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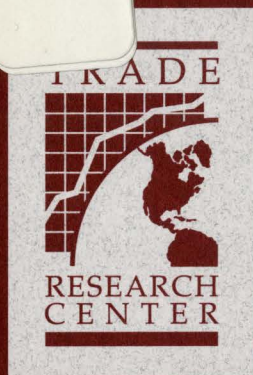
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# **The Economics of World Wheat Markets: Implications for North America**

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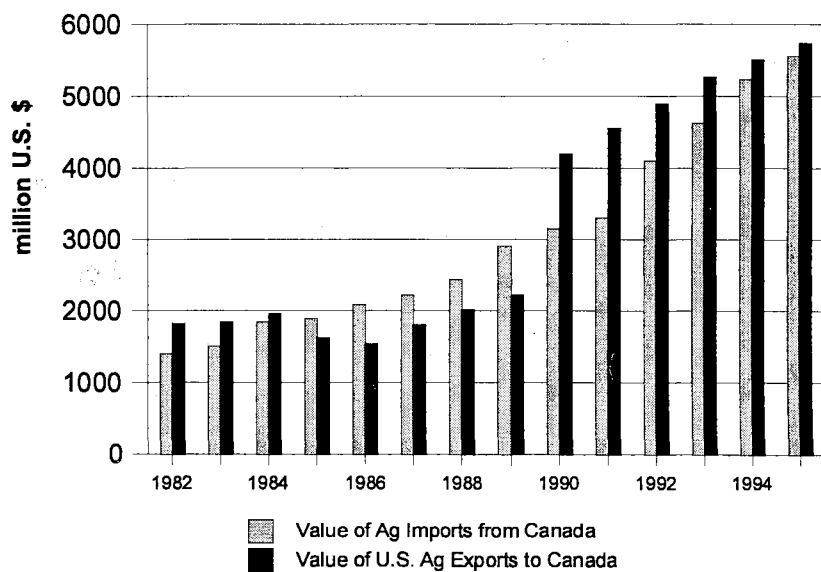
## Canada and U.S. Farm Policies and the Creation of a Single North American Grain Market

*Bruce L. Gardner*

In many respects the Canadian and U.S. grain sectors are well integrated. Farms generally, and those that specialize in wheat in particular, are organized similarly, use similar technology and information sources, and earn similar incomes for their owners in both countries. Both countries have expanded their wheat acreage in recent years, the United States

**Despite differences in pricing and marketing institutions, in many respects the Canadian and U.S. grain sectors are well integrated.**

**Figure 3. Value of U.S. Agricultural Trade with Canada**



adding 20 million harvested acres and Canada about 5 million acres since 1962. The rate of growth of wheat yields has also been similar, at just over 1 percent annually since 1960 in both countries (Fig. 3).

However, pricing and marketing institutions related to international grain marketing, have evolved quite differently in the United States and Canada. Canada relies on the Canadian Wheat Board (CWB) as the monopoly seller for exported wheat, whereas the United States uses a private enterprise export marketing system, albeit heavily influenced by governmental programs to promote exports. The U.S. Export

