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CANADA'S FOOD AND AGRICULTURAL POLICIES[1]

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1.0 Introduction

Canada is endowed with a large cultivatable farm land base (168 million acres) in relation to its population (25 million persons), a good farm structure (average size of census farm is 570 acres), a capital, technology and management-intensive farming system, advanced food processing and distribution and ancillary industries, and well-developed agrifood and rural infrastructures. The agrifood system as a whole accounts for close to 15 percent of economic activity and employment.

Farming is a very heterogeneous industry with respect to both structure and commitment/dependence. Twenty five percent of the census farms account for 75 percent of total farm sales. Forty percent of census farm operators have off-farm jobs and non-farm income provides 80 percent of the income of Canadian taxpayers who farm.

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Canada -- Agriculture

In policy terms, an important feature of Canadian farming is the regional diversity of the industry. This is evident from Table 1 which shows the distribution of farm cash receipts by province and commodity. Dairy policy is crucial to Quebec; grains policy dominates thinking in Saskatchewan. The importance of agriculture to each province's economy also differs greatly; farming accounts for close to 15 percent of Saskatchewan's provincial product but less than 0.5 percent of Newfoundland's.

Trade in farm and food products represents only 7 and 6 percent of all merchandise exports and imports respectively, but the agrifood trade balance has typically been from a quarter to a half of the overall merchandise trade balance. The major product groups in which Canada is a net exporter are grains, oilseeds, live animals and red meats (Table 2). These commodities represent about 60 percent of farm output and they are sold on world markets at international prices. Fruits and vegetables are the major competitive imports. They represent about 15 percent of domestic farm output and their production in Canada is protected by seasonal tariffs. The remaining 25 percent of farm cash receipts are derived mainly from dairying and the production of poultry meats and eggs. Canadian producers of milk and "feather" products receive made-in-Canada prices and are essentially insulated from world market forces. Exports of food and farm products are usually numerically equal to around 50 percent of farm receipts and, since Canada is a middle power in political terms and a small country price-taker in economic terms, the economic health of agriculture, agribusiness and rural society is very dependent on balance in

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Table 1: Distribution of Farm Cash Receipts by Commodity and Province, Canada, 1986

	Wheat	Feed Grains	Oil-seeds	Cattle	Hogs	Dairy	Poultry & Eggs	Other Sales	Goverment Payments
				Percentage					
Province									
B.C.	1.0	0.6	0.3	15.8	5.5	23.1	16.0	32.0	9.1
Alberta	13.8	9.1	7.3	29.3	7.2	6.0	3.5	6.6	17.2
Sask.	39.2	6.9	7.9	12.0	2.6	2.2	1.2	5.5	22.3
Manitoba	25.8	8.1	10.4	14.2	11.7	5.2	4.7	9.5	10.5
Ontario	2.2	5.9	4.4	21.2	12.5	17.7	9.8	23.8	2.5
Quebec	0.5	5.3	-	9.3	20.9	31.4	11.1	12.6	9.0
Maritimes	0.3	0.8	-	11.5	11.9	24.0	15.4	32.5	3.6
Canada	13.8	6.4	5.2	17.6	10.4	13.8	7.1	14.4	11.3

Source: Statistics Canada, Cat. No. 21-603

Table 2: Canada's Trade in Agricultural Products, 1987, million dollars.[1/]

	Exports	Imports	Balance of Trade
All goods	121,462	116,076	+ 5,386
Agricultural and food products	8,886	6,767	+ 2,119
Grains, grain products and animal feeds (except oilseeds)	4,070	300	+ 3,770
Oilseeds and oilseed products	882	494	+ 388
Live animals	326	121	+ 205
Red meats	1,065	488	+ 577
Dairy products	145	143	+ 2
Poultry and eggs	56	122	- 66
Fruits and nuts	156	1,647	- 1,491
Vegetables (exc. potatoes)	300	819	- 519
Potatoes and products	132	63	+ 69
Seeds for sowing	77	86	- 9
Sugar and maple products	48	234	- 138
Tobacco, raw	104	4	+ 100
Vegetable fibres	-	94	- 94
Plantation crops	-	859	- 859
Other agricultural products	1,527	1,293	- 234

Source: Agriculture Canada, Market Commentary, March 1988. Data are preliminary and in Canadian dollars.

1/ Agricultural trade is defined to include all raw farm products, non-food products of farm origin to the first stage of processing only, and food and non-alcoholic beverages of farm origin at all stages of processing.

