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BARRIERS TO TRADE IN AGRICULTURAL PRODUCTS BETWEEN CANADA AND THE UNITED STATES

by

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ABSTRACT

The study discusses the growth and importance of trade in agricultural products between Canada and the United States. It describes in detail a number of non tariff measures and policies which tend to restrict trade flows between the two countries. While no attempt has been made to quantify the impacts of non tariff barriers, evidence presented indicates that there has been a gradual drift toward the use of non tariff restraints as tariff rates have declined. Primary non tariff restraints come from the use of quotas, licenses, and embargoes. As economic conditions worsen, there is concern that the momentum developed toward freer trade through GATT will become perilously eroded by the increased use of non tariff barriers.

Keywords: Agricultural trade, Canada, the United States, Non-tariff barriers

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Introduction

Canada and the United States are important trading partners. The extensive common border and similarity of economic and cultural backgrounds lead to a natural exchange of people, as well as goods and services, between the two countries. In fact, such strong economic ties exist that the idea of some form of economic union periodically surfaces for discussion, and reciprocal trade agreements have been negotiated for certain important commodities. There are some commodity markets in each country, however, that are protected by a series of tariff and non-tariff measures, and remain virtually closed to trade. This mix of negotiated access, and various instruments of protection, is prevalent in the legislation and practice that govern the flow of agricultural products.

Restraints to agricultural trade have resulted largely from the need for protection for special domestic programs as well as for protection per se. As might be expected, some Canadian producers feel overwhelmed by competition from the south and have requested protection. Similarly, some U.S. producer groups have requested protection from imports in general, some of which come from Canada. Government programs have been implemented in both countries to support farm prices and incomes, and to subsidize production. Where supports increase prices above international market levels, it has been necessary to limit imports to maintain the viability of the programs. Where subsidies to inputs or products are involved, producers have requested protection from "unfair competition."

There are administrative restraints to trade involving government buying practices, local sales policies, and involvement in international trading. Other non-tariff barriers include items such as health standard regulations, size, quality, packaging, and labelling requirements and other technical factors.

Tariff protection is in effect for most products traded, but it has been gradually eroded by the various agreements reached under the General Agreement on Tariffs and Trade (GATT). A more effective barrier which has been employed increasingly in recent years has been the application of quotas. In some instances these quotas act as virtual embargoes.

This study is intended to catalog and to review the status of agricultural trade and trade barriers between Canada and the United States. An attempt will also be made to provide a general assessment of the importance of these restraints.

Methodology

A detailed review of policies affecting agricultural trade in both Canada and the United States has been completed. Additionally information has been obtained from regulatory agencies, and from those involved in trade, in an attempt to determine how regulations and various policies affect decisions on trade.

Data on trade by products and the relative importance of trade has been assessed. Interviews have been held with government officials in both countries, and with importers and exporters, to catalog the various types of non-tariff barriers that affect agricultural trade. In addition, a questionnaire was sent to four groups: 1) the members of the Canadian Food Brokers Association; 2) the members of the U.S. FAS/Cooperator Market Development Program [73]; 3) over 200 Canadian exporters of agricultural products [7]; and, 4) the members of the Canadian Importers Association who import agricultural products. Based on the above information, an attempt was made to assess the importance of the various measures affecting trade.

Patterns of U.S.-Canada Agricultural Protection

Agricultural trade policy in Canada and the United States has moved in alternating, but irregular cycles of protectionism and liberalization. Between the period of pioneer settlement and the present, at least three cycles of protection and liberalization of agricultural trade have occurred in North America.

During the period of early settlement, agricultural markets were protected from competition by a mercantilistic policy in which each European power sought to monopolize trade with its colonies by prohibiting the shipment of goods to, or from, other countries. 1/ The mercantilist policy of the French and English, and the natural rivalry for the fur trade in North America, inhibited agricultural exchange between their colonies. A common market under British rule was created in North America with the fall of New France, but it was short-lived. Trade was closed again with the outbreak of the American Revolution and diplomatic relations were not fully established until after the War of 1812.

The resumption of normal relations between the colonies of British North America and the United States was followed by a period of trade liberalization that extended until the mid-1870's. The impetus for trade liberalization can be traced to the free movement in Britain, which led to the reform of the Corn Laws, and the difficulty of enforcing trade restrictions because of the ease of smuggling between Canada and the

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1/ The British Government passed the first of the "Navigation Acts" in 1651. This legislation was amended on several occasions, but not repealed until the nineteenth century. [23]

United States. Although tariffs were charged on agricultural goods during most of this period, they were low in value and were used primarily to raise tax revenue.

The repeal of the British Corn Laws in 1846 removed the system of colonial preferences and encouraged the colonies of British North America to trade with the United States. Agricultural trade was facilitated, and the exchange of products expanded by the advent of rail transportation and the Reciprocity Treaty of 1854 which established free trade in natural products in North America. Reciprocity brought increased growth and prosperity to Canadian agriculture, especially in the livestock sector. For the United States, the results were less important in light of the rapid settlement in the West and the economic dislocation caused by the American Civil War. The abrogation of the Reciprocity Treaty in 1866 was a combination of U.S. objections to new Canadian tariffs on manufactured goods and the defeat of the "free-trade" interests in the southern states. [23] With the reinstatement of tariffs, the growth of two-way agricultural trade was ended. 2/

A resurgence of protectionist sentiments and policies, in both North America and Europe, was initiated by the worldwide depression that began in the late 1870's. Canada introduced higher tariffs for agriculture in 1879 as part of its industrial development strategy (the "National Policy"). The United States, which had increased its tariffs following the Reciprocity Treaty, passed the McKinley Act in 1890 imposing prohibitive duties on agricultural products and, in particular, coarse grains (barley) which were important exports from Canada. Canada-U.S. agricultural trade dropped by 50 percent in the following year.

As the world economy improved after the turn of the century, the trend towards trade liberalization was renewed. Canadian farm interests campaigned for a return of the reciprocity treaty with the United States 3/ In 1910, such a treaty to provide tariff free treatment for natural products was enacted by the American Congress. But after having carried in both the U.S. House and Senate, it was defeated in Canada following the failure of the ruling Liberal party to gain re-election. However, this defeat of free trade policy stemmed more from a fear of political annexation than a victory of protectionist interests. [62]

2/ For some exports such as Canadian cattle and sheep, which faced a 20 percent tariff, trade virtually ceased. Other export commodities, such as barley (for malting) and horses, continued to grow in volume despite the tariff, because of the increased U.S. demand. The most important U.S. exports to suffer were dairy products shipped to Canada.

3/ The support, which Canadian farmers had given to high tariffs, began to turn to opposition in the early 1880's. "There were several reasons why farmers reversed their support of tariffs. The general economic tempo which had been slow in the Seventies, became even slower in the eighties, and did not recover until after 1896 so it was evident that the tariff on farm products did not counter the decline in prices resulting from the depression." [22:p.23]

In the United States, the movement towards more liberal trade resulted in the Underwood-Simmons Tariff of 1913 which reduced tariff rates significantly on many goods and placed several items on the free list. This period of trade liberalization was cut short by the disruption and difficult economic conditions that followed the First World War.

A return of tariff protection for agriculture in the United States was implemented by the Emergency Tariff of 1921. This tariff, which raised the level of protection significantly for all major food commodities, was in response to the dramatic price declines that occurred as agriculture in Europe began to recover after the war. Canada-U.S. trade, especially in livestock and livestock products, was reduced. Canada's response, as in the past, was to seek preferential agreements for agricultural trade within the British Commonwealth and exclude the United States. [11]

As economic conditions continued to deteriorate, pressure mounted for even greater protection. This occurred despite the limited potential for agriculture to gain from protection being a major exporting sector. In 1930, the U.S. Congress responded by passing the Smoot-Hawley tariff which raised agricultural tariffs to record heights. Retaliation to the Smoot-Hawley tariff was international in scope and the consequences for U.S. trade were devastating. European nations responded by increasing tariffs and by introducing a series of non-tariff barriers. 4/ [63] In Canada, the Bennett Government raised tariffs and signed a bilateral agreement with the United Kingdom for new agricultural preferences (Ottawa Agreements of 1932).

The self-defeating nature of the Smoot-Hawley tariff was quickly realized in the United States and the Reciprocal Trade Agreements Act was passed in 1934 to negotiate bilateral tariff reductions. The Canada-United States Trade Agreement of 1935 returned trade protection to the 1929 level prior to the Smoot-Hawley and the Bennett (Canadian) tariffs of 1930 [10].

Since the Great Depression of the 1930's, tariffs on most agricultural trade between Canada and the United States have gradually been reduced. This process of trade liberalization was institutionalized following World War II through the General Agreement on Tariffs and Trade (GATT). At the present time, the majority of agricultural products have relatively low tariffs and the list of duty-free items continues to grow. 5/

The protection of agriculture accorded in the 1930's by some non-tariff barriers has not been removed. In fact, several provisions of the U.S.

4/ Tracy [63] notes that the use of non-tariff barriers such as quotas, milling ratios and similar measures have a long history in many European countries. Following the Smoot-Hawley tariff however, these measures became more widespread, and were added to by direct government intervention-especially in the Fascist States of Germany and Italy.

5/ In Appendix 1, Canadian and U.S. tariff rates are presented for selected groups of agricultural products.

Agricultural Adjustment Act of 1934 continue to limit imports. Similarly, during the Depression of the 1930's, Canadian intervention into agriculture, such as the formation of the Canadian Wheat Board (1935) and marketing boards for fluid milk, have permitted policies to provide strict control over imports of milk, wheat, oats, and barley.

With the outbreak of World War II, the size of governments and the degree of intervention into agriculture increased in both countries. Input subsidies and price support incentives were instituted to increase the production of domestic agriculture. Some of this intervention was dismantled with the transition to peace, but the impetus for government intervention continued. In part, the demand for government intervention stemmed from the excess supply of agricultural products, and low prices that prevailed from about mid-1950 to the end of the 1960's.

In the United States, price supports were extended to several important agricultural commodities and were combined with acreage diversion programs. In order to maintain the farm prices of these commodities above the world market level, the U.S. government imposed import quotas. Temporary import quotas on dairy products were imposed first during the Korean War to protect U.S. farmers from the relatively less expensive European products [74]. When these quotas expired in 1953, new quotas were introduced for dairy products under Section 22 of the Agricultural Adjustment Act. During the late 1950's and 1960's, similar quota limitations were extended to grain crops. Grain prices were further influenced by government credit assistance which was given to finance export sales and by foreign aid shipments. Also, producer subsidies were large for various programs including extensive outlays for land irrigation and subsidized credit for production.

In Canada, additional input subsidies, a more comprehensive stabilization program, and new supply management producer-operated marketing boards were enacted to deal with the problem of low farm incomes. Several of these initiatives, that either directly or indirectly influenced trade with the United States, were extended during the 1960's and 1970's. In particular, import controls for poultry and dairy products were strengthened via global import quotas. Also higher rates of tariff were negotiated on fruits and vegetables to protect Canadian producers in their prime marketing season.

Another form of non-tariff barrier which has increased in the past two decades relates to technical aspects of trade such as labelling, packaging, and grade standards. In part, this has reflected a new awareness of potential health problems and misleading advertising related to processed foods by consumers in both countries. Legislation has been enacted to provide more complete information and to tighten regulations regarding health, safety, and labelling of food. Indirectly, such regulations may serve as non-tariff barriers to trade.

Over the past 150 years, the demands for increased agricultural trade protection and government assistance have occurred when economic conditions created relatively low farm incomes. The history of agricultural trade policy in Canada and the United States has demonstrated the weakness and problems associated with trade restrictions used to raise producer incomes in the event of falling prices. Trade restrictions imposed by either party have led to retaliation and a general decline in exports as well as imports. In fact, the negative experience of protectionist trade policies employed in the 1920's and early 1930's created the environment for reciprocal tariff reductions that have been negotiated subsequently under the GATT. As a result of this more liberal trade policy, the value of agricultural products exchanged between Canada and the United States has increased markedly since the end of World War II.

Characteristics of Agricultural Trade

Trade between Canada and the United States has been growing at a substantial rate, but trade positions have not changed greatly in recent years. From the average of 1971-75 to 1980, total Canadian agricultural exports increased by 162 percent and U.S. exports grew by 183 percent. Agricultural imports to Canada, during the same period, rose in value by 138 percent and U.S. imports increased by 125 percent. Total U.S. exports of agricultural products to Canada increased by 146 percent from the average in 1971-75 to 1980, while Canadian exports to the United States grew by 152 percent. 6/ Thus the agricultural trade balance between Canada and the United States narrowed slightly in Canada's favor.

Both countries maintain a favorable ratio of total agricultural exports to imports. The Canadian trade surplus was higher in 1980 than the average for 1971-75, mainly because of larger grain sales to the USSR and Less Developed Countries, but exports generally exceed imports by 30 to 40 percent (see Figure 1). The same is true in the United States, but that country's favorable balance of trade in agricultural products grew significantly during the 1970's (see Figure 2). Traditionally, Canadian agricultural exports have been from 35 to 45 percent of total production value. U.S. agricultural exports, on the other hand, have increased from 10 to 15 percent of production value in the early 1960's to about 30 percent in recent years.

