i.e., there are more Canadian exports to Mexico than imports from Mexico. However, increasing the two-way trade between Canada

**Figure 1: Canadian-U.S. Agricultural Trade Flows, 1988-1998.**



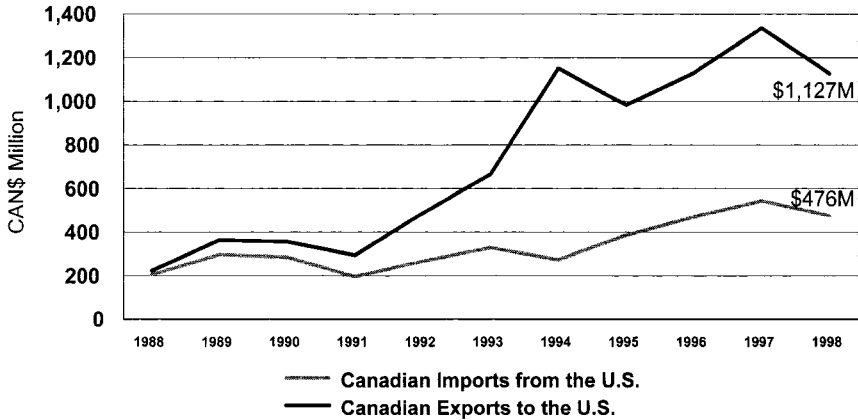
Source: Statistics Canada Merchandise Trade Database

**Figure 2: Canada-Mexico Agricultural Trade Flows, 1988-1998.**



Source: Statistics Canada Merchandise Trade Database

and Mexico benefits both countries by supplying imports that the importing country is not always able to produce.

**Figure 3: Grain and Oilseed Trade Flows, 1988-1998.**

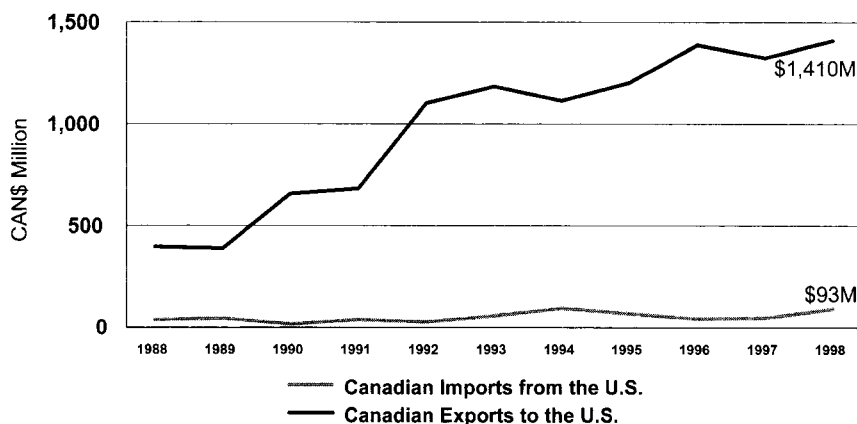
Source: Statistics Canada Merchandise Trade Database

## SUB-SECTOR TRADE FLOWS

To give an overview of sub-sector trade flows, five major sub-sectors are considered. The sub-sectors have a combination of bulk commodities and highly processed products, involve a majority of farm produced crops and/or livestock, and generate considerable revenue. They are:

- grains and oilseeds
- cattle and beef
- hogs and pork
- fruit and vegetables
- poultry and eggs.

The first three- -grains and oilseeds, cattle and beef, and hogs and pork- - follow the general pattern of trade flow in which Canadian exports to the United States exceed imports from the United States. The last two sub-sectors have the reverse trade flow- - our imports exceed exports in fruit and vegetables because of climate, and in poultry and eggs because this sub-sector is supply-managed.