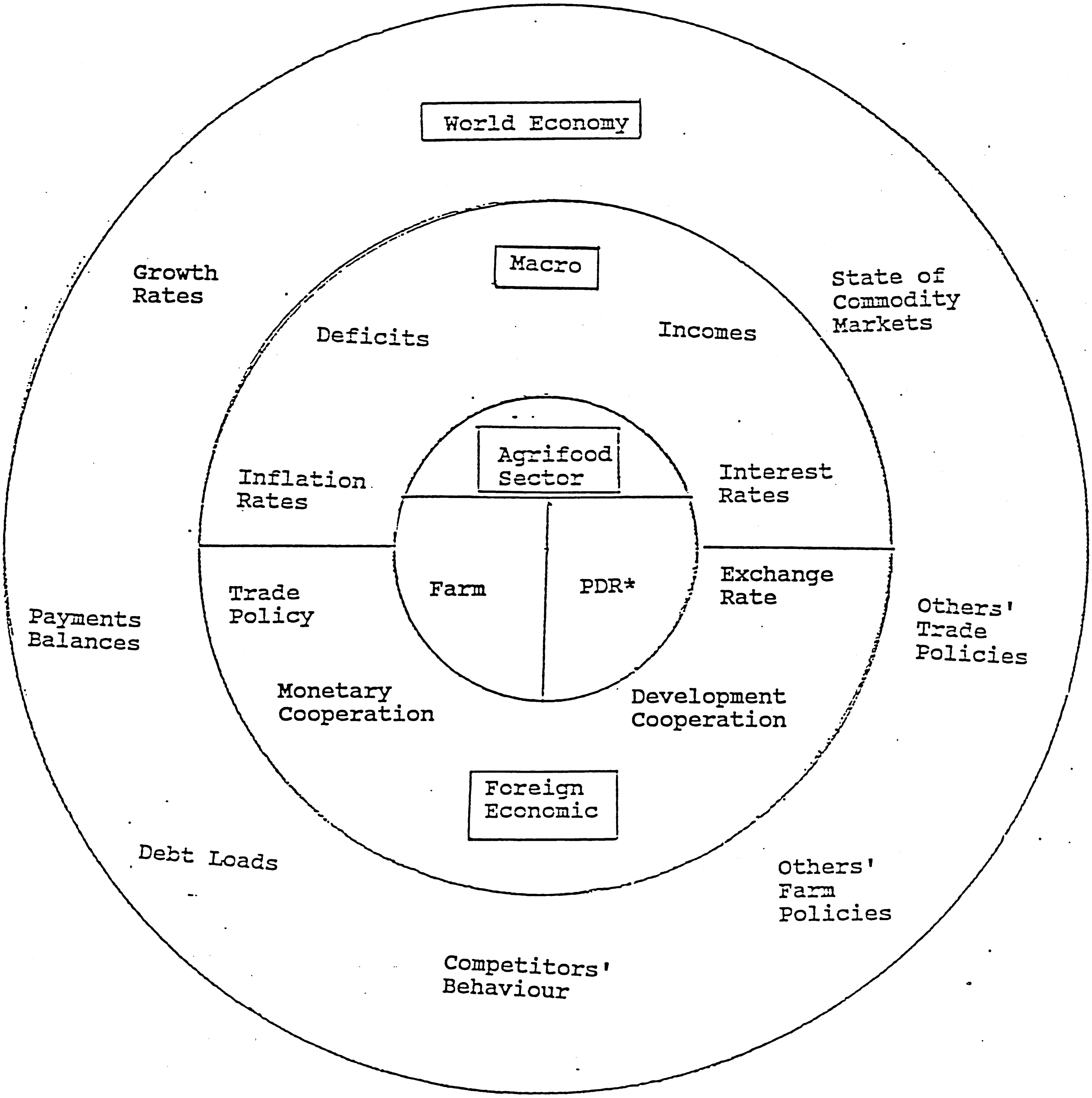
international commodity markets and the existence of a well-functioning international trading system.

The forces that shape the condition and performance of an industrialized, integrated, interdependent and internationalized agrifood system such as Canada possesses increasingly lie beyond the reach of sector-specific policies and the domain of Ministers of Agriculture. Foreign economic policies and macroeconomic variables are more important than the stuff of traditional farm programs. Farm policy must mesh with food sector and rural and regional development policies. The structural heterogeneity of farm businesses makes it difficult to identify industry needs and to design programs that will target benefits on distinguishable groups within agriculture. Figure 1 suggests that the progressive diffusion of the policy agenda affecting food and agriculture in Canada.

2.0 Historical Development

Agricultural policy was not always beset by ambiguities about clientele, purposes and instruments (Berthelet, 1985). In the first 60 years of Confederation, agricultural policy was primarily concerned with nation building; the overall objective was developmental, and emphasis was on land settlement, improving biophysical productivity and the provision of credit. Economic regulation was confined to countering monopoly in the railways and in the grain trade. Conditions in agriculture were a concern in the 1920s and 1930s, but improvements were sought through trade and "orderly marketing" arrangements rather than by expenditure programs. This era saw the creation of Commonwealth trade

Figure 1: Interdependencies in the Canadian Agri-Food Sector



*PDR are the processing, distribution and retailing components of the agrifood sector preferences, the first international wheat agreement, and the promotion of voluntary farmers' cooperatives, mandatory marketing boards and a state trading agency, the Canadian Wheat Board.

Agricultural commodity programs with price and output control provisions were begun in the war years, 1939-45. They were continued thereafter under the rubric of price and income stabilization as part of the development of a broader-based set of social programs. Price stabilization was formally embraced in 1944 and extended in the 1958 Agricultural Stabilization Act. Subsidized crop insurance followed a year later. The major elements of current national dairy policy were put in place in 1965.

By the 1970s budgetary pressures were beginning to constrain agricultural policy. Accordingly, market management was more firmly embraced as a means of providing farmers with stable returns -- often above competitive levels -- without the need for public expenditures. Supply management arrangements for poultry meats, eggs and industrial milk took on their present shape in this decade. Additionally, a major rededication to sharing with farmers the downside risks of markets was made in the mid 1970s by amendment in 1975 of the Agricultural Stabilization Act and the introduction in 1976 of the Western Grains Stabilization Act. Since these programs provided only modest price and margin floors, there was an expectation that they would not be financially costly.