Canadian agricultural exports to the United States have been about 16 percent of total Canadian agricultural exports. These sales amounting to over $1 billion in 1980 are very important to Canada, providing a market for eight to 10 percent of production. Imports from Canada are much less

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6/ Agricultural trade of Canada and the United States:

Agricultural Trade	United States 1971-75	United States 1980	Canada 1971-75	Canada 1980
	(millions of dollars)			
Total agricultural exports	14,316	40,481	2,996	7,845
Total agricultural imports	7,686	17,276	2,144	5,107
Exports to Canada	1,182	2,913		
Exports to U.S.			453	1,139

Source:[75],[2]

FIGURE 1

Canada's Agricultural Trade Balance, 1955-1980

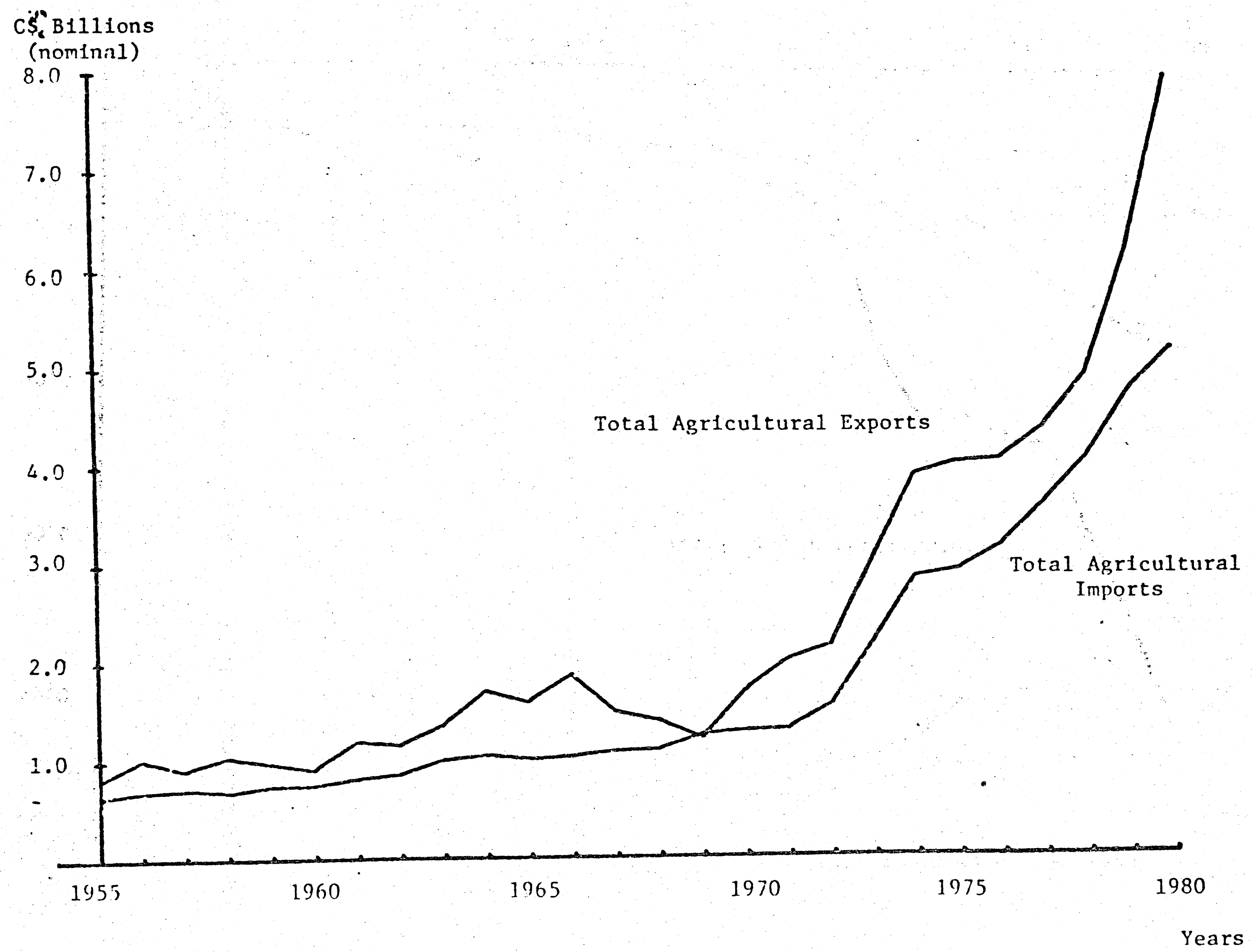
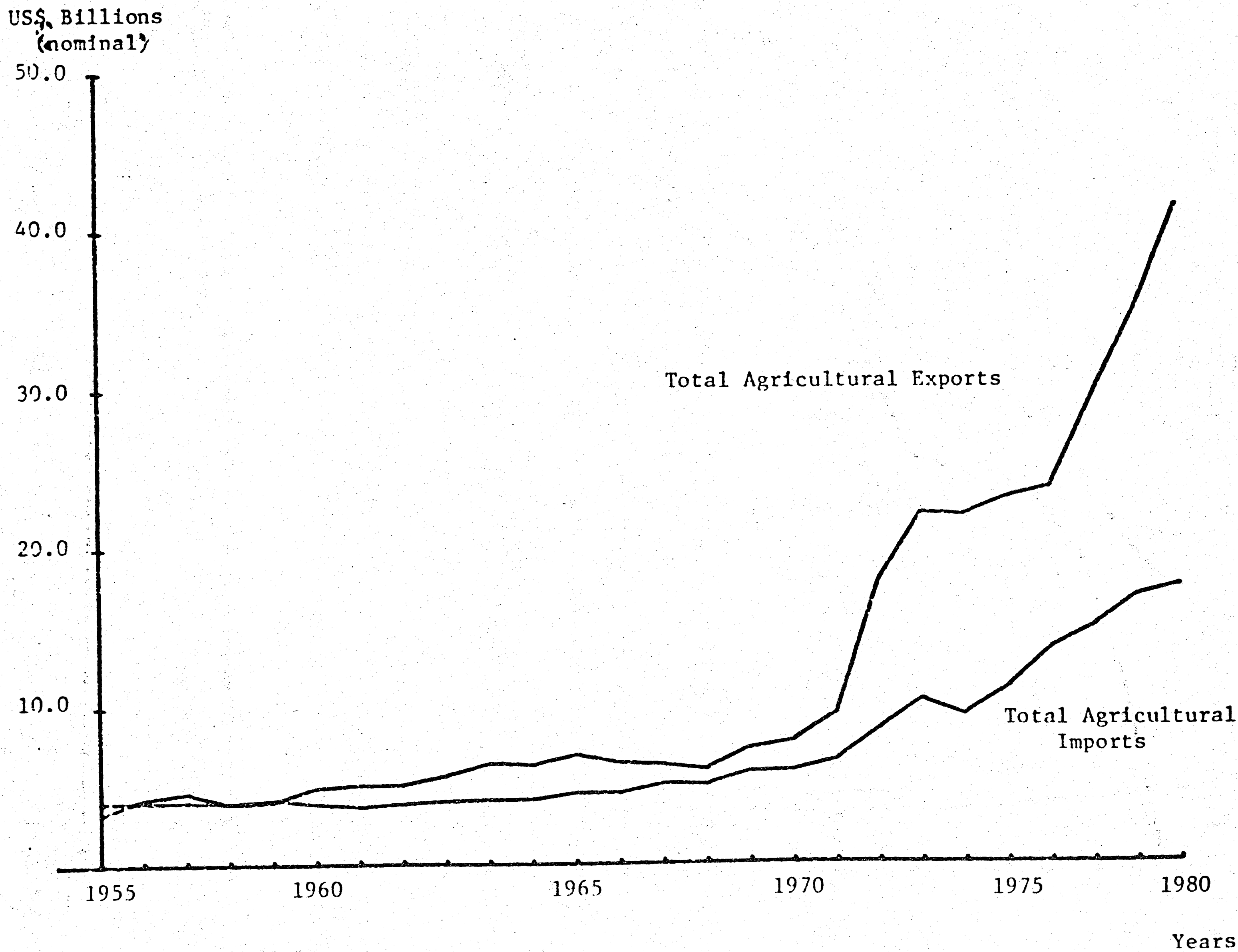


FIGURE 2

United States' Agriculture Trade Balance, 1955-1980



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significant to the United States since they generally amount to less than one percent of U.S. production. Nevertheless, Canada has been the second largest supplier of supplementary imports 7/ to the United States.

Canada maintains a relatively large unfavorable trade balance with the United States in agricultural products. In 1980, imports were valued at $2.9 billion while exports just exceeded $1.1 billion. Canada was the fourth largest customer of the United States, taking about 5.5 percent of the country's agricultural exports. For certain commodities, such as fresh fruits and vegetables, however, Canada is the largest and thus a very important export market for the United States.

While agricultural trade is important between the two countries, the impacts are felt much differently. Canadian exports to the United States are small in total but are in direct competition with U.S. producers. U.S. exports to Canada, on the other hand are equivalent to one-fifth of Canadian production and for specific commodities producers feel the impacts to be overwhelming. The percentage of Canadian imports from and exports to the United States are presented in Figure 3, and the corresponding data for the United States are presented in Figure 4.

Agricultural trade between Canada and the United States covers a wide range of commodities, but virtually excludes some of the most important sectors of production. Both countries are major exporters of wheat to world markets. Largely due to institutional restraints however, there is almost no trade in wheat between the two countries. The same is generally true for dairy and poultry products.

The largest single items of Canadian export to the United States are live animals and meats. In 1980 these two product groups made up 42 percent of Canadian sales to the United States Other animal products, largely furs, hides, and skins made up another 8.2 percent. Animal feeds and small amounts of grains for human consumption made up another 18.5 percent.

Live cattle and calves, largely for feeding, are shipped to the United States with the volume dependent on relative prices in the two countries. In recent years, numbers have amounted to 10 to 15 percent of Canadian production. There is also a small number of live hogs shipped to the United States which amounted to approximately 1.8 percent of Canadian production in 1980. In terms of U.S. production, however, numbers of cattle and hog imports from Canada would generally be less than one percent. There are very few live animal imports to Canada, except cattle for slaughter (Figure 5).

Canada-U.S. trade in red meats tends to be quite variable, but generally it is balanced, if considered over a reasonable length of time (Figures 6 and 7). For example, Canadian exports of beef and pork to the United States averaged $115.2 million per year from 1971 to 1980, while U.S.

7/ Supplementary imports are products similar to or the same as agricultural commodities that are produced commercially in the importing country, and compete directly with the commodities produced in the importing country.

FIGURE 3

Canada's Agricultural Trade with the United States as a Percentage of Total Agricultural Trade by Value, 1955-1980

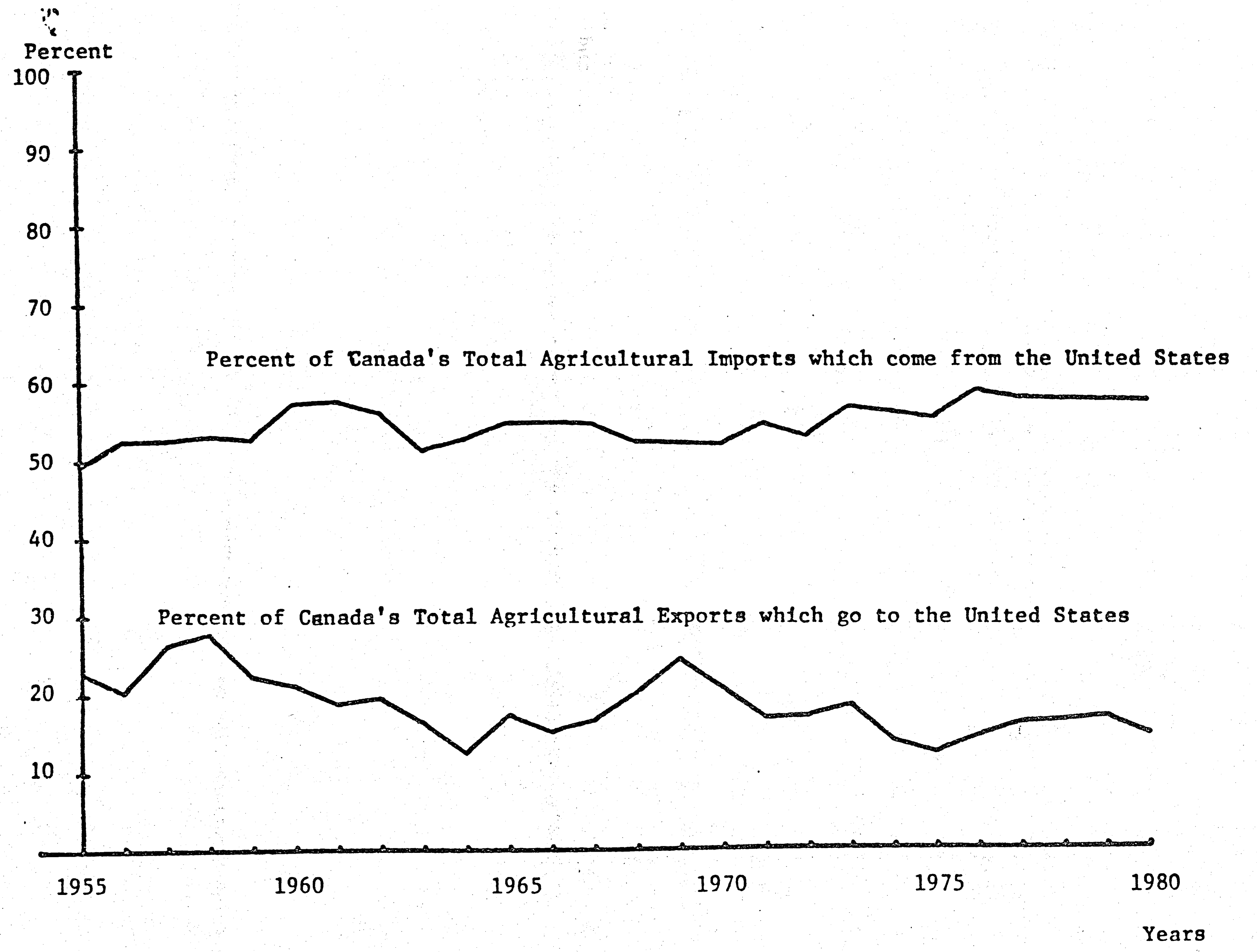


FIGURE 4

United States' Agricultural Trade with Canada as a Percentage of Total Agricultural Trade by Value, 1955-1980