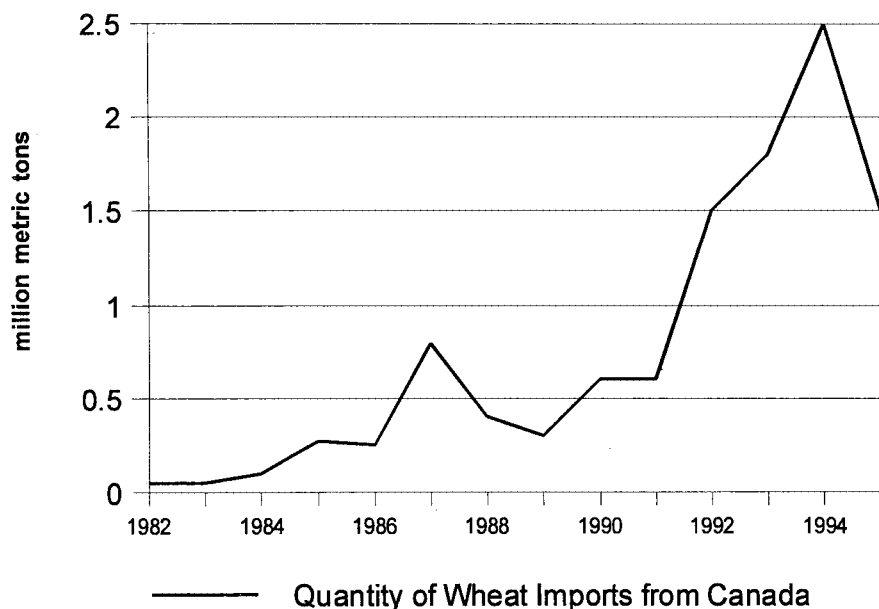
Enhancement Program subsidized about half of all U.S. wheat exported between 1986 and 1995. When it appeared to be economically necessary, producers in both countries have sought to erect trade barriers to shield themselves from the other country's competing producers. Since, in wheat, the more usual flow of unrestricted trade would result in U.S. imports from Canada, the main trade-restricting acts have been instigated from the U.S. side.

The Canada-U.S. Free Trade Agreement (CUSTA, 1989) and the North American Free Trade Agreement (NAFTA, 1994) have been the formal political contexts for a weakening of protectionism and a substantial increase in bilateral agricultural trade. Outcries from injured parties have slowed but not stopped the liberalization. Since 1989, the annual value of U.S. agricultural exports to Canada has increased from \$2.2 billion to almost \$6 billion, and the value of U.S. agricultural imports from Canada has increased from \$2.9 billion to \$5.5 billion in 1995 (Fig. 4).

In domestic policy, both countries have also taken significant steps toward less governmental regulation of markets, in grain particularly. Canada has moved toward income stabilization through insurance schemes that are partly producer financed, rather than relying on legislated support prices, and long-standing transportation subsidies are being abandoned.

**The primary issue for the future is whether grain market liberalization will be maintained and pushed further in both countries.**

**Figure 4. Wheat Imports from Canada**



In the wheat market, much political attention has been paid to the dispute over Canadian wheat exports to the United States. This trade was limited to 1.5 million metric tons\* in 1995 under a tariff-rate quota agreement reached under binational negotiation. But even in the case of wheat, trade

\* One metric ton of wheat is 36.74 bushels

has increased notably since 1989 (Fig. 4). During the 1980s, U.S. wheat imports from Canada averaged less than 0.4 million metric tons annually. Since 1990, average annual imports have been almost 1.5 million metric tons. Wheat prices in both countries appear well integrated in the sense that prices move roughly in parallel in the two countries for comparable wheat. However, the evidence is clouded by the lack of transactions prices for most Canadian wheat sales. The market prices of the limited categories of wheat traded outside the Canadian Wheat Board's authority are not so well integrated with U. S. wheat prices.

The primary issue for the future is whether grain market liberalization will be maintained and pushed further in both countries. The main forces for liberalization in both countries are pressures for reductions in budgetary outlays and producers' dissatisfaction with government policies, especially the Canadian Wheat Board's marketing monopoly powers being under fire from producers. The U.S. FAIR Act of 1996 ends acreage control policies, governmental attempts to stabilize markets by regulation of commodity stockholding, and income subsidies to producers through deficiency payments. Further liberalization in the United States would mean principally extending the FAIR Act beyond its 2002 expiration while eliminating or reducing the schedule of payments to producers.

Whether further liberalization will occur in either trade or domestic grain policy in either country is quite uncertain. But the trend is favorable, and as the data on bilateral trade indicate, liberalization has been achieved in fact and not just in statements of policy.

#### **About the Author**

Bruce Gardner is a Distinguished University Professor in Agricultural and Resource Economics at the University of Maryland. He obtained a Ph.D. from the University of Chicago. His current research interest focuses on the economics of agricultural policies.