The federal Progressive Conservative government that came to power in 1984 was philosophically committed to eliminating the federal budgetary deficit by reducing expenditures, and to reducing the role of government in the economy by deregulation and privatization. In 1985 a study team recommended that the dominant themes of agrifood sectoral policy (sic) should be growth-through-competitiveness and market-orientation, pursued through a set of commodity-centred development strategies, and with government playing only a supportive role through the provision of public goods and economic safety nets (Task Force Review, 1985). However, this liberal intent was over-whelmed by the imperatives of dealing with the financial and human stress that developed in Canadian agriculture in the 1980s with the emergence of market imbalances, the lowering of loan rates under the 1985 U.S. Food Security Act, and the competitive subsidization of grains production and export by the United States and the European Community.

The first response to financial stress was the familiar mix of foreclosure moratoria, financial counselling, third-party debt review, new debt instruments, interest rate subsidies, and programs that helped farm families to leave agriculture. Additionally, programs that provided economic safety nets to farm businesses took on new significance. Existing federal and provincial stabilization programs were extended. Later, tripartite stabilization was introduced in an attempt to provide a uniform and less distortive set of commodity stabilization programs nation-wide. But as the crisis in grain markets deepened, it was judged necessary to introduce the Special Canada Grains Program in 1986 to offset the economic hurt done to Canadian grain producers by the subsidy practices of other countries. Additional assistance has been provided by the write-down of deficits in the Canadian Wheat Board's pool accounts and in the Western Grain Stabilization Act fund. The result is that a government that wished to reduce spending on farm programs has been forced to raise direct expenditure to record levels. Table 3 shows the growth of direct expenditures in the 1980s and the rising proportions of farmers' gross and net incomes that these represent. Table 4 shows that in 1987 government payments represented virtually the total return to farmer-provided resources in the Canadian grains and oilseeds sector.

The experience of having to cope with financial stress and competitive subsidization has caused a sea change in thinking about, and the priorities of, Canadian agricultural policy. In the international arena, national diplomacy has focused since 1986 on seeking a multilateral accord that would halt the escalation of the agricultural trade war, initiate a roll-back of competitive subsidies, and lead eventually to fundamental global agricultural policy and trade reform. These goals have been vigorously pursued in the economic summits, the OECD and the GATT, both independently and in alliance with other medium-sized exporters in the Cairns Group. No fundamental agricultural policy reforms have been made domestically in advance of the negotiation of a multilateral agreement on agricultural subsidies and trade. On the contrary, (defensive) expenditures on agricultural support have been vastly expanded even while diplomatic efforts were focussed on promoting the desubsidization of agriculture on a global basis. Nonetheless, in the past two years, the debate in Canada on national agricultural policy has increasingly acknowledged that domestic programs will eventually have to meet the test of international acceptability by reason of their production, consumption and trade

Table 3: Federal and Provincial Gross Direct Payments to Agriculture, Canada, 1981-1987

Year	Income Support[a]	Disaster Relief[b]	Production[c] Support	Total Direct Support	Direct Support as a Percent of Cash Receipts	Direct Support as a percent of Net Farm Income
	$ Million				Percentage	
1981	524	333	201	1057	5.7	23.1
1982	464	461	252	1117	6.0	32.1
1983	479	370	216	1064	5.7	38.7
1984	901	508	253	1661	8.2	49.3
1985	1109	753	337	2199	11.1	50.8
1986	1497	920	510	2927	14.6	53.0
1987[d]	3011	365	526	3902	18.7	70.2

a Includes, WGSA, ASA, provincial income stabilization and dairy subsidy.

b Includes crop insurance and other supplementary payments.

c Includes fuel, interest, fertilizer and feed rebates to producers, pesticide assistance and tax.

d Provisional

Source: Agriculture Canada (1987), <u>Farm Financial Assessment Report</u>, Farm Development Policy Directorate, and unpublished data provided by S. Narayanan, Agriculture Canada.

Table 4: Net Farm Revenue, by Commodity Group, 1981 to 1987, million dollars

	1981-84 Average	1985	1986	1987[a]
Net Revenue from All Production				
1. Receipts from Market	18,207	18,143	17,907	17,659
2. Cash Expenses	13,267	14,076	13,792	13,477
3. Net Market Revenue (1-2)	4,940	4,067	4,115	4,182
4. Gross Direct Program Payments	1,224	2,195	2,894	3,902
5. Net Total Revenue (3+4)	6,164	6,263	7,010	8,064
Net Revenue from Grains and Oilseeds				
1. Receipts from Market	6,789	5,743	5,141	4,556
2. Cash Expenses	3,711	4,501	4,508	4,347
3. Net Market Revenue (1-2)	3,078	1,242	632	209
4. Gross Direct Program Payments	519	1,327	1,890	2,729
5. Net Total Revenue (3+4)	3,597	2,569	2,523	2,938
Net Revenue from All Other Production				
1. Receipts from Market	11,418	12,400	12,766	13,104
2. Cash Expenses	9,556	9,575	9,283	9,130
3. Net Market Revenue (1-2)	1,862	2,424	3,483	3,973
4. Gross Direct Program Payments	704	868	1,003	1,174
5. Net Total Revenue (3+4)	2,567	3,693	4,486	5,147

a Provisional

Source: Jones, W. D. "Visions for Agriculture in the 1990's An Economic Perspective", Conference on (1987) Agricultural Microcomputing, Alberta Agriculture, Edmonton, May 11-13, and unpublished data provided by S. Narayanan, Agriculture Canada.

neutrality (Ministers, 1986, Carmichael and Macmillan 1988, Federal-Provincial Ministers and Deputy Ministers 1988).