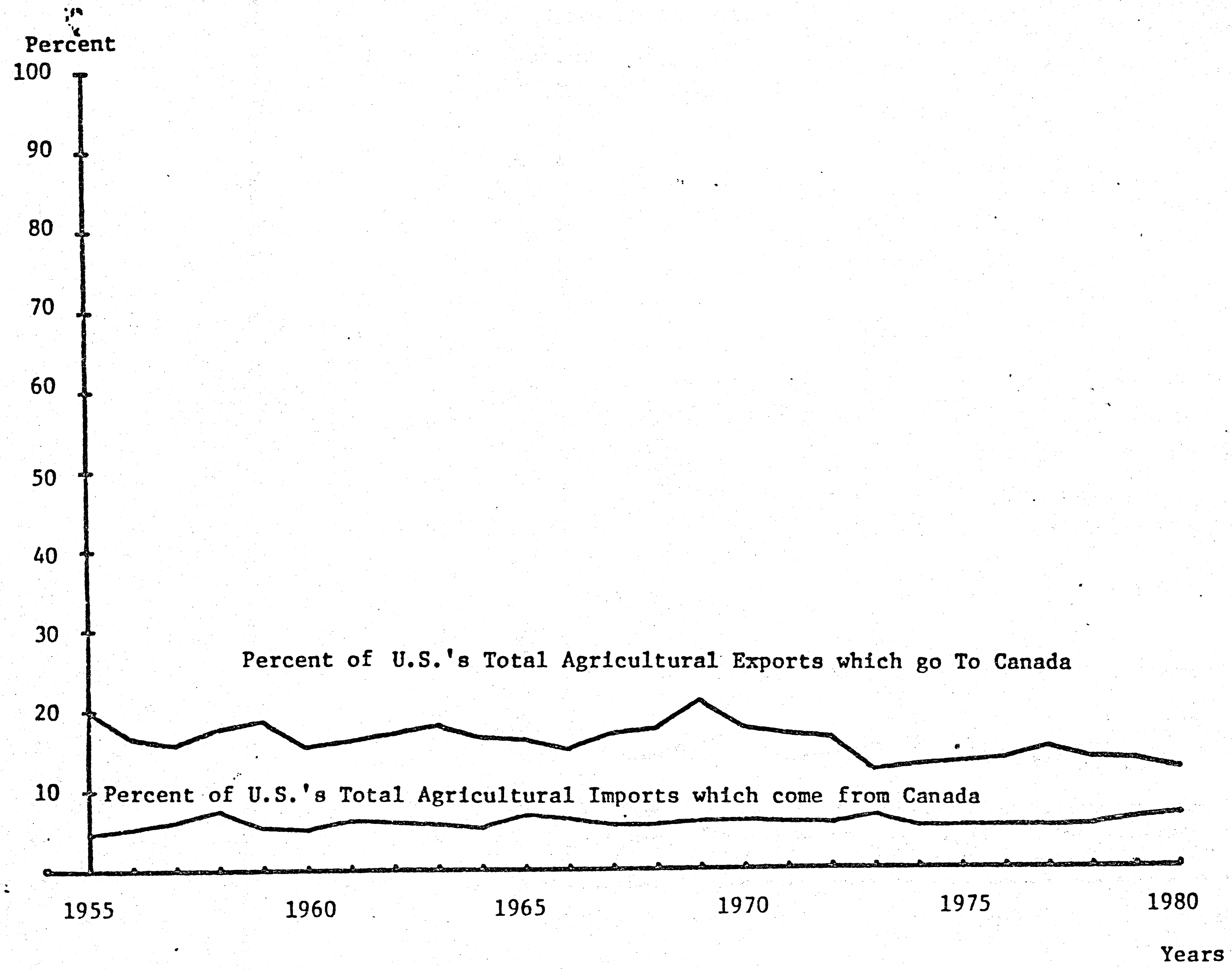


Figure 5

Live cattle trade between Canada and the U.S.A., 1961-1981 (excludes pure-bred dairy stock)

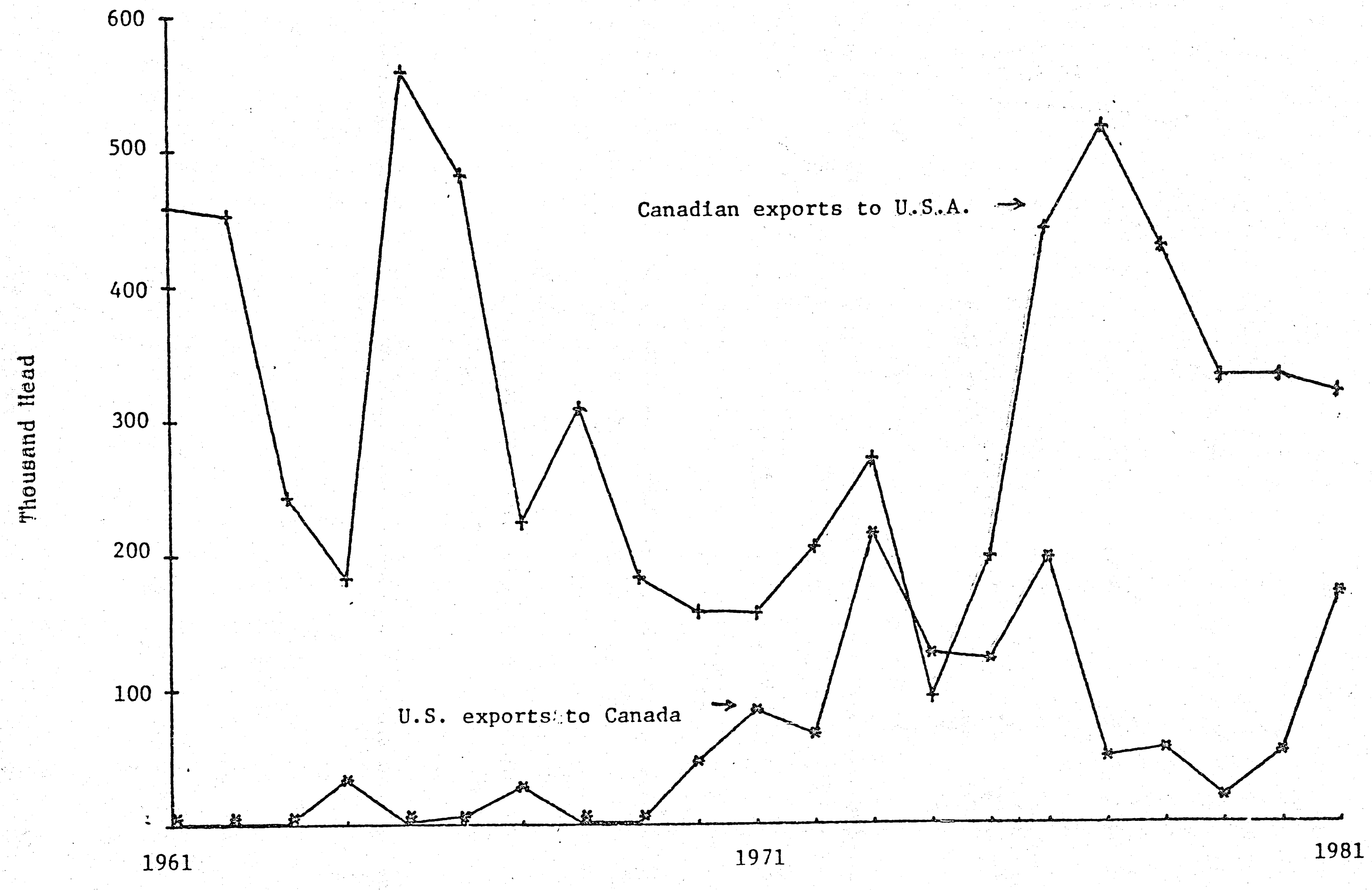


Figure 6

Beef, fresh and frozen, trade between Canada and the U.S.A., 1961-1981

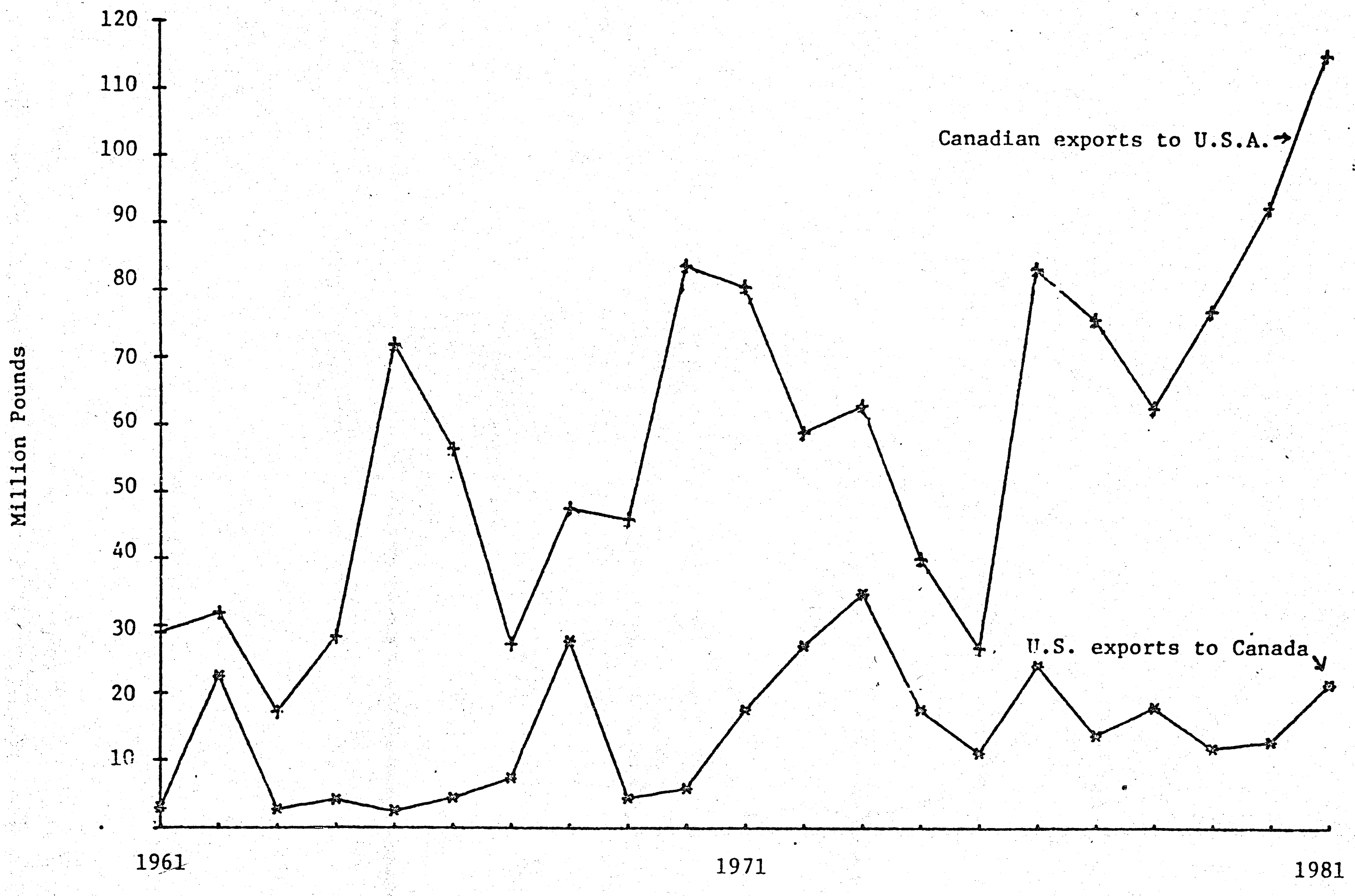
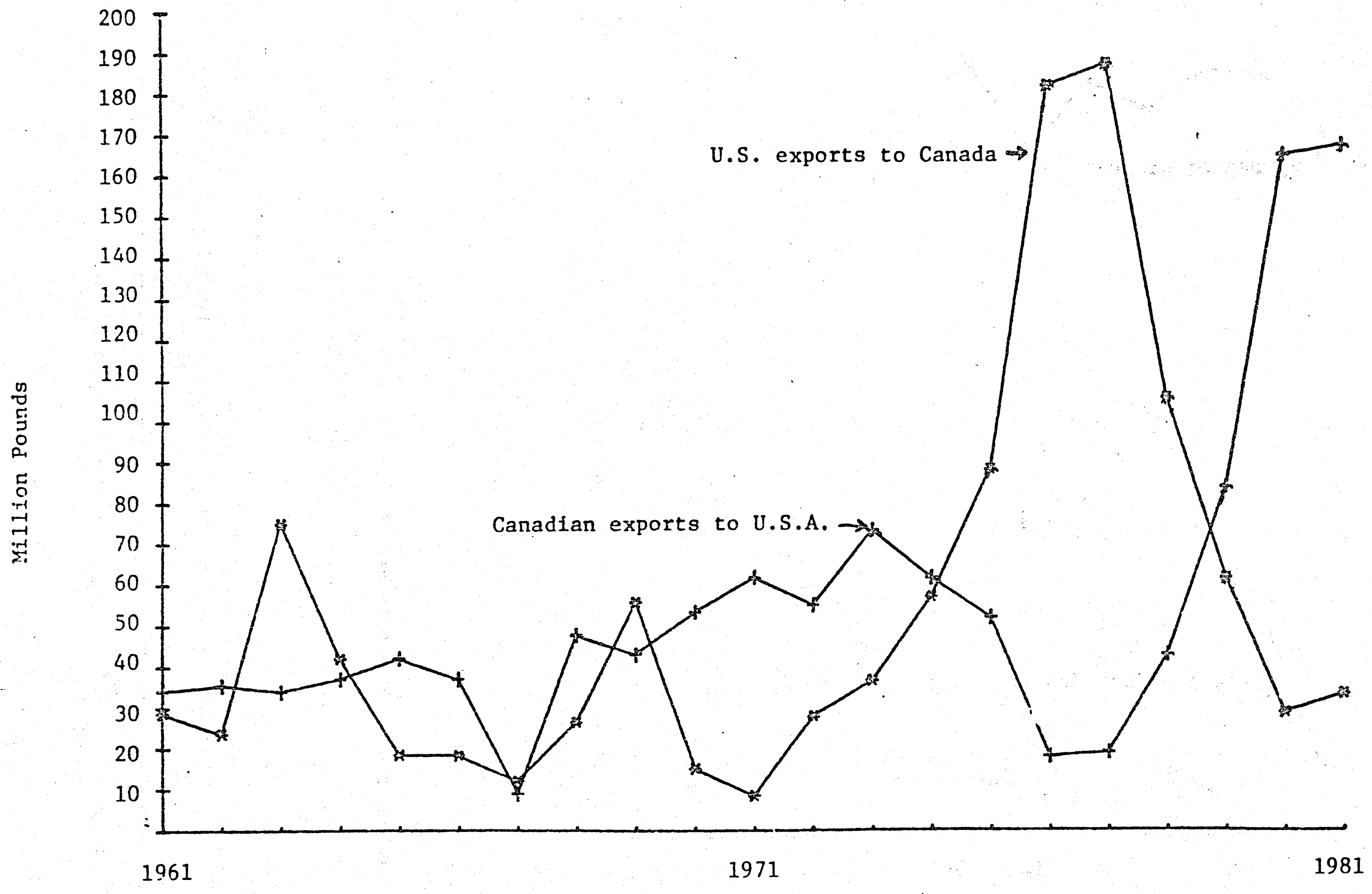


Figure 7

Pork, fresh and frozen, trade between Canada and the U.S.A., 1961-1981



exports of these products to Canada averaged $109.6 million annually for the same period. Normally, Canada has been a net exporter of beef to the United States. Canadian imports of fruits and vegetables, primarily from the United States, often substantially exceed production in Canada. In 1980, grape imports were twice domestic production, plums three times, and peaches nearly seven times. Asparagus, beans, celery, and lettuce imports exceeded production by approximately 3, 2, 2.5, and 5 times, respectively. While fresh fruits and vegetables are only available for a few months from Canadian production, imports often are very competitive during this period. The heavy volume of imports therefore creates difficulties for domestic producers.