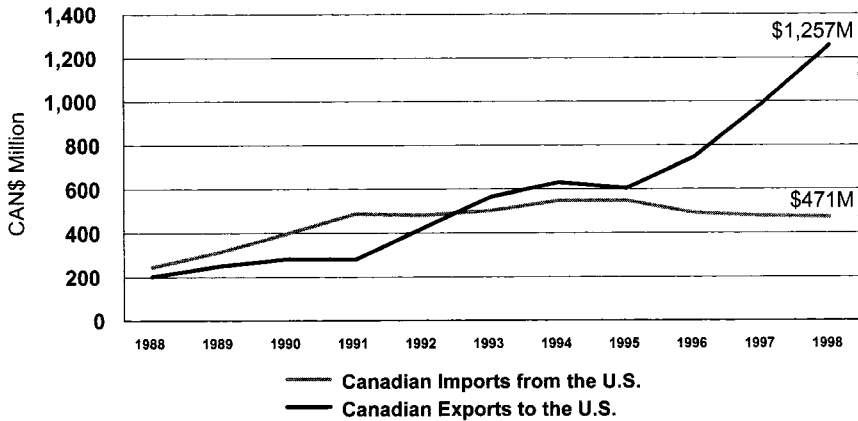
**Figure 4: Cattle Trade Flows, 1988-1998.**

Source: Statistics Canada Merchandise Trade Database

## Grains and Oilseeds

In 1998, Canadian imports of grains and oilseeds from the United States totalled \$476 million, up 132 percent from \$205 million in 1988 (Figure 3). Canadian exports of grains and oilseeds to the United States were \$1.127 billion in 1998, down 16 percent from their peak of \$1.338 billion in 1997, but up over 400 percent from \$224 million in 1988.

It is suggested that three factors account for much of the increasing trade flow and export of Canadian grains and oilseeds to the United States, and indeed, for the other sub-sectors except poultry and eggs. The first factor stems from changes in exchange rates since the early 1990s as the U.S. dollar appreciated vis-à-vis the Canadian dollar. The lower Canadian dollar made Canadian grains and oilseeds less expensive in U.S. markets. The second factor involves changes to Canadian agricultural policies, such as the elimination of transportation subsidies under the Western Grain Transportation Act (WGTA) which, for the most part, had a negative impact on the marketing of Canadian grains and oilseeds. (The Gellner and Rattray paper in the next section summarizes these policy changes). The third factor is the geographical proximity of

**Figure 5: Beef Trade Flows, 1988-1998.**

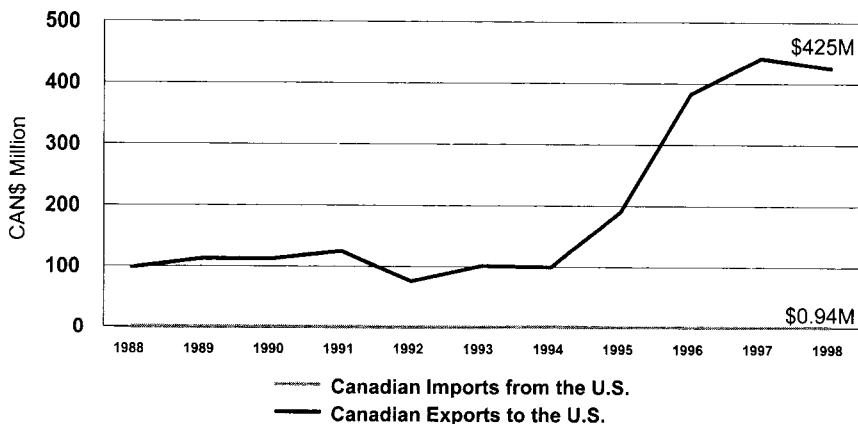
Source: Statistics Canada Merchandise Trade Database

Canada to the affluent and consuming U.S. market which makes it easier for Canada to fill readily the ever-expanding U.S. market.

### **Cattle and Beef**

Canadian imports of U.S. cattle reached \$93 million in 1998, a 90 percent increase from 1997 and a 139 percent increase from \$39 million in 1988 (Figure 4). Canadian exports of cattle to the United States reached \$1.41 billion in 1998, up only six percent from 1997, but up 250 percent from \$398 million in 1988.

From Canada's perspective, tariff restrictions for cattle were never an issue between Canada and the United States; quantitative border restrictions were a more important impediment to increased exports to the United States. However, CUSTA and NAFTA provided confidence and security to producers by solidifying access to the United States and by establishing mechanisms for resolution of trade disputes. With more confidence and security through the establishment of trade rules, Canadian producers were able to expand exports to the United States.