3.0 Current Commodity Programs

The focus in this section is on commodity programs that are concerned with farm-level price and income support and stabilization. The assumption is made that most of what Canada's federal and provincial governments do in the areas of providing public goods, correcting for market failures, fostering production and marketing efficiencies and encouraging industry and rural development, etc. are not trade distorting, and are not, therefore, of international interest. Nothing useful can be said about income assistance programs that are generally available rather than commodity-centred; the most important of these are various tax expenditures.

Table 5 identifies the policy instruments used in support of the prices and incomes received by farmers for the major commodities produced in Canada. In one way or another, these all affect production and/or consumption and thereby either net export availabilities or net import requirements.

It will be seen that Canada uses virtually all the policy instruments known to man in support of its agricultural industry, and that these include both within-border and frontier measures. The frontier measures are, in an important sense, designed to protect the operation of within-border programs rather than a manifestation of a distinguishable agricultural trade policy. Indeed, like other countries, until recently, Canada did not have

Table 5: Major Commodity-Specific Policy Instruments Affecting Output, Consumption and Trade, Canada, 1987

	Wheat	Barley	Corn	Soybeans	Canola and Products	Cattle	Hogs	Beef and Veal	Pork	Sheep	Chicken	Turkey	Eggs	Fluid Milk	Industrial Milk	Butter	Cheese	Powdered Milk	Sugar	Potatoes	Fruits and Vegetables	Tobacco	Grapes/Wine
Product Support																							
Price & Margin Support																							
Full cost pricing											*	*	*	*	*								
Floor pricing	*	*	*	*		*	*			*									*	*	*	*	
Margin Support	*	*			*																		
Two price plans	*																					*	
Supply Control											*	*	*	*	*							*	
Trade Controls																							
Tariffs	*	*	*		*		*	*	*	*	*	*	*			*	*	*	*	*	*	*	
Quotas								*			*	*	*			*	*						
Licensing	*	*									*	*	*	*		*	*	*					
State Trading	*	*														*		*					*
Export Subsidies																	*	*					
Food Aid	*																	*					
Input Subsidies																							
Transport	*	*			*															*	*		
Storage																				*	*	*	*
Crop Insurance	*	*	*	*	*																		

an agricultural trade policy as such; it had agricultural trade arrangements that were an adjunct of inner-directed domestic farm programs.

Figure 2 presents some of the same information in a way that highlights the range of policy intervention and economic regulation amongst the major commodity groups. Table 6 translates this information into quantitative estimates of the extent of support for agriculture in the 1979-1981 and 1984-1986 periods as measured by producer subsidy equivalents (PSEs). The figures show the growth of total policy transfers to Canadian agriculture during the 1980s, the sustained high levels of support provided to milk production, and the growing level of support that has been directed at the Prairie grains sector as market receipts have plummeted during this decade.

4.0 Salient Features

Five salient features of Canada's farm and food policies can be usefully summarized at this point.

4.1. There is the customary level of inconsistency between rhetoric and behaviour. Market-oriented objectives and systems coexist with highly developed forms of economic regulation. Exhortations to other countries to lower their levels of subsidization and open their markets are accompanied by a reluctance to expose protected sectors of Canadian agriculture to international competition. The extremes of policy intensity are occupied by red meats and dairying. The cattle and hog industries are not entirely bereft

Figure. 2

A SYNOPTIC VIEW OF CANADA'S COMMODITY PROGRAMS

Regulatory Scale

Public Utility — Syndicalism — Market-Oriented

Dairy	Poultry	Grapes	Tobacco	Fruits and Vegetables	Grains and Oilseeds	Pork	Beef

Major Instruments

Dairy	Poultry	Grapes	Tobacco	Fruits and Vegetables	Grains and Oilseeds	Pork	Beef
. Formula pricing . Supply mgt. . Direct subsidy . Import quotas . Agency selling . Discriminatory pricing . Restrictions on substitutes	. Formula pricing . Supply mgt. . Import quotas	. Discriminatory procurement & margins . Domestic content requirements . Price setting board . Sporadic support purchases	. Supply mgt. . Agency boards . Tariffs Floor price	. Seasonal tariffs . Tech. regs. . Price setting & agency boards . Discretionary floor pricing	. Margin Support . Floor pricing . Special Canada Grains Program . Agency boards . Transport subsidies . Import licensing . Crop insurance . Two price wheat	. Floor pricing . Agency boards . Tech. regs.	. Floor pricing . Tariffs . (Import quotas) . Tech. regs.

Table 6: Net Percentage PSEs by Commodity, Canada, 1979-81 and 1984-86 averages.

	1979-81 average	1984-86 average
All products	23.6	39.2
Crops	15.0	39.7
Wheat	14.8	41.1
Coarse grains	15.4	42.1
Oilseeds	15.3	29.5
Sugar	14.5	36.8
Livestock Products	30.8	38.7
Milk	73.7	96.7
Beef and Veal	10.8	15.6
Pig meat	8.0	5.0
Poultry	28.5	17.4
Eggs	25.6	4.7

Source: unpublished OECD data.

of policy attention (particularly at the provincial level), but, for the most part, they are self-reliant, market-driven and outward-looking. By contrast, the Canadian dairy industry is essentially operated as a public utility; all the key economic parameters are determined by political processes and administrative mechanisms, and the industry is insulated from the influence of international market forces (and from other parts of Canadian agriculture).