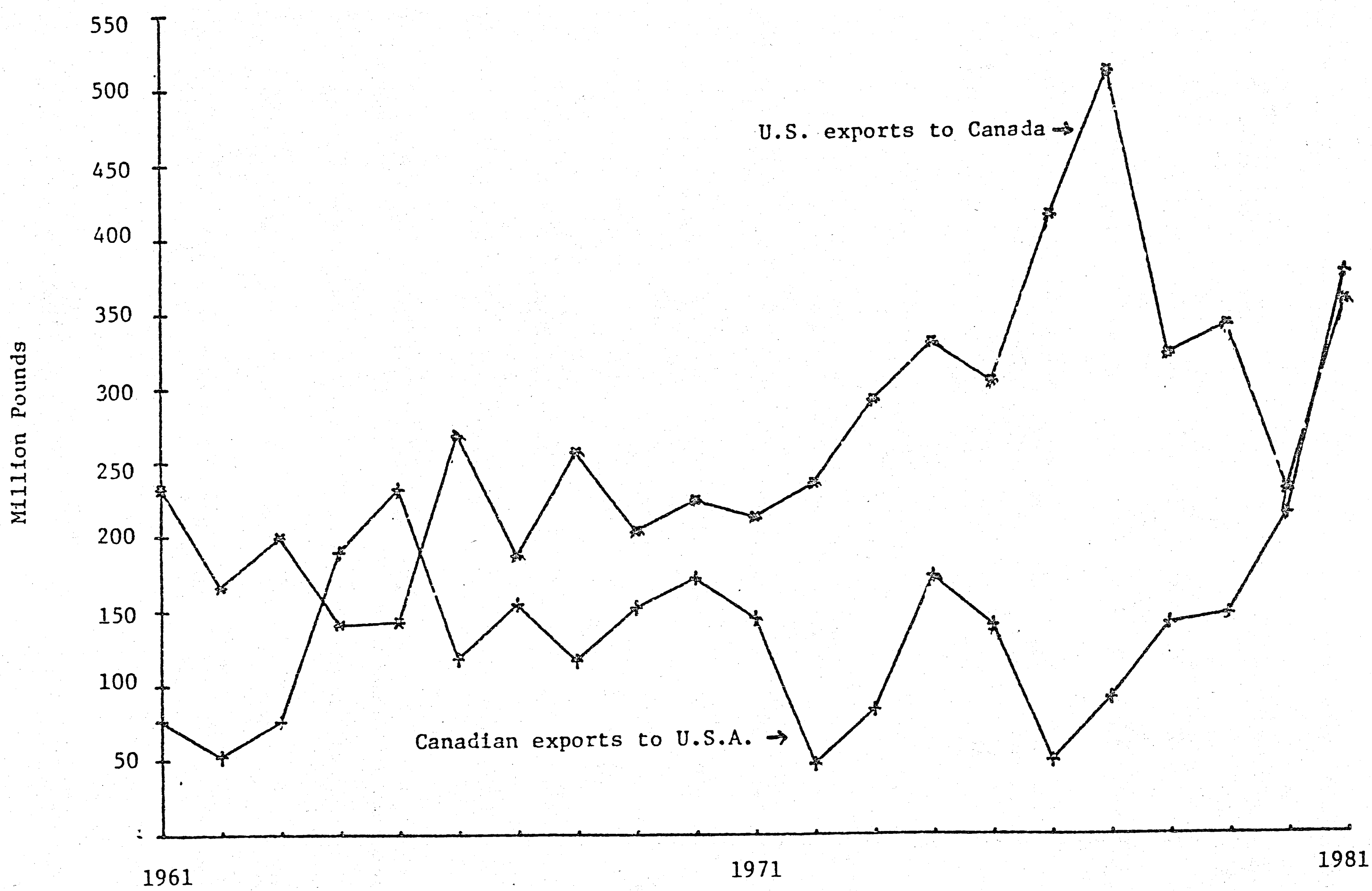
Canada does export selected fresh fruits and vegetables to the United States. About 10 percent of Canadian apple production is exported to the U.S. but this volume represents only about one percent of U.S. production. Additionally, apple imports from the U.S. to Canada, generally are double the level of exports. Other Canadian fresh fruit and vegetable exports to the United States include raspberries, carrots, cabbage, and rutabagas. The United States is also a major market for processed Canadian asparagus, corn, and for honey and maple syrup, but none of the quantities are significant in terms of total U.S. production.

The United States is a major market for exports of Canadian table and seed potatoes. These exports, largely from Canada's Atlantic provinces, face strong opposition from U.S. producers although Canadian exports of table and seed stock amount to less than one half of one percent of U.S. production with over one-third being seed. Moreover, Canadian imports of table potatoes generally far exceed the combined amounts of seed and table potatoes exported (Figure 8). Some of the problem in the potato trade may arise from a significant shift in trade in processed potatoes. Canadian exports of frozen potato products rose from 43,700 tons in 1977 to 854,000 in 1979 and 553,000 tons in 1980. During the same period, U.S. exports of frozen and dried potato products declined from 648,000 tons in 1977 to 307,600 tons in 1980. This has constituted a substantial change in the net position of the United States on processed potato sales with Canada. It has also shifted the United States from having a substantial export surplus in potatoes and products with Canada to being a net importer. However, total Canadian potato exports to the United States still amounted to less than 5 percent of U.S. production in 1980, whereas U.S. exports to Canada were equal to about 13 percent of Canadian production.

There is little doubt that Canada is more dependent on the United States both for supplies and markets than the United States is on Canada. Yet Canada is a very important U.S. market. It is also evident the problems created by trade for domestic competitors are much greater for Canada than for the United States It is therefore to be expected that pressures by Canadian producers for protection are likely to be greater than from U.S. producers. At the same time Canada is more vulnerable, having a greater dependency on exports for its markets and having much more to lose, particularly on a selected product basis, if export markets are restricted.

Figure 8

Potatoes, table and seed stock, trade between Canada and the U.S.A., 1961-1981



Restraints to Trade

Both Canada and the United States have been members of the General Agreement on Tariffs and Trade since the multilateral treaty was signed in 1948. The basic aim of GATT "...is to liberalize world trade, and place it on a secure basis, thereby contributing to economic growth and development and the welfare of the world's peoples. The General Agreement is the only multilateral instrument that lays down agreed rules for international trade." [34:p.1] The GATT acts as an overseer of the conduct of members acting within the rules and provides a forum for discussion and negotiation of differences.

Several principles and aims act as a framework for the rules on trading among members. These include:

(i) Trade without discrimination: All member countries are bound to treat all other members in a like manner in the application of duties, and other restraints.

(ii) Protection through tariffs: Protection when applied should be visible and therefore by tariffs rather than other measures.

(iii) A stable basis for trade: All tariffs should be listed and bound.

(iv) Consultation, conciliation and settlement of differences: GATT provides a mechanism for settlement of differences. Where two countries are unable to reach agreement, a panel of independent experts may be established by GATT to recommend solutions.

(v) Waivers and emergency action: Under certain economic conditions such as imports threatening or causing serious injury to domestic producers, waivers to GATT obligations may be obtained and temporary import restrictions may be imposed.

(vi) Quantitative restrictions: There is a general prohibition against quantitative restrictions except where there are balance of payment difficulties and the exceptions provided to agriculture.

(vii) Regional trading arrangements: Groups of countries may obtain exception to the non-discrimination rule where there is a customs union or free-trade area. However, restrictions by the group to non-members must not be raised above the level in existence before the group was formed.

General State of Trade Restraints: Post Tokyo Round Agreements

The GATT principles were established to apply broadly to all products with exceptions for agriculture. Many countries have applied agriculture exceptions which have permitted numerous non-tariff restraints to expand even though tariffs have generally been reduced significantly. The

United States, for example, has received exception for acting under Section 22 of the Agricultural Adjustment Act, providing for quotas and/or fees when there is injury or threat of injury for products under certain government programs. Import restraints are applied also on products under marketing orders. The U.S. exception provided for a blanket waiver whereas the general exception permitted by GATT required some form of restraint to production. Canada also has a proliferation of restraints, but these are applied in conformity with GATT as a means of protecting markets where supply management schemes are in operations.

The 1979 agreements on the Multinational Trade Negotiations (MTN) made some further advances toward trade liberalization. Some tariffs were reduced and/or bound, and some headway was made in bringing about more equal treatment. While a number of agreements were reached, intended to reduce non-tariff barriers, it is still not evident the gains have been significant in application.

Tariff Concessions

Tariff reductions were introduced on a wide range of products, most of which were scheduled to be phased in between January 1, 1980 and 1987. "Canadian agricultural exports valued at more than $1 billion in 1978 are affected by concessions negotiated at the MTN. Of that amount, about $500 million involves exports to the United States" [3:p.2] Based on all products traded, the agreement "...would permit an estimated 80 percent of U.S. imports from Canada to enter duty free and 65 percent of Canadian imports of U.S. goods to enter duty free." [80:p.130] The U.S. Trade Commission further estimated that Canadian tariffs would be reduced "...on about 2000 dutiable, industrial items from a trade-weighted average of 12.0 percent to 7.4 percent." [80:p.130]

Tariff cuts on livestock and meat, and animal products, which constitute nearly 50 percent of Canadian exports to the United States, were significant. The U.S. concession removes the tariff-rate quota system that applied to live cattle. For live cattle under 200 pounds and over 700 pounds, the tariff was reduced from 1.5 cents per pound under quota and 2.5 cents over quota, to 1.0 cent per pound beginning in 1982. The tariff on live cattle in the weight range 200 to 700 pounds remained at 2.5 cents per pound. Rates on fresh, frozen or chilled beef, dropped from three to two cents per pound beginning in 1981, and on portion controlled beef, the rate drops from 10 to four percent. Tariffs were eliminated by both countries on live hogs and pork. 8/

The tariff on corn entering the United States will be reduced by 1987 from 25 cents to five cents per bushel and the Canadian tariff from eight to five cents. The tariff on seed corn shipped to the United States will decline from five cents to zero. The tariff on oats and rye will also be eliminated. The U.S. tariff on flaxseed declines from 50 to 23 cents a bushel and on rapeseed from one to 0.4 cents per pound. Tariffs on most animal feeds to the United States will decline from 7.5 to 3 percent and Canadian tariffs on animal feeds will be eliminated.

8/ The former tariff rate on live hogs and pork was 1/2 cent per pound.

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The GATT principles were established to apply broadly to all products with exceptions for agriculture. Many countries have applied agriculture exceptions which have permitted numerous non-tariff restraints to expand even though tariffs have generally been reduced significantly. The

A significant trade concession was made on potatoes for Canada, with the U.S. removal of its tariff quota system and a reduction of the tariff to 35 cents per hundredweight. Previously, the tariff increased from 37.5 cents to 75 cents per hundredweight for seed potato imports over the quota of 114 million pounds and for table potato imports above the 45 million pound quota. [72]

U.S. tariffs on fresh pears, peaches, and cherries will be reduced to zero. Movements of these products to Canada are to be free except for selected periods when domestic production is available. [21] Canadian tariffs on stemmed tobacco decline from 30 to 20 cents per pound and unstemmed from 20 to 12.75 cents. The U.S. tariffs decline from 41 to 20 cents per pound on stemmed leaf tobacco. Selected bakery products will have reduced or eliminated tariffs to the United States from Canada.

"The United States will reduce its tariff on unprocessed cheese from 15 to 12 percent and on processed cheddar from 20 to 16 percent." [3:p.15] Numerous other items received selective cuts in tariffs.

There were many items with tariffs which were not reduced. Some of the more important products are noted in Appendix Table 1 which lists the U.S. and Canada 1979 tariff rates and the concessions granted in the MTN.

The trend toward tariff decreases was reversed for some horticultural products entering Canada. A review of fruit and vegetable tariff rates by the Canadian Tariff Board (1977) suggested a series of revisions in the value of duties and periods of application. As these tariff increases had a significant impact on U.S. horticultural imports, Canada was liable to make compensation under GATT. In March 1978, the United States notified Canada that it would seek redress and that demand for this compensation would be in the agricultural sector. "Between May 1978 and February 1979, the United States and Canada held several successful article XXVIII negotiating sessions on this issue with Canada agreeing to moderate some of its original proposals on items of priority interest to the United States and offering adequate compensation on other items where tariffs were increased." [79:p.134] As a result of the agreement, significant increases in fresh fruit and vegetable tariffs were permitted during the Canadian marketing season. Increased protection for Canada was also obtained for most processed products by shifting from a specific to ad valorem duty. A number of reductions were made on imports to the United States.