**Figure 6: Hog Trade Flows, 1988-1998.**

Source: Statistics Canada Merchandise Trade Database

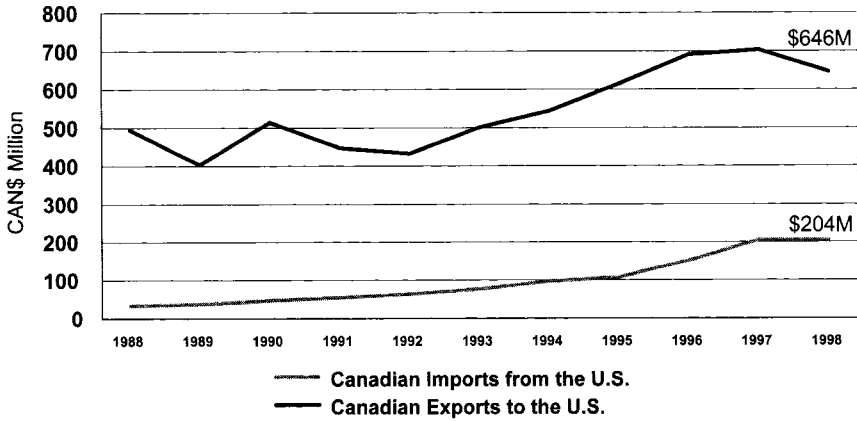
Canadian imports of beef from the United States was \$471 million in 1998, down 14 percent from the peak of almost \$550 million in 1994 and 1995, but up 90 percent from \$246 million in 1988 (Figure 5). Canadian exports of beef to the United States have increased steadily and reached \$1.257 billion in 1998, up 108 percent from 1995 and up 519 percent from \$203 million in 1988.

It is likely that the elimination of the transportation subsidies under the WGTA led some Canadian producers to shift from grain to cattle growing and feeding in Western Canada. As a result, some grain is still exported to the U.S., but now the grain is more likely to be exported in the form of live animals or meat.

## Hogs and Pork

Canadian imports of hogs from the United States barely reached one million dollars (\$940,000) in 1998, an increase of 27 percent from \$0.74 million in 1997 and a 161 percent increase from \$0.36 million in 1988 (Figure 6). Canadian exports of hogs to the U.S. totalled \$425 million in 1998, down slightly (about four percent) from \$441 million in 1997, but up 334 percent from \$98 million in 1988.



**Figure 7: Pork Trade Flows, 1988-1998.**

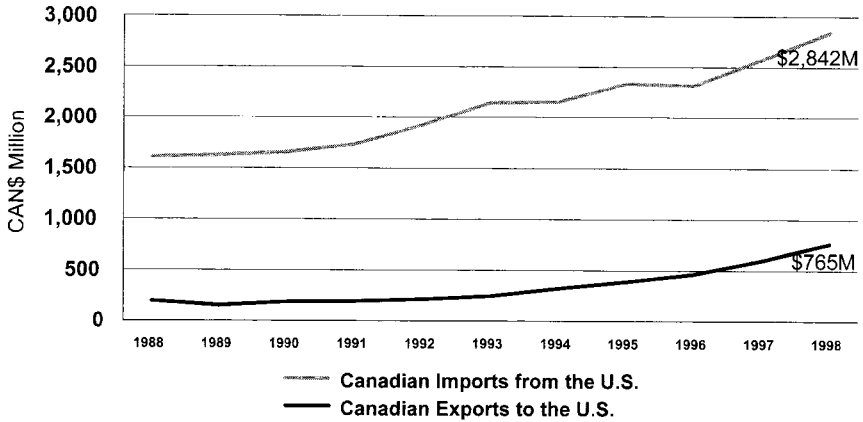
Source: Statistics Canada Merchandise Trade Database

Canadian imports of pork from the United States reached \$204 million in 1998, down marginally (less than one percent, about \$1 million) from 1997, but up 500 percent from 1988 when pork imports totalled \$34 million (Figure 7). By comparison, Canadian exports of pork to the United States reached \$646 million in 1998, down eight percent (\$58 million) from 1997. Although exports of pork were down in 1997, 1989, 1991 and 1992, overall they increased 30 percent from \$495 million in 1988.