4.2. The trajectory of expenditures, income transfers and policy support for agriculture in Canada has been upwards. This has not been by choice; it has been forced on Canada by the agricultural policies and trade behaviour of other countries, particularly in grains. Economically and politically Canada simply could not let the Prairie grain sector and Western society be irreparably damaged. This illustrates the point that, at least in its open sectors, Canada's farm policies are shaped by the times and by others.

4.3 Responsibility for agricultural policy and programs is divided in Canada between federal and provincial levels of government. The domain of the senior government used to be the regulation of interprovincial and international trade, research and development, national grading and product standards, transport policy, farm credit, and farm income support and stabilization. Provincial governments had responsibility for extension, intraprovincial marketing, many technical regulations, and resource and community development. Recently the divisions of responsibility have become less clear. The provinces have developed their own stabilization and credit programs; crop insurance and tripartite stabilization are shared programs; and the federal and provincial governments are partners in the operation of the national pricing, marketing and trade arrangements for industrial milk, poultry meats and eggs. This large and growing policy presence of the provinces is a problem in trade terms since it raises questions about the ability of the federal government to meet obligations it might assume in international negotiations. This is a particularly acute problem in negotiating trade arrangements for dairy products and wine since the provinces dominate the marketing of fluid milk and alcoholic beverages and have operational control of the industrial milk sector.

4.4 Most of the trade arrangements that accompany Canada's commodity policies conform with the letter of the GATT. Tariffs are mostly bound. The quantitative import controls for supply managed products are legal under Article XI of the Agreement. Canada stays well within the ambiguities of the articles of the Agreement and the codes in the use of subsidies (Article XVI), in responding to the subsidies of others (Article VI), in the behaviour of its state trading entities (Articles III and XVII) (with the notable exception of its provincial liquor boards), and in its use of temporary import restrictions (Article XIX) and technical regulations (Article XX). This is, of course, to be expected of a medium-sized trader, for such countries must look to the rule of law in international commerce since they will surely lose in a world characterized by the rule of power. This is why Canada has supported subjecting agricultural policies and trade to "stronger and more operationally effective GATT rules and disciplines". Moreover, Canada's emphasis on "a better balance of rights and obligations" under the Agreement in respect of agricultural trade is animated first, by the contrast between the situation in which its own agricultural policies and trade arrangements are broadly in conformity with the GATT whilst the import restrictions of other are "grandfathered" (Japan), are covered by waivers (U.S.), or are effected by measures that are not provided for in the Agreement (variable import levies, voluntary export restraints and minimum import prices), and second, by the fact that the domestic and export subsidies paid by others are not effectively constrained by either the letter or the operation of the Agreement and the subsidies code.

4.5 In terms of the <u>instrumentation</u> of its farm policies, four features that influence Canada's position in multilateral trade negotiations have particular significance.

4.5.1. Canada makes exceptionally extensive use of producers' <u>marketing boards and crown corporations</u>. Some of the boards (e.g. those for hogs) can only improve the operational and pricing efficiency of domestic markets and correct for disparities in bargaining power. The operations of these boards are of no concern to other countries. Other boards are active participants in markets as sellers, and the transparency of their operations is an international issue. Grains marketing boards are of this type. Still other boards set the parameters of price and output and thereby consumption and trade. The boards for milk and poultry products are examples. The results of the operations of these boards will have to be factored into trade negotiations.

4.5.2. Canada has had a long-standing and consistent policy of providing stop-loss, stabilization (or safety net) programs for producers. The major programs are the Agricultural Stabilization Act 1975 (ASA) (and the tripartite-financed variant introduced in 1985) and the 1976 Western Grains Stabilization Act (WGSA). Public expenditures on stabilization programs are justified in part by the improvements in allocative efficiency that a more stable economic environment is supposed to induce, partly on grounds of distributive justice, and, most recently, as being a means of helping commercial farm businesses survive through exceptionally difficult times. An important trade policy issue is whether such programs are trade distorting.

4.5.3. Because of the economic geography of the country, transport policy has always played an important role in Canadian economic policies. Freight rate regulation and subsidization and the public provision of transportation infrastructure have been animated largely by considerations of general economic and balanced regional development. However, there is no doubt that they have acquired also the role of farm income supporting input subsidies which have had effects on the level, location, composition and international competitiveness of Canada's agricultural output. Accordingly, transportation subsidies -- and especially the "Crow Benefit" provided to prairie grain exporters by the 1983 Western Grain Transportation Act -- are also the subject of Canada's competitors' discontents.

4.5.4. Supply controls are at the heart of the policy arrangements used for fluid and industrial milk and poultry meats and eggs. These present particular difficulties for trade negotiations insofar as Canada has asked for "negotiating credit" for limiting the supply response to incentive prices. Exporters, however, are concerned by the quantitative import restrictions that protect internal prices, and they emphasize also the reduction in consumption that results from raising national prices. In general, the PSE is not a good proxy for trade distortions when supplies are controlled, nor can (negative) consumer subsidy equivalents be ignored (Government of Canada, 1988).