Non-Tariff Barriers

While tariffs are still important, rates tend to be relatively low and many products enter duty free. Non-tariff barriers have become more important as countries have reduced the emphasis on tariff restraints. [42] There are numerous techniques employed, many of which are used by both Canada and the United States.

As indicated earlier, non-tariff barriers are a major area of concern for members of GATT. In the 1979 agreements, additional efforts were made to reduce the use and abuse of non-tariff barriers. Agreements were reached in six major areas:

(i) The interpretation and application of codes relative to subsidies and countervailing duties: Provisions of the GATT permitted the use of production and export subsidies as well as countervailing duties and both measures have had increasing application. The new agreement is intended to "...ensure that the use of subsidies by any signatory does not harm the trading interests of another, and that countervailing measures do not unjustifiably impede international trade." [32;p.22]

Members must not use export subsidies on primary products, which gives them more than an equitable share of the world or individual markets, nor may countries using export subsidies undercut the prices of established suppliers. The code provides for and requires a determination or test of material injury be established before countervailing measures may be taken.

(ii) Clarification of the anti-dumping code of the GATT: The new agreement places a more precise definition of dumping and the requirements for the application of anti-dumping duties.

(iii) Government procurement guidelines: The objective of the new agreement is to increase competition in government purchases. The agreement establishes standard rules for bidding on government contracts and requires equal treatment of foreign and domestic products or suppliers. "It is designed to make laws, regulations, procedures and practices more transparent, and to ensure that they do not protect domestic products or suppliers, or discriminate among foreign products or suppliers." [32;p.23]

(iv) Technical barriers to trade: Technical product regulations or quality standards are considered necessary for health, safety, and other purposes. The new agreement attempts to ensure these standards and their application will not create unnecessary restraints to trade. Members are encouraged to publicize standards and to use international standards where possible. Members will have a basis for complaint and a system for redress of grievances.

(v) Import licensing procedures: The agreement was intended to prevent licensing from being used as a means of restricting imports. The agreement requires that members publish rules and procedures on licensing. "In addition, the Agreement limits the number of forms and approvals that can be required, and provides that licenses cannot be denied on the basis of minor errors in documentation, or minor variation in quantity and weight from amounts designated on the license." [80;p.48]

(vi) Customs valuation: The intent of the new agreement on customs valuation was to provide a fair, uniform, and non-discriminatory system of valuations for duty. "Uncertainty over the value of the assessment of customs duties on a particular imported good can have a more serious effect on trade than the customs duty itself." [33:p.132] The Agreement established the value for customs as the actual sale or transaction value or its nearest equivalent based on sales of identical goods. If this is not possible, sales of similar goods are to be used. If none of the above are adequate, the imported goods resale prices are to be used as a base point and if this is not available a cost procedure may be used.

The Agreement on customs valuation codes went into effect January 1, 1981. Canada, however, signed conditionally on the understanding that several years will be allowed to make the adjustments necessary to implement this change.

Each of the six areas of agreement on non-tariff barriers include systems for checking members' performance and for settling disputes. Where members cannot resolve differences, a dispute settlement procedure is provided.

In addition to the above Agreements, multilateral agreements on bovine meats and dairy products were reached. An international meat council has been established to evaluate the market for meat and to provide a forum for consultation on all matters affecting trade in meat. The objective of the Council is to "promote expansion, liberalization and stabilization of international trade in meat and livestock...". [32:p.27] A new International Dairy Arrangement became effective January 1, 1980. An International Dairy Products Council was established to monitor and evaluate dairy markets with similar objectives to those of the Meat Council. The Agreement includes the establishment of minimum prices for international trade in certain milk powders, cheeses, and milk fats including butter. (However, Canada is not a member of this Agreement).

Canada and the United States, as indicated earlier, are both signatories to the GATT Agreements and Codes. Therefore, the remainder of this report will examine Canadian and U.S. policies, relative to trade with each other, within the framework of the general GATT objective of reducing non-tariff barriers employed by its members.

CANADIAN NON-TARIFF MEASURES AND OTHER POLICIES AFFECTING TRADE

Quotas, Licensing, and Prohibitions

Import quotas and prohibitions are probably the most effective forms of non-tariff protection. The maximum share of the domestic market in which foreign products may compete is limited to a specific number of units. This share is generally subject only to minor changes on an annual basis and is usually unaffected by price changes in the domestic market. As a result, foreign competitors who are able to lower their costs through new innovation, better management, or reduced returns are unable to exercise this relative advantage. Similarly, the benefits of a rise in domestic price levels, due to a shift in demand, or a production shortfall (which may be artificially induced by a supply management program) are only shared, if at all, on the limited part of the market available to foreign suppliers under the import quota.

Quotas may help dampen price fluctuations resulting from instability in the world supply and price. Quotas also protect domestic producers from instability created by changes in the nation's foreign exchange rate which affects the competitive position of both exports and imports. For consumers, on the other hand, quotas add directly and indirectly to the cost of both imported and domestic goods.

Several agricultural products are subject to Canadian import quotas or prohibitions:

(i) Chicken: The Department of Industry Trade and Commerce through the Export and Import Permits Act, establishes quotas each year on imports of chicken. In 1980, the quota limited imports to 21.9 million kilograms (kg) and the 1981 quota value was established at 23.6 million kg on an eviscerated weight basis. For future years the quota will be 6.3 percent of the previous year's production. The quota covers live or eviscerated chicken and chicken capons, parts and products, as well as breaded and/or battered chicken.

All chicken imports must carry a permit which is issued on a quarterly basis. Importers are limited to 30 percent of their annual quota in any given quarter, but in being allocated quota, the previous year's utilization is considered. 9/ [44] Permits are issued on request to importers who had a basic quota allocation within a period of 30 days prior to the expected date of arrival of the shipment. Normally permits are valid for 30 days.

Supplementary permits may be obtained under specified conditions to meet market needs. Generally supplemental quota is dependent on proof of lack of product availability in the domestic market. Importers who have a basic quota allocation are normally required to use this allocation before any supplementary import permits will be issued. Applicants must contact the Canadian Chicken Marketing Agency (CCMA) who have three working days to inform the buyer of a Canadian source of supply. If the buyer refuses the CCMA offer, future requests for supplementary import permits are not considered for a period of 90 days.

(ii) Turkey: Import quotas limit turkey, turkey parts, and products manufactured from turkey. Importers require permits, which are normally granted only to established importers of turkey. The quota for calendar year 1981 was 1.8 million kg, eviscerated weight. This is equivalent to two percent of the domestic production as established under a production control scheme. Importers are subject to cuts in quota allocations if utilization falls below 90 percent of entitlements in a given year.

Supplemental permits may be issued if the Canadian Turkey Marketing Agency (CTMA) is unable to inform the purchaser of a Canadian source within three working days. The conditions and procedures governing supplemental import permits for turkey are the same as outlined above for chicken.

(iii) Eggs: Egg production in Canada is also controlled by a national supply management scheme 10/ and imports are regulated by quotas which generally amount to less than 2 percent of domestic production. Importers are allocated quota on the basis of their previous year's entitlements. Specified amounts of the total quota are allowed each month. The global egg import quota was set at 3,127,500 dozen in 1980 and 3,300,000 dozen in 1981.

Quotas for egg products in 1980 were set at 430,392 kg of egg powder and 1,103,623 kg of frozen or liquid egg, allocated on a quarterly basis. Egg powder and frozen or liquid egg quota for 1981 represented 0.615 percent and 0.415 percent of shell egg production in 1980. Supplementary import permits may be obtained if CEMA is unable to provide a Canadian source of supply within two working days. Other conditions for supplementary imports are similar to those above.

Importers have complained that the conditions governing supplemental import permits have not been followed with respect to applications for imports of brown eggs. Such applications have been rejected because CEMA has offered to supply white eggs to the buyer. Whether or not this is a legitimate complaint depends on the ability of importers to substitute white eggs for brown in their respective markets.

Inedible egg products 11/ require import permits and are subject to surveillance, but there are no restrictions on the quantity imported.

(iv) Dairy Products: The Export and Import Permits Act determines the level of imports of dairy products. Canada introduced a global quota system for cheese imports in 1975. It was invoked under Article XI of the GATT which allows import restraints to be implemented, if necessary, to enforce government measures operating a domestic supply management scheme. The global quota for cheeses of all types is 20.4 million kg.

9/ Quota allocations utilized by less than 80 percent in 1980 were reduced to the size of their actual utilization. In 1981, the required utilization figure necessary to maintain the quota allocation was anticipated to rise to 90 percent of actual utilization. [44]

10/ The Canadian Egg Marketing Agency (CEMA).

During the Tokyo Round of GATT, Canada and the European Economic Community concluded a bilateral cheese marketing agreement. Under the terms of the arrangement, Canada limited the universal application of the global quota, and since 1980, 60 percent of the total quota has been allocated to the EEC-based suppliers.

The quota is allocated to traditional importers on the basis of quota utilization in the previous year. This encourages importers to "flood" the market at the end of the quota year in order to qualify for the full allocation in the following period. Individual permits are required for each shipment and may not be sold or transferred. 12/

Structural rigidities of the quota system and the classification code for cheese have also been criticized as making it "a practical impossibility to fully utilize the quota allocated." The Cheese Import Committee of the Canadian Importers Association made the following statement in a submission to the Interdepartmental Committee on Dairy Policy Review: "No less than 169 classification code headings are listed on the cheese quota code...The switching regulations contained in the quota system provide for a maximum 20 percent by weight switch between quota entitlement categories providing the importer wishing to make the switch holds an allocation in both categories concerned, and abides by the EEC/NON-EEC country of origin provisions. Shifts are not permitted to varieties which are deemed to have a high degree of sensitivity in the Canadian market. As a result, importers are not only deprived of volume growth, but are restricted in the variety of product lines that they can carry." [19:p.4]

Manufactured milk is under the control of the Canadian Dairy Commission which allocates quotas for production by provinces. Production quotas are applied to assist in administration of a milk price support and income stabilization programs. These quotas are allocated and administered by provincial boards at the producer level, but producer prices and minimum manufactured milk product prices are set by the Canadian Dairy Commission.

Imports of butter and other dairy products are negligible. Licenses are not usually issued for skimmed milk, dry whole milk, dry whey, caseinates and animal feeds containing more than 40 percent non-fat milk solids. Fluid milk imports are

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11/ Hatching eggs, egg shells (for fertilizer), and egg products used as feed for fur-bearing animals.

12/ The legality of this provision in the Act was tested before the courts by Lovell and Christmas, but they lost the case.

generally not permitted on the basis of provincial health and sanitary regulations. Import permits are freely issued for casein. There are small quotas from buttermilk powder, as well as evaporated and condensed milk.

Fluid milk production and marketing is rigidly controlled by provincial milk marketing boards. Regulation originally was health oriented, with requirements of certification for dairy farms and processing plants that provided fluid milk in local markets. "This system of fluid quotas in each province prevents the interprovincial movement of milk in Canada, as well as any fluid milk shipments across the U.S. border...... These closed and self-sufficient provincial (and, in some cases, intro-provincial) markets do not arise for reasons of fresh milk perishability, because the technology of milk transportation now permits long distance shipments and less perishable fresh milk substitutes are now marketed. These local milk markets are closed because of existing regulations and, whatever their historical origins, they now serve to prevent competition among different milksheds and balkanize domestic fluid milk production." [8;p.26]

(v) Oleomargarine and Similar Butter Substitutes: Imported substitutes for butter and processed or renovated butter are classed as prohibited goods under Schedule "C" of the Customs Tariff. These articles come under the "grandfather clause" of import prohibitions negotiated under the terms by which Canada became a member of the GATT. 13/

Certain imports may be exempted from the provisions by a directive of the Governor in Council, but the very small quantities imported suggest this is not frequent.

(vi) Beef and Veal: Imports of beef and veal have been subject to voluntary restraints, import permits, and formal quota limitations to implement various policy objectives in recent years. Beef and veal were placed on the Import Control List in 1974 [44], in an attempt to offset the depressed market conditions and to assist in stabilizing the industry.

New legislation to implement a "counter-cyclical" meat quota was enacted by the Canadian government in 1982. Under this legislation, the maximum level of beef imports will fluctuate in accordance with domestic supply/price relationships. A minimum access for beef imports has been guaranteed, however,

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13/ The prohibition of oleomargarine imports "was first introduced in 1886, as an amendment to the Inland Revenue Act." [1;p.31] under a previous concession of the Canadian government made in the 1979 GATT negotiations. "The Government of Canada establishes a base minimum global access commitment of 139.2 million pounds of fresh, chilled and frozen beef and veal, to come into effect for calendar year 1980. For subsequent years, the base minimum global access commitment will be increased cumulatively by the same proportion as increases in the Canadian population." [20:p.1]

(vii) Grains (Wheat, Oats, Barley): Wheat, wheat flour, wheatstarch, oats, crimped oats, crushed, ground or rolled oats, oat flour and meal, barley, crushed or ground, crimped barley meal, flour or malt are marketed by the Canadian Wheat Board. Imports are permitted only when the Board determines that domestic supplies are inadequate. Wheat imports are nil and only a small amount of oats and barley enter the country.

Export licenses are also required for wheat, wheat bran, wheat shorts, wheat middlings and wheat flour, oats, barley, breakfast foods and cereals from wheat, macaroni, spaghetti, vermicelli and noodles. Animal and poultry feeds and seed wheat, oats or barley all require Canadian Wheat Board licenses. Wheat, oats or barley being transshipped to other Canadian ports via the United States, but not shipped by or consigned to the Board, must also carry an export license.

(viii) Sugar: Imports of sugar, in any of its recognized commercial forms, derived from sugar cane or sugar beet, is unrestricted except for non-member countries of the International Sugar Agreement of 1977. As a member of the ISA, Canada also collects a fee of $1.65 per tonne for all sugar imports which is submitted to the International Sugar Council. The quota for non-ISA members is based on the world price of sugar and each countries' imports during the 1973-76 base period. At the present time, the non-ISA import quota for Canada is 122,000 kg per year.