### Fruit and Vegetables

Canadian imports of fruit and vegetables (excluding potatoes) from the United States reached \$2.842 billion in 1998, up 10 percent from \$2.579 billion in 1997 and up 76 percent from \$1.611 billion in 1988 (Figure 8). Canadian exports of fruit and vegetables to the United States reached \$765 million in 1998, up 27 percent from \$601 million in 1997, and up 296 percent from \$193 million in 1988.

The fruit and vegetable sub-sector has the reverse trade flow from the general agricultural trade flow, i.e., there are more Canadian imports of fruit

**Figure 8: Fruit and Vegetable Trade Flows (Excluding Potatoes), 1988-1998.**

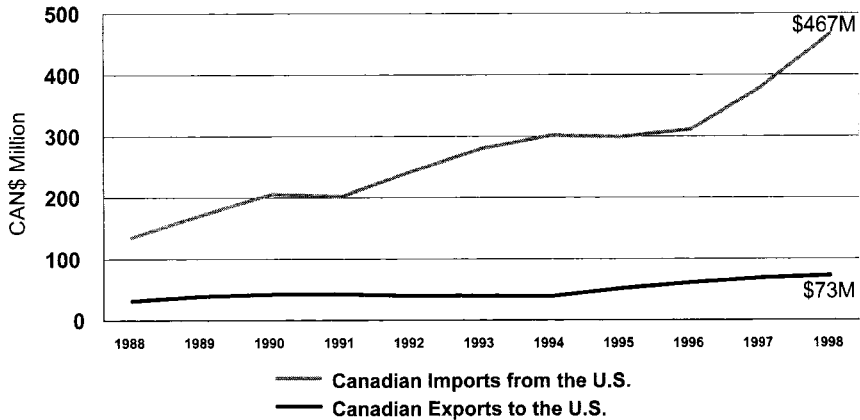
Source: Statistics Canada Merchandise Trade Database

and vegetables from the United States than exports, due partly to the Canadian climate.

It appears that CUSTA and NAFTA benefited both Canadian and U.S. fruit and vegetable growers with the gradual elimination of tariffs and with improved market access. In Canada, much of the progress in the fruit and vegetable industry is attributable to the investment in, and the innovative development of, new technologies such as greenhouses with considerable strides in floriculture, nursery products and tomatoes. In addition, Canadian producers have diversified their production into specialized crops such as Chinese vegetables to target niche markets.

### Poultry and Eggs

The United States is virtually the sole supplier of poultry and eggs to Canada and, like the fruit and vegetable sub-sector, Canada imports more from the United States than it exports. Canadian imports of poultry and eggs from the United States reached \$467 million in 1998, up 23 percent from 1997, but up 243 percent from \$136 million in 1988 (Figure 9). Canadian exports to the

**Figure 9: Poultry and Egg Trade Flows, 1988-1998.**

Source: Statistics Canada Merchandise Trade Database

United States were \$73 million in 1998, increasing 128 percent from \$32 million in 1988.

Given the sub-sector's supply management structure and its focus on the domestic market, this level of exports and the resultant reverse trade flow is not unexpected. Under NAFTA, U.S. access to Canada's chicken market is based on 7.5 percent of the previous year's Canadian production. During periods when its domestic production is limited, Canada allows supplementary imports from the United States at the free NAFTA rate. Canada also imports large quantities of U.S. whole, liquid and frozen eggs for Canada's processing sector.

## SUMMARY

To summarize, Canada is a trading nation and trade yields about 40 cents of every dollar reaching the farm gate. From Canada's perspective, it appears that both CUSTA and NAFTA have had positive effects on producers, processors and consumers of agricultural products. Canadian agricultural producers and agri-food processors are better able under free trade to realize their potential by operating in a larger, more integrated and more efficient North

American economy. Canadian consumers benefit from this heightened competition with better agricultural products and prices. It is expected that wider access to foreign markets through trade agreements will ultimately be the greatest potential for growth in the Canadian agriculture and agri-food industry.