Canada's extensive experience of using supply controls to stabilize and support the incomes of producers of milk and "feather" products is more broadly relevant to the course of international agricultural policy and trade reform since supply control is seen by some to be an alternative to lowering prices to reduce the production and trade distorting effects of national agricultural policies. In Canada, supply management has proved to be an effective and politically attractive method of supporting and stabilizing output prices and farmers' incomes. The technique entails no direct expenditures, and it provides producers with automaticity and opaqueness in income transfers and with almost complete control of their terms of trade and their economic destinies. However, over time, the practical use of this technique has resulted in a number of disadvantages. The cost structures of supply managed industries have been raised by program compliance costs, under-utilization of production capacity, non-achievement of size economies, entrepreneurial lethargy, the cost of quota, elevation of prices of purchased inputs, and ossification of the location of production. Allocative efficiency has been impaired and the international competitiveness of the regulated industries has been correspondingly reduced, and development of markets has been impeded -- and in some instances precluded -- by high prices and costs. The income distributional results have also been unhappy; consumers have been regressively taxed, and the capitalization of program benefits into quota values has resulted in formidable barriers to entry, dangerously burdensome costs for second generation producers, and hard-to-justify intergenerational income transfers within agriculture (Table 7). Finally, the transformation of initial benefits into artificial property rights and elevated cost structures has made it very difficult to reform the supply management systems, albeit the malignancies that result from their abuse and the elements of a reform agenda are well understood (Forbes, Hughes and Warley 1982, Price Waterhouse 1987, Agricultural Council of Ontario 1988). In short, if supply management systems are to play a wider role in national farm programs and in multilaterally concerted agricultural policy

Table 7: Quota Values and Entry Costs, Ontario, June 1988

Product	Quota Price	Family-Sized Unit	Quota Cost to Enter
Fluid Milk	$270/litre/year	40 cows	$191,000
Industrial Milk	$0.82/litre/year		
Eggs	$33/layer	25,000 layers	$825,000
Broilers	$18/unit	50,000 birds	$900,000
Turkeys	$1.75/kg	450,000 kg/yr.	$788,000
Tobacco	$0.65/lb	150,000 lbs	$ 98,000

reform, it will be necessary to use them more wisely than has been the case to date in Canada.

5.0 Canada and Agricultural Trade Negotiations

Canada's trade dependence, middle power status and moderate economic size means that it must look to international negotiations to create the kind of trading system in which it can reach its economic potential. Immediately, in agriculture, Canada seeks through multilateral negotiations relief from the economic damage and budgetary expense caused by the subsidized scramble for shares in over-supplied markets. Canada can ill afford to fight and cannot hope to win a subsidy war. In the longer term, Canada seeks by negotiation to help fashion an international agricultural trading system in which it will have free and secure access to world markets for the products in which it has a comparative advantage, and fair competitive conditions in them, assured by effective GATT rules and disciplines.

Canada's agricultural commercial diplomacy is focussed primarily on improving the global agricultural trading system and thus on the multilateral trade negotiations (MTNs) being conducted in the Uruguay Round. Additionally, however, agricultural trade also figured prominently in the bilateral negotiations with the U.S. on the formation of a Canadian - American Free Trade Area (CAFTA).

5.1 Agriculture in CAFTA. Canada's major objective for agricultural trade in the bilateral negotiations was to obtain improved and assured access to the U.S. market which is the largest, fastest growing and most diversified outlet for its food and agricultural exports. At the same time, Canada wished to retain protection for its uncompetitive sectors, maintain the integrity of its distinctive agricultural marketing systems (especially the dairy and poultry supply management systems and the orderly marketing arrangements for grains operated by the Canadian Wheat Board), and to be able to continue to operate stabilization programs.

In a bilateral negotiation neither country wished to change the restrictive import arrangements they maintained against the exports of third countries (dairy products for both, plus sugar and beef for the U.S.). And disciplining the use of production and export subsidies was also a topic which could only be handled satisfactorily in a global agreement. Accordingly, the agricultural component of the bilateral negotiations was never destined for great accomplishments. However, while the changes made for agricultural trade were not deep, they were encouragingly broad (Agriculture Canada, 1988). To some degree they encompassed all the trade impediments and distortions that are being addressed in the global negotiations on agriculture in the GATT (frontier barriers, subsidies, technical regulations and the behaviour of state trading agencies), liberalized trade in a wide range of farm and food products, and made an important innovation in dispute settlement.

The most important elements of the CAFTA agreement on agricultural trade are:

- the phased elimination over ten years of tariffs on bilateral farm and food products trade;
- the conditional elimination of licensing of Canadian imports of wheat, barley, oats and related products, and the non-application to Canada of U.S. section 22 grain import quotas should these again be invoked;
- the reciprocal exemption of each country from quantitative restrictions on beef and veal shipments under their respective meat import laws;
- a marginal increase in Canada's import quotas on poultry meats and eggs;
- exemption from U.S. import quotas of Canadian shipments of food products containing 10 percent or less sugar;
- agreement not to use export subsidies on bilaterally traded products;
- elimination of rail freight subsidies on Canadian agricultural products shipped to the U.S. through Western Canadian ports;
- termination of the discriminatory procurement and margin practices for wines and spirits of Canada's provincial liquor boards, and removal of the provinces' domestic content regulations;
- agreement to minimize technical barriers to trade by the harmonization of standards and by mutual recognition of the equivalence of national inspection systems;

- agreement to subject trade disputes in dumping, countervail and safeguards cases to binding adjudication by impartial binational panels.

It will be seen that the steps taken towards continental liberalization of farm and food products trade are not large. And they were arrived at by a "requests and offers" procedure that both countries are seeking to avoid in the MTNs. Nonetheless, on the eve of the substantive negotiations on agriculture in Geneva, the steps that were taken were, without exception, towards reducing subsidization and liberalizing exchanges, they cover virtually all agricultural products despite the protests of protected commodity groups, and they include both frontier measures and within-border regulations and subsidies. This result unquestionably sent the right signals to the negotiators in Geneva.