GATT Status of Import Quotas

Import quotas applied to chicken, turkey, eggs, and dairy products are justified on the basis of national supply management plans. For each product there are marketing boards and/or agencies administering marketing schemes under which domestic producers are allocated production quotas. Dairy production quotas are set separately for "fluid" milk which is used for fresh consumption, and "manufactured" milk which is processed into cheese, butter, skim milk powder and other dairy products.

The initial allocations of import quotas have been made on the basis of historic market shares of importers. 14/ Article XI of the GATT, which specifically provides for import restraints such as these, states that import restrictions will not be so imposed "as will reduce the total of imports relative to the total of domestic production, as compared with the proportion which might reasonably be expected to rule between the two [countries] in the absence of restrictions. In determining this proportion, the contracting party shall pay due regard to the proportion prevailing during a previous representative period..." [18:p.408]

Canada generally appears to meet the GATT requirements on import quota for poultry, eggs and beef, but not for cheese. The Canadian Importers Association notes: "Although there has been a notable increase in cheese consumption since 1975, there has been no increase in the 1978 quota ceiling on imports. As a result, importers have not only been deprived of growing with the market, but also have suffered significant declines in their traditional market shares." [19:p.3]

Traditionally, the U.S. supplied about one to two percent of the Canadian broiler market. In the five years prior to the imposition of the global quota, U.S. exports captured about six percent of the market; a share which has now become institutionalized. Obviously the increased differential between Canadian and U.S. prices, associated with the imposition of provincial supply management schemes in Canada, was a major factor in the expansion of U.S. exports. Another factor, though likely of lesser importance, was the trades' attempt to establish a higher import base prior to the imposition of quotas in 1978.

Health and Disease Standards or Regulations

Animal Health Standards

Most countries impose health standards for protection against importation of diseases and insects. "All animals are subject to health inspection at the first port of entry into Canada. If evidence or suspicion of disease is found, the whole shipment may be refused entry into Canada." [5]

Imports of all animals into Canada from the United States, with the exception of domestic cats, must be accompanied by "a certificate of an official veterinarian of the United States ... that clearly identifies the animal" [36:p.33] and shows that it was inspected within 30 days of entry, was found to be free of common communicable disease and was not exposed to a communicable disease within 60 days preceding the inspection. Horses and cattle imported from the United States to Canada must be accompanied by a certificate from an official veterinary assuring freedom from disease.

Horses must originate from the United States or be resident there for 60 days prior to importation. Cattle must not have been exposed to any communicable disease within 60 days prior to inspection. Cattle, other than those for immediate slaughter, must meet specific health standards relative to brucellosis, blue tongue, tuberculosis, and anaplasmosis. Health provisions are relaxed only slightly for cattle to come into Canada for feeding purposes. Cattle over 12 months of age, entering

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14/ For example, the allocation of import quotas for broiler chickens was based on the annual average of the importers volume of imports during the five years prior to the imposition of the global import quota.

Canada between November 1 and April 1 require only one test for blue tongue disease rather than two.

Swine imports from the United States to Canada are also limited by disease problems. Hogs for slaughter are currently denied entry to Canada because of outbreaks of pseudo-rabies and hog cholera 15/ in the United States Animals may be further subject to veterinary inspection at the border. For example, swine must go into quarantine for 30 days.

Similar health requirements are made for the importation of poultry. They must have an export health certificate certifying freedom from communicable diseases and that they have not been exposed to Newcastle, fowl plague, fowl typhoid, pullorum disease or pisttacosis.

Plant Health Standards

All types of nursery stock for any type of plant propogation must carry a phyto-sanitary certificate issued in the state of origin and have a certificate of release by a Plant Quarantine Inspector. Wheat, straw, bran and chaff from selected states in the United States must have a permit from the Canadian Department of Agriculture as well as a certificate of release.

Imports of seed potatoes from the western United States have recently become subject to a Canadian import prohibition because of the presence of Colombian Root-Knot Nematode, a parasitic organism. The quarantine area includes the states of Washington and Idaho, and selected counties in Nevada, California, and Oregon. "Restrictions also have been placed on the movement of used potato containers, farm equipment and implements from the quarantine area." [6] The Colombian Root-Knot Nematode is also expected to affect "the movement to Canada of vegetable transplants, nursery stock, fruit trees and vine understock, berry plants and soil from the quarantine area." [6]

Product Standards, Labelling, Packaging, and Technical Details

Product Standards

Imports of dairy products require a declaration that sound raw materials were used and that the manufacture was done under sanitary conditions. Signed assurances must be given that the products are sound, wholesome, and fit for human consumption.

Imported eggs and processed eggs must conform with grading, packing, marking and inspection requirements of Canadian regulations. All importations (over 30 dozen) are subject to examination by a Poultry Division Inspector, and must meet requirements of the Animal Diseases and

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15/ As of May 1982, the United States had not had an outbreak of hog cholera during the last six months and was technically eligible to be declared free of this disease for purposes of importation.

Protection Act. Eggs exported from Canada must be marked with a Canada grade, inspected by the Poultry Division, and packaged in containers marked with a government stamp.

All meat and meat products including poultry may be detained for inspection by a Health of Animals or Meats Inspector. A health certificate may be required. Meat imported from the United States must come from federally inspected plants and must bear the "USDA" meat stamp.

Poultry imports are not permitted entry into Canada if they lack certification (MP Form 506) that processing has conformed to Canadian standards. Canadian health authorities have banned the practice of disinfecting poultry with hyperchlorinated water. Imports must be certified as "not subjected to chlorine disinfection as permitted by U.S. regulations, nor has it been chilled in hyperchlorinated water." [71] This regulation applies to imports of portions and processed poultry products as well as whole carcasses. As a result, only selected U.S. processors, who have met these standards, can export to Canada.

Labelling

Any prepackaged imported product must meet requirements of the Consumer Packaging and Labelling Act of the Department of Consumer and Corporate Affairs. One requirement is that all labels be in both English and French. Grades and standards requirements tend to vary between provinces. In Quebec, a provincial "Order in Council" (4-15-67) requires "French" on labels of products must not be preceded by another language. [71:p.230a]

Particular aspects of product regulations are often addressed by two or more agencies and sometimes by more than one level of government. For example, packaging and labelling of dairy products in Ontario are governed by the following statutes and government agencies:

Federal

Canada Agricultural Products Standards (CAPS) Act	- Agriculture Canada
Consumer Packaging and Labelling Act	- Department of Consumer and Corporate Affairs
Food and Drug Act	- Department of National Health and Welfare

Provincial

Milk Act	- Ontario Ministry of Agriculture and Food

The overlap of jurisdiction among government agencies could serve to delay and add to the costs of official approval which is required for imported products. In this sense, the sheer number of regulations and regulatory bodies could act as a non-tariff barrier. Attempts have been made to reduce the degree of jurisdictional overlap by delegating some responsibilities, such as inspection, to single agencies which are charged with enforcement.

Problems still remain, however, such as the federal attempt at "one-stop labelling approval" described by Anderson [1:p.55] "The new one stop procedure was designed to enable companies to obtain approval more simply and quickly. Under this system, a designated department in the case of dairy products, Agriculture Canada determines whether a proposed label meets its own and other federal departments' labelling requirements... The problem is that the designated department's approval may not be legally binding on the other departments and agencies."

Packaging

"Another significant Canadian barrier to trade is a limitation on the number of container sizes in which certain foods can be retailed. Five can sizes that are standard and in common use in the United States and several other countries are forbidden in Canada. Among these is the size 303 can, which is the common size for vegetables in the United States." [80;Vol.6,p.133]

Canada has standard size regulations for packages and containers that cover an extensive list of products. The development of standard package sizes for consumer products was initiated during the Second World War as a method of conserving metal. Specific container regulations were developed and agreed to by negotiation between the federal government and Canadian manufacturers of these products. Over time, industry groups have requested that new products be given standard sizes, or that additional sizes be added (such as a new 10 ounce apple juice container that can be dispensed from coinoperated vending machines). The government normally grants such requests if they are supported by a majority of the industry. 16/

There are several inconsistencies within the standard packaging regulations. First, not all products have package standards. In general, most products produced in Canada have standard sizes, but only a few "exotic" imports such as pineapple have regulated packaging. Second, size standards vary between product groups. For example, canned corn has some package sizes that are not used for canned peas although both are processed vegetables and could be considered to be close substitutes. Packaging requirements also apply to fresh fruits and vegetables. The standard package sizes apply to both domestic and imported products. This can present a trade barrier for an importer who is too small to

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16/ One reason suggested for the popularity of standard package sizes was that it reduces the leverage of large retailers to play one supplier off against another.

purchase in sufficient volume to cover the foreign suppliers' costs of packing an unusual can size. 17/

These packaging regulations also present a potential trade barrier because all imports in non-standard package sizes, such as bulk shipments, must be granted special permission by Agriculture Canada. Normally import permits are granted routinely, but in the past when stabilization payments were being made on a commodity, or when domestic supplies were deemed sufficient, permission has been denied at the discretion of the Minister of Agriculture.

Metric conversion of retail package sizes in Canada presents another potential source of non-tariff barrier with the United States. When metric conversion was being planned, Canadian authorities provided assurances to food processors that trade would not be impeded. "Continuing discussion with the major trading partner, the United States, indicates these changes will not affect trade. In fact, the United States is watching the Canadian program and will likely convert to a parallel system." [53] Since the time schedule has been announced, Canada has moved steadily forward with metric conversion, however, the United States has decided to halt its program and reassess the situation.

The impact of metric conversion on trade depends on its implementation and the size of the individual firm's export market. Conversion can be either "soft" or "hard." A soft conversion requires only the extra labelling of the package in equivalent metric units (for example, Net 1 lb 454 g). Hard conversion requires new package sizes which are multiples of some metric standard, such as 250 grams.

Labelling changes for soft conversion would not act as a barrier, but hard conversions may curtail shipments from small exporters who can not cover the cost of packaging a special size. 18/ The time schedule for changes has been announced well in advance, however, and in general, trade has not been disrupted.

17/ One food importer estimated that five tractor trailer loads (approximately 200,000 pounds) of a specific product would be required to cover these costs. A label change, the importer estimated, could be covered by two tractor trailer loads of canned product imports. It was pointed out however, that Canadian consumers must bear these costs and sometimes miss opportunities that arise when foreign products are temporarily in surplus and at low prices, because importers are unable to bring in foods that do not meet Canadian package size regulations.

18/ This was reported to have happened to one U.S. bacon exporter when the label was changed from a soft to hard conversion.

Technical Details

Animal feeds containing more than 40 percent non-fat milk solids, butter, butterfat, cheeses, dry buttermilk, dry skimmed or whole milk, dry whey, dry casein, and sugar, require import permits. Importers must apply to the Department of External Affairs on department forms. A signed permit is required before importation is allowed.

A new code of valuation for duty went into effect in January 1981, as a result of the recent GATT Agreements. Canada, however, has signed conditionally on being given several years to phase in the new system. Canadian regulations require that customs' invoices carry a fair market value equal to the selling price in the country of export. [57:p.5-A] Such price should include a charge for delivery. Where a fair market value is not available, the invoice value to be used is the cost of production plus a profit margin equal to that charged on similar goods in the country of origin. All customs' invoices must clearly describe the product, giving name, grade or quality, size and other such characteristics.

Specific tariff categories exist for virtually every class of commonly imported goods. When goods are imported that do not fit any of these established categories, for example, new products that contain combinations of ingredients and additives, or new methods of preparation and packaging, they are placed in general tariff categories. If such goods could be placed in two or more alternative categories, by law, customs agents must apply the highest rate of duty. As food technology changes faster than the revision of tariff schedules permit, customs classification decisions may be a form of trade barrier for new products.

The Canadian tariff system operates on the basis of precedent. The ruling of any Dominion Customs Appraiser is binding on all Customs Appraisers. Appeals may be made to the Deputy Minister of Revenue and his decision may in turn be appealed to the Tariff Board.

Temporary Safeguard Measures (Surtax)

Temporary surtaxes are permitted under the GATT, if necessary to protect producers from injurious imports. For example, if an unusually large tomato crop in Florida depressed prices and these imports threatened the Canadian greenhouse vegetable industry, a surtax to protect the domestic producers could be assessed.

These surtaxes are administered under the federal Customs Tariff Act (section 8) by permission of the Minister of Finance and may be applied for a maximum of 180 days unless extended by an Act of Parliament. For horticultural crops, in which safeguard action has been sought most frequently, the time required for implementation of temporary safeguard measures has proved a handicap. The length of the marketing season is short and by the time documentation of the situation can be presented to the Department of Finance for consideration, the injury to Canadian producers is beyond remedial action. As a result, Agriculture Canada introduced a new set of procedures in October 1979 to increase the speed with which a case for a surtax could be presented. This procedure is generally referred to as the "fast track" system, 19/ which requires the Minister of Finance to act within seven days of a recommendation from the Minister of Agriculture. However, the Minister of Finance may decide against the Agriculture Minister's recommendations.

For products covered by the fast-track system the temporary surtax will be invoked by the degree of import price competition. "Under the new system, a trigger price will be established for each commodity before the beginning of the Canadian marketing season. Import prices which fall below the "triggerprices" will constitute evidence of injury, and the Government can then impose the surtax." [79:p.135] The trigger prices for these commodities "will be either 85 percent of the previous three-year average monthly import price, or 90 percent of the five-year average import price depending on the situation." [4] The surtax is expected to equal the difference between the import price and the trigger price. Also it is limited to the normal marketing season for the Canadian products.

Since the initiation of the fast-track scheme, the low exchange rate of the Canadian dollar relative to the U.S. dollar and the high rate of inflation has eliminated the need to apply the surtax. Nevertheless, it remains a potential trade barrier which the Americans take seriously and was noted during the course of this study.

Government Procurement Policies

In the Tokyo Round of the MTNs, both Canada and the U.S. signed the Agreement on Government Procurement which established rules for bidding on government contracts. This agreement applies to all federally controlled agencies, 20/ however, it does not prevent provincial or state governments from practicing such discrimination. Signatories are required only to

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19/ The Canadian Department of Agriculture has considered fresh sweet and sour cherries, fresh strawberries, fresh peaches, fresh lettuce, fresh potatoes, frozen sour cherries, frozen strawberries, sweet cherries and strawberries in preservatives for protection via a surtax. "In addition to these "named" commodities, other horticultural products will be eligible for surtax protection if the government receives a documented request for action. Under the new system a decision on a documented request from producers will be made within 20 working days." [4]

20/ There are some important exemptions for agriculture: "This Agreement does not apply to procurement made in furtherance of tied aid to developing countries" [31:p.31] and in Canada, the category "89" (food) of the Federal Supply Classification Code is exempt for purchases made by the Department of Defense and the Royal Canadian Mounted Police. General exemptions also apply to most federal crown corporations, the Department of Transport, Department of Communications, and Department of Fisheries and Oceans. Also any contract under 150,000 SDR (approximately C$215,000 during 1981) is exempt from the agreement.

"...inform their entities not covered by this Agreement and the regional and local governments and authorities within their territories of the objectives, principles and rules of this Agreement, in particular the rules on national treatment and non-discrimination, and draw their attention to the overall benefits of liberalization of government procurement." [31:p.5]

Provincial Buying Practices

A recent study by Haack et al. [38:p.40] outlines a number of provincial buying policies that do not abide by the Agreement on Government Procurement.

(i) British Columbia - favors provincial products and permits a 10 percent premium for local content.

(ii) Saskatchewan generally buys local when other things are equal and on some special occasions, will pay a premium.

(iii) Quebec - when sufficient competition is considered available, only Quebec firms are invited to bid. Tenders must state Quebec, Canadian and foreign content, and if contracts exceed $50,000 a 10 percent preference applies to local bidders.

(iv) Nova Scotia - follows a policy of Nova Scotia first, Maritimes second Canadian products third, and then foreign. No specific premium with respect to quality or service is applied, but "judgement" is used on individual cases.

(v) New Brunswick - if three or more suppliers are available locally, no outside bids are permitted. All contracting is monitored for impacts on employment and the economy, with local development favored.

(vi) Newfoundland - has a formula which combines the maximum provincial value added content with the size of the bid to determine contracts.

(vii) Ontario - maintains a 10 percent Canadian preference in government contracts.

Haack further maintains that

"...provinces normally encourage local governments, hospitals and universities under their jurisdiction to follow the provincial government practices. When these institutions do not buy local products, producers can apply lobby pressure." [38:p.41]

Control of Liquor Distribution

The authority for the distribution of alcohol was transferred from the Government of Canada to the provinces at the end of the

Prohibition era (circa 1927). In turn, each province has set up a Crown Corporation (liquor control boards) to administer liquor importation and retail distribution. The monopoly privileges of the provincial liquor control boards permit a range of discriminatory practices that have obvious implications for trade with the United States. In particular, some provincial liquor control boards limit the access of imported wines and beer in the Canadian market.

(i) Discriminatory Retail Markups: The markup in British Columbia for local wines is 50 percent; for imports the markup is 110 percent. In Ontario, the discrimination in the retail markup for wine has been combined with a discriminatory fixed handling charge for non-Ontario wines. 21/ The pricing policy, as of October 1981 was:

	Markup	Handling Charge
Ontario wines	45%	--
Other Canadian wines	85%	$0.25 per bottle
Imported wines	110%	$0.65 per bottle

The differential in the markup for beer is even more discriminatory. Local beers (in Ontario) are priced with an ad valorem markup equivalent to about 20 percent, while imported beers are marked up 80 percent. The lowest priced beer in each province must be brewed locally. "The Canadian Brewers Association estimates that 98 percent of beer sold is brewed in the province of sale---" [38:p.46]

The Quebec liquor commission, La Societe Des Alcohols du Quebec (SAQ), imports concentrates and/or wine in bulk and bottles it under its own label. Markups in this province discriminate by source of origin. French wine (in bulk) has the lowest markup [38]. This has a double impact on U.S. exports because the Californian wineries have been unwilling to ship wine in bulk and lose their brand identity.

The Province's use of discriminatory markups has important tax revenue connotations. Stegmann in 1973 [61:p.65] noted "...protection of domestic production against import competition is not the primary objective of the provincial liquor monopolies. The original objective was the control of consumption for moral and health reasons. That objective, dating back to the period of prohibition between 1919 and the early 1930's has gradually receded to a place of secondary importance 22/ compared to the objective of raising revenue for provincial budgets." The current discriminatory handling and pricing policies suggest the policy is now directed more toward protection of local producers, particularly in B.C. and Ontario.

21/ Apparently, British Columbia also imposes a similar handling charge. These handling charge differentials may have some justification for European wine imports, but it appears excessive with respect to the cost of importing U.S. wines.

22/ Moral issues still play their part however, as evidenced by the prohibition, until the summer of 1982, of the sale of beer at Toronto baseball games.

(ii) Mixing Regulations: In Ontario, the Liquor Control Act specifies that Ontario wineries use only Ontario grown grapes, cherries or apples. [37:p.7] During 1976-81 an exception was provided by the Wine Content Act to permit the import of grapes or wine equivalent to 15 percent of domestic production. 23/ Blended wines were restricted however, to a maximum of 30 percent import content. This exception was allowed during a period of shortage, but the intent was the local industry would be self-sufficient in five years. In 1981, an amendment was passed to extend the Wine Content Act to August 1984. With this one exception, Ontario provides a virtual embargo on imported grapes for wine making.

Mixing regulations in British Columbia, which also produces wine grapes, are based on a fluctuating scale. B.C. wineries may add up to 20 percent of imported grapes to their crush, depending on local supply.

(iii) Discriminatory Distribution Policies: Ontario wineries are also permitted to establish retail outlets for their own products. Until recently, these outlets were limited to 66 stores, but a new regulation has allowed wineries to set up mini-stores at shopping centers. These additional retail outlets provide a significant advantage to domestic wine distribution. 24/ Imported wines must be sold only in Liquor Board stores.

All wines to be sold must be listed with the Liquor Board. "An unwritten policy again favors Ontario wines in that they automatically achieve distribution through "A" and "B" stores, while all other wines must "sell" the store manager." [38:p.44] Liquor Board stores are classified by volume as A, B, or C stores and store managers have listing authority. Imported wines are also restricted to four bottle sizes, the largest being 1.5 litres. Domestic wines may also be sold in two litre and four litre sizes. [48]

British Columbia, which also produces wines, has discriminatory distribution practices. Listings for local wineries are automatic while imports must meet certain standards of quality, demand, etc. before being listed. Restaurants and other licensed establishments in B.C. must feature the local products as their "house" wines.

23/ This quota allowed either 2000 tons of white grapes, or 450,000 imperial gallons of wine, or some combination.

24/ In 1980, Ontario wineries operated 108 wine stores (66 regular and 57 mini-stores) of which 38 new mini-stores were opened during the year. The LCBO outlets numbered 591 stores. In terms of sales, the winery operated retail outlets accounted for 18.5 percent of Canadian wine sales in Ontario in 1980 versus 17.2 percent in 1979 and 15.4 percent in 1978. [49]

In Quebec, grocery stores may sell SAQ bottled or local wines (cider). Imported wines are distributed only through the SAQ stores, and importers have complained that even in these outlets they experience unfair competition.

"The SAQ subjects manufacturers to costly, useless and often arbitrary red tape. Months of wrangling are required to get through the maze of administrative procedures ... not always successfully. The SAQ keeps the best shelf space and aisles for display of its own labels." [46]

"Several provinces of Canada effectively exclude U.S. beer from their markets through a variety of devices. For example, foreign brands of beer can be distributed by State [Canadian] Liquor Stores only, whereas domestically brewed brands are permitted normal commercial distribution." [80:Vol.6,p.59] In Alberta most beer is sold through the liquor commission's stores, in Quebec beer is sold through grocery stores, while in Ontario all imported beer must be sold through the LCBO, but most domestic beer is distributed by the Brewer's Warehousing Company Limited, which is owned by the Ontario breweries.

"The Ontario breweries enjoy retail privileges which make it next to impossible for foreign brewers to penetrate the Ontario market." [61:p.73] Only Ontario based breweries can belong to the retail company and only those licensed to sell beer in Ontario 25/ can distribute through these stores. The spillover of advertising from the United States would provide a ready market if access were possible. One U.S. brewer has apparently conceded, and licensed the production of its brand (Budweiser) in Canada. These discriminatory practices have not gone unnoticed, but the federal government lacks legal authority 26/ to impose the GATT articles. Safarian [58:p.7] states: "This practice [variable liquor markups, favored distribution] was submitted to GATT as a non-tariff barrier by Canada's trading partners, but the federal government could do little because the provinces control all trade in liquor... This is only one of many examples of the limitations imposed by the constitution on Canada's ability to deal with her economic partners in GATT, OECD and other bodies."

Input Subsidies and Price Support Programs

Various types of government programs have an impact on trade, either directly or indirectly. Federal subsidy programs involving direct payments through commodity programs ranged from $133 to $621 million between 1970/71 and 1978/79. Some provincial government subsidies also occur, largely for stabilization and credit programs, but these payments have been highly variable. Total direct payments through commodity programs (both federal and provincial), plus input and marketing

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25/ There were 11 breweries located in the province and two in Quebec and two in Manitoba that were licensed to sell beer in Ontario in 1980.

26/ A civil case is presently before the courts in Ontario which challenges the authority of the LCBO to impose discriminatory markups on imported wines.

subsidies 27/ increased steadily from $420 million in 1973 to $1,050 million in 1977, then declined to $829 million in 1978. These subsidies have been estimated to be the equivalent of from 13.0 to 36.2 percent of realized net farm income during this period. [9:p.54]

Price and Income Support Programs

The primary single subsidy program is for manufactured milk, which in recent years has amounted to nearly $300 million annually. This program provides support for the production of milk and milk products at prices which are maintained above world market levels. Some export subsidies are also provided under this program. 28/ It is, therefore, acting as an artificial stimulant to production, reducing the need for imports, and maintaining some exports. Additionally, producer holdbacks are used to subsidize exports and essentially provide for a two price arrangement.

The Western Grain Stabilization program also provides for some subsidy to producers. Producers contribute two percent on their grain receipts, to this program, up to a ceiling of $900. The federal government currently contributes at the rate of four percent of eligible grain receipts. Entry to the program is voluntary and the maximum level of grain receipts covered by the program is $45,000. Payments are made to producers when the net cash flow from the six major grains falls below the five year average. Contributions to this program, which is funded by the Department of External Affairs, were $95 million in 1979/80 and $119 million in 1980/81. [56]

Payments have been made periodically for potatoes, hogs, cattle, and some other crops. A Federal stabilization program guarantees prices to at least 90 percent of the average price, over the past five years, plus a cost adjustment, for nine named commodities. 29/ Other commodities can be designated for coverage under this program in any year. Payments under this program have not been large and are highly variable (from $0.1 million in 1973/74 to $70.5 million in 1977/78). [9] Estimated costs for this program in 1981/82 are significantly higher at over $100 million for hogs alone.

Some provinces also have selective income or price stabilization plans. The most extensive is in British Columbia where producers share equally in the costs of a program designed to provide payments when prices fall below 100 percent of estimated production costs. Primary beneficiaries

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27/ Crop insurance, producer financing, storage and freight assistance, and trade promotion.

28/ Expenditures for trade promotion by the Canadian Dairy Commission (Agriculture Canada) have increased annually, from $9.3 million in 1970/71 to $43.4 million in 1978/79. In addition, the federal government wrote off a $159.7 million "CDC Milk Powder Export Subsidy Deficit" in 1977/78. [9:p.51]

29/ The commodities named in the legislation are cattle, hogs, sheep, industrial milk, industrial cream, corn, soybeans, and oats and barley outside the Canadian Wheat Board area.

are those who, "...produce and sell hogs, strawberries for processing, peas, beans and corn, cherries, apricots, plums, prunes, pears, and apples." [38:p.66] Alberta maintains a hog stabilization program which in 1980 guaranteed producers $35 per hog above feed costs. Saskatchewan has a cost share program for both hogs and cattle. 30/ Manitoba's Beef Producer Income Assurance plan guarantees a price equal to cash costs plus depreciation, replacement of cull cows, labor, and 50 percent of interest on investment. When market prices exceed this level, producers must pay the difference as a refund to the government. Ontario has a plan for cow-calf producers who share the program costs on a 1/3:2/3 basis. Winter wheat, corn, soybean and white bean producers in Ontario are guaranteed 95 percent of the five year average price plus a cost adjustment, also on a 1/3:2/3 cost sharing basis.

Quebec has an income assurance plan for producers of weanling pigs, feeder calves, slaughter cattle, and for grains. Payments are made when prices are less than the estimated production cost, including a return for the producer labor. Costs are shared on a 1/3:2/3 basis.

The three Maritime Provinces also have hog stabilization schemes. In each case, payments are made when estimated production costs exceed market prices.

In general, the provincial stabilization programs are quite limited and payments have been sporadic. Nevertheless, the combined impacts of the federal and provincial programs are considered to be positive on production. This has been particularly true for hog production in a couple of provinces.

Crop Insurance

This program was designed to cover natural hazards. Producer premiums equal about 60 percent of costs, but government payments have been growing in size. In 1980/81, federal contributions under the Crop Insurance Act (R.S.c. C-36) were $100 million. [56] As with other forms of input subsidization, crop insurance would have some positive impact on domestic supply by reducing perceived risk.

Farm Credit

In 1980, about one quarter of farm credit outstanding was from the federal government, virtually all of which was long term. [26] The provincial governments supplied another eight percent, most of which was also long term. The banks, credit unions and near banks accounted for 52 percent of total farm credit (mainly short and intermediate term). The

30/ Saskatchewan provides 50 percent of the funds for both commodity stabilization programs. Payments for hogs are made if the average quarterly price goes below a floor price of 100 percent of cash costs and 85 percent of non-cash costs. The plan for beef is similar except the floor price is based on 100 percent of cash costs and 55 percent of non-cash costs.

remainder came from private individuals, supply companies, and other sources.