5.2 <u>Canada and Multilateral Agricultural Negotiations</u>. The Canadian proposal on how agriculture should be negotiated in the MTNs (GATT, 1987):

- calls for a comprehensive approach involving all countries, all commodities and all policy instruments;
- envisions the eventual elimination of all subsidies that distort trade and all access barriers, but proposes that substantial cuts be made over a five-year period;
- supports the use of a quantitative proxy indicator of the trade distorting effects of national farm programs to establish the overall degree of liberalization to be attained and as means of verifying that progress is being

made towards the target rate of liberalization by the execution of GATT-bound national implementation plans;

- recommends that there be both an early contractual prohibition on the introduction or extension of further trade distorting subsidies or access barriers and ad hoc agreements on short term measures that would restore balance to individual commodity markets;
- proposes the re-writing and amplification of GATT's articles and codes in ways that would provide enforceable rules governing national policy actions and trade practices, lead to the elimination of waivers and exceptions, and extend GATT disciplines to areas in which the Agreement is now silent.

It will be apparent that the Canadian proposal to some degree bridges the gaps between the negotiating plans of other countries and groups.

One feature of Canada's position should be emphasized. Canadian authorities are emphatic that only those elements of national farm programs that actually distort trade should be included in the quantitative proxy indicator to be used in the negotiations to establish and to monitor overall and specific obligations to change national farm programs and trade arrangements. Going further, the Government of Canada has proposed that the producer subsidy equivalent (PSE) should be modified to reflect the actual trade effects of farm programs both by omitting agricultural programs that are agreed to be essentially trade neutral (or whilst trade affecting are not trade distorting) and by adjusting the PSE to allow for, say, supply control (Government of Canada, 1988). The espousal of the use of a Trade Distortion Equivalent (TDE) arises both from a desire to obtain negotiating credits for supply control programs that effectively limit the production response to incentive prices, and from a more general view that the percentage and per unit PSE are poor proxies for the adverse effects on other countries of national agricultural policies and programs.

It may also be argued by Canada that stabilization programs such as the ASA and the WGSA are not trade distorting (or fall well within any reasonable _de minimus_ standard), and that they too should, therefore, be excluded from PSEs or TDEs. Some of the attributes of stabilization programs that experience and empirical work (Martin and Meilke 1986) have shown makes them essentially trade neutral are that: they provide only low-slung, stop-loss, economic safety nets to help competitive farm businesses survive particularly adverse periods; the level of the safety net is market-driven; payments are _ex post_ and benefits are not easily predictable _ex ante_; producers pay a significant proportion of the monies required to operate the stabilization program, with the public contribution being justified by downstream and system-wide benefits; payments are not continuous and over time the stabilization funds are actuarily sound; and in some cases (e.g. the WGSA) the program applies to a bundle of commodities so that the output mix is determined by market forces.

The treatment of supply management and stabilization programs in the negotiations on agricultural trade is a matter of great consequence to Canada, to other countries, and to the future evolution of national farm programs and the international agricultural trading system.

The elements of Canada's commodity programs that are normally regarded as being trade-distorting and hence the areas where Canada's trading partners will expect policy changes to be made (either in the context of a national plan to implement an agreed formula cut in PSEs or TDEs or in response to requests and offers) are as follows:

- national dairy policy which involves a high degree of subsidization of domestic production, managed self sufficiency in fluid milk and butter, restrictive import regimes for dairy products and dairy analogues and substitutes, and the dumping of surplus skim milk powder and evaporated milk on world markets;
- the quantitative import restrictions on poultry meats and eggs that reserve 93-98 percent of the Canadian market for these products for national producers;
- the transport subsidies on the movement by rail to export positions of grains and oilseeds that act as subsidies to their export;
- the tariffs and technical regulations that provide a high degree of effective protection to parts of the horticultural and food processing industries;
- the wine procurement and pricing practices and domestic content regulations of provincial liquor boards that discriminate against foreign suppliers.

Additionally, some of Canada's and the provinces' technical regulations (e.g. health and sanitary standards, packaging and labelling requirements) and input subsidies (e.g. interest rate rebates, capital grants, fuel rebates) might be at issue in negotiating overall or commodity-specific reductions in the trade distortions caused by Canada's farm and food policies.

6.0 Effects of Liberalization.

The economic effects on Canadian agriculture of trade liberalization have been studied by several authors (Dixit et. al. 1987, Parikh et. al. 1986, Roningen et. al. 1987, Tyers and Anderson 1986, 1987). Differences in analytical methods and model structures, base years and parameters make it hazardous to compare the results. However, as shown in Table 8 the USDA's and the Australian work agree that multilateral trade liberalization would increase economic welfare in Canadian society, confer benefits on consumers and taxpayers, but impose economic losses on Canadian farmers as a whole. The negative result for farmers comes about because increases in competitive world market prices would be insufficient to offset the withdrawal of government payments and the termination of programs that drive a wedge between protected and competitive selling prices, and an increase in feed costs for producers of livestock products.

Producer reaction to the Canadian government's support in the GATT for comprehensive agricultural desubsidization and trade liberalization until very recently has been muted. This is in large part due to the fact that for the past two years the

Table 8: Estimated Welfare Effects on Canada of Multilateral Trade Liberalization, Billion 1980 U.S. Dollars

	Base Period for Protection Measures	Producer Welfare	Consumer and Taxpayer Welfare	Total Welfare	Welfare Gain/ Capita
Tyers and Anderson	1980-82				
Liberalization in:					
IMEs		-0.6	1.3	0.7	10
IMEs + DCs		-1.1	1.4	0.3	12
All Countries		-0.9	1.1	0.2	7
Tyers and Anderson	1980-82	-0.6	1.3	0.7	28
Liberalization in:					
All IMES	1988-92	-0.6	1.6	1.0	40
Roningen, et. al.	1984				
Liberalization in:					
U.S. + Canada + E.C. + Japan		-1.0	1.9	0.9	35
Dixit, et. al.	1984				
Liberalization in:					
Developed Countries		-1.2	2.5	1.3	42

Sources: Tyers and Anderson (1986)(1987), Roningen et. al. (1987), Dixit et.al. (1987).

attention of farm leaders and the sectoral trade advisory group has been focussed almost exclusively on, first, the treatment of agriculture in the bilateral negotiations, and, secondly, on the size and method of paying the "survival assistance" provided by the Special Canada Grains Program. But with the conclusion of the bilateral agreement attention is now beginning to shift to agriculture in the MTNs.

The first reactions have not been positive. Canadian farmers can agree that producers in Europe and the United States should give up their incentive prices and subsidies, but they are unenthusiastic about the termination of the "assistance" programs to which they have become accustomed. (Canada has few agricultural programs in which the word "subsidy" figures in the title!) The word is spreading that empirical studies are indicating that under multilateral liberalization Canadian producers would experience a net loss of producer surplus, and farmers are well aware that this would translate into a reduction in their standard of living and (through a decline in the values of their land and quotas) their net worths.

Farmer reaction was negative to a conference designed to open discussion on the principle and forms of "decoupled" income supports and to unveil a farm income insurance plan not linked to commodities (Finkle and Furtan, 1988). Canadian farm leaders have made it clear that they would view direct income payments as "welfare", and they anticipate that the introduction of such schemes would lead inevitably to questions about the objectives of agricultural policies, and eventually to the targeting, meanstesting, capping and termination of income support payments. Not unexpectedly, they have revealed a strong preference for the ambiguity of purpose, covertness, level and present distribution of existing income transfers to agriculture. The only form of decoupling that seems to have any appeal in Canadian agriculture is supply management.

Dairy farmers have paid the most attention to what the Canadian government has been proposing at the economic summits and in the OECD and the GATT. Predictably, they are opposed to any suggestions that Canada's pricing and trade arrangements for milk and dairy products should be changed, and have rejected the use of either PSEs or TDEs as a measure of the trade effects of national milk policies. Instead, they have suggested ways in which the language of Article XI of the Agreement should be changed to further strengthen Canada's right and ability to limit imports of dairy products! (Dairy Farmers of Canada, 1988).

Egg producers also hold the view that supply managed systems contribute to international market stability rather than imbalances, and they too oppose the use of PSEs or TDEs to define national obligations to make policy changes. Further, they are opposed to changes to Articles XI and XVI of the GATT which would have the effects of having Canada assume a minimum access commitment, or prevent the export of surplus eggs at prices lower than those obtained domestically. (Canadian Egg Marketing Agency, 1988).

In the end, the only major Canadian commodity groups that are likely to favour radical agricultural policy and trade reform are the producers of red meats and grains and oilseeds. Cattle and hog producers generally have an ideological preference for liberal arrangements, and they do not have much support or protection to surrender. Grains and oilseeds producers know that -- even though fully competitive markets might yield them somewhat less than the current combination of market receipts and subsidies -- the present level of payments is unsustainable. Beyond this, these groups see trade as indispensible to their future development, and they would rather compete with foreign producers than foreign treasuries. However, both groups will argue strongly for the retention of the ASA and WGSA on the grounds that these safety net programs are essentially production and trade neutral.

7.0 Conclusion

It seems clear that Canada is ready to make changes in its agricultural and food trade policies. The drift of official and academic thinking domestically in the 1980s has emphasized the expense, the failures, the rigidities and the perversities of national farm programs. The external dimensions of the Canadian agrifood system emphasizes both its great and growing dependence on improved and assured access to world markets and the unendurable financial and economic costs of the clash in the international arena of contending farm programs and undisciplined trade practices. The only way for Canada to obtain relief from the costs of others' behaviour, to shed some part of the burden of its own farm policies, and to secure for the future the promise of its agrifood system's comparative advantage is to promote concerted global reforms in agricultural policies and world food trade arrangements. Thus, for the time being, Canada's internal inclinations and external imperatives have come together.

Whether the course can be sustained depends upon developments in commodity markets and the progress that is made on agriculture in the Uruguay Round. Meantime, the federal government has not yet begun to prepare producers for a future without subsidies, market controls and import protection. Nor, publicly at least, has a beginning been made on the urgent task of redefining the relationship between government and farming and identifying the new mix of agricultural programs that would be needed if the radical proposals made in Geneva were to come into effect.

Measuring the economic consequences of agricultural desubsidization and trade liberalization, identifying the positive adjustment assistance and compensation programs that will help us get "from here to there", redefining the purposes of future interventions in the agrifood sector, and specifying the content of the inter-nationally acceptable program sets that will be required in the future would seem to constitute the areas in which agricultural economists can make major contributions to the process of policies reformulation in Canada, as elsewhere.

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