The Federal credit programs probably provide some subsidy through program administration but interest charges are based on government bond yields or the prime rate and therefore not considered to be subsidized. There are a number of provincial schemes, however, which provide significant credit subsidies to producers and some agribusinesses. The amount, purpose, and subsidies or grants vary from province to province. Quebec is the most active, supplying 50 percent of the long-term and 15 percent of the intermediate term loans in that province in 1980 [27]. An individual may obtain long-term credit up to $250,000 with interest at 2.5 percent on the first $15,000 and 8 percent on the remainder. [52] Grants are made for feedlot construction of $100 per head up to 400 head. Grants have also been made to the meat packing industry.

New farmers in New Brunswick may receive up to $150,000 with interest waived in the first two years and with a 3 percent rebate for the next five years. Others may also receive the five year three percent rebate. Nova Scotia provides loans at 7 percent on the first $125,000 and 8.5 percent on the remainder to $200,000. Young farmers may borrow up to $200,000 with the first $50,000 at 6 percent, 7 percent on the next $75,000 and 8.5 percent on the remainder. Prince Edward Island provides grants up to $25,000 for buildings or equipment, primarily for potato storage. Newfoundland provides $10,000 for farm development and $20,000 for buildings, machinery, and livestock at 5 percent.

British Columbia provides loans up to $15,000 at 4 percent, for land improvements and reimburses interest on other loans to 2 percent below the average bank prime rate. Alberta provides long-term credit up to $150,000 at 12 percent with a 3 percent rebate for 5 years. Beginning farmers may obtain $200,000 at 12 percent with a 6 percent rebate in the first five years. Other loans are available on varying terms. Saskatchewan loans up to $150,000 at 8 percent for 5 years. Smaller discounts are allowed beyond 5 years. Manitoba offers loans up to $150,000 with 4 percent interest rebates. Ontario loans up to $20,000 at 8 percent for tile drainage.

The provincial interest subsidy programs, particularly where amounts of loans and interest reductions are relatively large, undoubtedly influence production. Since some provinces use more lavish subsidies than others, there will be an impact on trade. In the longer term, however, some of the production cost advantage will be offset by higher capital values for assets.

Transportation Programs

The largest transportation subsidy item in Canada is associated with western grains. Rates for out of province shipments have been set on the basis of the Crow's Nest Pass Agreement of 1897. It has been estimated these covered about 23 percent of costs in 1981/82. [40] Thus a subsidy of about $17.00 per ton has been required from other railroad revenues and from the government. In recent years the federal government has contributed over $100 million per year toward the differential. Additionally, expenditures to purchase grain hopper cars, refurbish boxcars, and for branch railway line rehabilitation have required substantial government outlays. 31/

The impacts of the freight subsidy on Canadian grain shipments are complex. An increase in shipping costs for grain producers would mean lower net returns. This should cause some small reduction in production, but if transport services are improved, giving better access to foreign markets, the negative impacts may be largely offset. The major impact would be on livestock production in Western Canada. Feeding would increase which would likely mean a reduction in calves shipped to the U.S. and Eastern Canada. The increase in beef and pork production would reduce imports from the United States. [40,41]

There is also a subsidy for the movement to and storage of feedgrains in British Columbia, Northern and Eastern Quebec, and the Atlantic Provinces. The subsidy, which amounts to just over $6.00 per ton, is administered by the Canadian Livestock Feed Board (annual budgetary expenditure of $17 million). In addition, Agriculture Canada has sponsored a Feed Freight Assistance Fund of $10 million per year "in accordance with federal-provincial agreements with the provinces of Quebec, Ontario and British Columbia to develop and implement programs to encourage and improve feed production, marketing, farm handling, storage and use of both feeds and forage." [56] These programs, plus the policy of pricing feed grains in Eastern Canada, 32/ favors production of feed grains in Western Canada, and the substitution of those grains for corn imports in livestock in eastern Canadian feeding programs.

The Maritimes Freight Rate and the Atlantic Region Freight Assistance Acts provide transportation subsidies to the Atlantic Region. Government costs are about $50 million per year. Rail rates are subsidized an average of 30 percent and truck rates by 17 1/2 percent on movement of products from the region to other parts of Canada. In 1974, a further 20 percent subsidy was added on selected items including unprocessed agricultural and fisheries products. [38:p.3]

31/ In 1980/81, these expenditures were $8.7 million to purchase hopper cars, $4.2 million to rehabilitate boxcars, and $70 million to upgrade prairie branch railway lines. [56]

32/ Western feed grains are priced in Eastern Canada on a formula to be competitive with corn. Changes in this policy have been expected since late 1981, but in March 1982 the Federal Government announced it would spend up to $8 million to reimburse western grain producers in order to continue this program for the remainder of the 1982 navigation season. Two grades of wheat (3CWRS and 1CU) have been removed from the program which otherwise remains the same. A full review of the domestic grains policy was also announced to be underway. [50]

Development Grants

Capital grants have been made over a number of years, to aid agricultural development in selected regions, through the Department of Regional Economic Expansion (DREE). Expenditures are primarily for industrial expansion in poorer areas of the country. Contracts are made with the provinces and costs are shared on a 50:50 basis except for Eastern Canada, where the federal share is greater. Improvement programs for agriculture include livestock and crop development, irrigation, drainage, pasture improvement, grain storage, and grants to improve processing facilities.

Federal costs of DREE programs have declined from a peak of $123.8 million in 1974/75 to $66 million in 1978/9. [9] Major recipients of the program expenditures have been Quebec, the Atlantic Provinces and British Columbia. Most of the expenditures in Quebec were for soil improvement and land reclamation.

Provincial governments also have programs that provide direct development assistance to agriculture and food processing industries. For example, the Ontario government's B.I.L.D. program provides 1/3 of the cost (up to a maximum of $85,000) for new storage and packing facilities, and has contributed larger sums to some processing industries.

There are specific instances where development grants have aided particular groups in providing storage or other input costs, and therefore subsidize a particular product. As the programs tend to be fairly general and widespread, any significant impacts on trade would be difficult to perceive or measure. Nevertheless, the cumulative effect of policies designed to substitute imports may have a longer run impact on trade.

Financing and Other Aids to Canadian Agricultural Exports

Most Canadian agricultural export sales are made for cash. Nevertheless, a number of programs exist to facilitate these sales and make the Canadian exporter more competitive.

Federal Agencies

(i) The Canadian Dairy Commission:

The Canadian Dairy Commission (CDC) is a federal crown corporation established by an Act of Parliament in 1966. The Commission has broad authority to purchase, import, export or sell dairy products, and administers an "Offer-to purchase" program for butter and skim milk powder. Surplus Commission stocks of skim milk powder are mainly exported, but about 11 million pounds of powder were made available for animal feed in 1979/80. "The powder was subsidized from the producer levy account but still returned higher revenues to producers than if sold on the world market. The program did displace some imports of feed containing skim milk powder." [13:p.34]

Exports of surplus manufactured dairy production are financed through the CDC. "Producers are responsible for costs associated with any special production for export and for the disposal of all surplus products. The federal government is only responsible for deficits resulting from major unforeseen changes in world market conditions and exchange rates. The producers will be responsible for the entire deficit of the Marketing Operations." [13:p.74] Total losses on marketing operations during the 1980 dairy year amounted to $115.6 million and producer levies were $110.3 million. The balance was added to the $291 million cost of Canadian Dairy Commission's operations which are mainly producer subsidies funded by the Government of Canada. Since the CDC's producer subsidies are more than double the producer levies, Canadian taxpayers indirectly support the full cost of exporting the dairy surplus.

(ii) <u>The Canadian Wheat Board</u>:

The Canadian Wheat Board is permitted to finance grain sales on competitive credit terms of up to three years. This medium term credit is guaranteed by the federal government, but any interest losses incurred must be assumed by the Board. [12] The Board pools both sales and producer receipts which are not publicized. Under some circumstances, this aspect may prove a special advantage in competing on world markets.

(iii) <u>Market Development Assistance</u>:

Federal and provincial governments as well as private firms have been involved in export market development. "Some provinces help finance export market development costs through grants and other types of loans." [43:p.17] They also provide information, research, and assistance in developing markets through trade missions.

The federal grains and oilseeds program provided $27.7 million in 1980/81 to promote exports, $16.5 of which was used "to facilitate sales of grain on credit to developing countries." [56] Additional funds have been used for general promotion of exports, through advertising and other similar activities.

The Program for Export Market Development (food) [PEMD (food)] provides funds to companies and other commodity organizations to support the development of export markets for food. Funds may be granted under six sections: a) specific project bidding, b) market identification, c) participation in trade fairs, d) incoming buyers, e) export consortia, and f) sustained export market development. "Contributions to projects are generally repayable from sales resulting from the project. Repayment may be waived in cases where the applicant is not a sales organization and where sales are not generated as a direct result of the project." [45:p.1] There is a relatively small budget, therefore, for direct subsidization of exports.

(iv) Canagrex:

The Government of Canada has current legislation before parliament (Bill C-85) to create a new Crown Corporation to promote the export of agricultural products. Canagrex is proposed to facilitate the work of small exporters, to conduct state-to-state trading (when necessary), and to strengthen Canada's competitive position. "More specifically, CANAGREX can:

-- market agri-food products;
-- act as a marketing agent;
-- work in conjunction with the Trade Commissioner Service and other agencies;
-- help market promotion;
-- arrange for technical support;
-- enter into joint ventures;
-- provide infrastructure;
-- give loans and guarantees;
-- make grants and contributions, and
-- provide market intelligence." [38:pp.4-5]

Although a wide range of activities are envisioned for Canagrex, a modest staff of 20 is provided. Also, Canagrex will not undertake exports of dairy products or grains unless requested by the Canadian Dairy Commission or the Canadian Wheat Board, respectively.

Producer Pricing Practices

Marketing boards can obtain and use their powers to get rid of surpluses by using a two-price system. The Canadian Egg Marketing Agency has charged a variable levy of up to five cents per dozen to dispose of surplus shell eggs. Exports, largely to the United States, have been highly variable and relatively small, at three to five million dollars.

The Ontario Flue-Cured Tobacco Growers' Marketing Board has been able to obtain agreement from the domestic manufacturers to establish an Export Assistance Program to permit the sale of exports below domestic prices. The program is financed by the manufacturers and administered by an independent authority which they appoint. "The program will provide a rebate of 7 to 25 cents per pound to export buyers of any eligible flue-cured tobacco from the 1981 crop exported from Canada to a maximum of 83.0 million pounds expressed in green weight terms." [54:p.7] Presumably the overall price agreed upon makes allowance for this type of price discrimination by the buyers. Canadian exports of tobacco represent less than four percent of the world total. They do compete, however, with U.S. exports in world markets.

U.S. NON-TARIFF MEASURES AND OTHER POLICIES AFFECTING TRADE

Import Quotas, Licensing, and Prohibitions

Limitations are placed on the entry of certain agricultural products to the United States by absolute quotas, tariff-rate quotas, and marketing orders. Absolute quotas impose quantitative limits on imports, and in some cases specify the quota allocation by supplying country. No imports are permitted beyond these set maxima, unless the Secretary of Agriculture determines that extraordinary circumstances exist to warrant such action. Tariff-rate quotas provide protection for producers by permitting higher domestic prices. Quotas are set for the entry of a specified quantity of product in a year at a reduced tariff rate. There are no quantitative limits to the volume of imports, but products which enter in excess of the quota for the period are subject to considerably higher rates of duty. Marketing orders which limit imports apply mainly to horticultural crops. Import controls are also imposed on specific grades of produce which are under domestic supply control in the United States.

Absolute Quotas

The Meat Import Act of 1979. Import limitations on fresh, chilled or frozen, beef, veal, goat and sheep meat were imposed first in 1964. 33/ The original legislation was designed to maintain aggregate imports of these meats at about seven percent of domestic commercial production. If the Secretary of Agriculture estimated that imports would exceed 110 percent of the adjusted base year quota, the President had to proclaim a quota. In practice, the United States has negotiated bilateral export restraint agreements with supplying countries, which usually have succeeded in maintaining annual import volumes below the corresponding trigger-level.

The Meat Import Act of 1979 (Public Law 96-177) amended the 1964 Act and provided a new "counter-cyclical" formula for determining imports in excess of the minimum quota of 1.25 million pounds. 34/

> "The new law establishes a base quota of 1,204.6 million pounds, equivalent to the average annual imports of meat subject to quota during 1968-77. For any calendar year after 1979, the annual import quota shall be the base quota multiplied by the product of two fractions. The numerator of the first fraction is a three-year moving average of domestic production of specified meat articles. The

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33/ Public Law 88-482, commonly known as the "Meat Import Law of 1964."

34/ The new quota includes certain prepared or preserved meats not included in the previous Act. Also, it is 50 million pounds larger than the quota provided by the Trade Agreements Act of 1979, which was approved 5 months earlier. [79]

denominator is the average annual production of such meat in 1968-77. The numerator of the second fraction is a five-year moving average of per capita domestic production of cow beef. The denominator is a two-year moving average of per capita domestic production of cow beef. The second of the two fractions is counter-cyclical, because it increases the import quota when domestic production declines, and it reduces the quota when production increases." [79]

Prior to 1980, Canada had been allocated a "voluntary import restraint" equal to about 0.6 percent of the total U.S. import quota. Exports in 1981, exceeded this percentage, but the quota share which may be allocated to Canada remains uncertain because the new law has not yet been invoked.

Section 22 of the Agricultural Adjustment Act of 1933. This section of U.S. law provides for the imposition of quotas whenever it has been established that imports are being or are practically certain to be imported in such quantities as to materially interfere with government price support or stabilization programs. Normally, the President directs the U.S. International Trade Commission to investigate the need for import protection. Based on the findings and recommendations of the Commission, the President is authorized to impose fees, quotas, or both, in addition to the basic duty. Total fees may not exceed 50 percent ad valorem, and quotas may not be less than 50 percent of the quantity imported during an earlier representative period.

Quotas under Section 22 have been applied to a range of products traded with Canada. Current quotas are primarily on dairy products.

(i) Dairy Products: Quotas for cheese are allocated partly by historic import volumes and partly on the basis of first-come:first-served. "...of slightly more than 107,500 metric tons (MT) of cheese quotas under license in 1980, about 70,080 MT or 65 percent were allocated on a historical basis, 7,396 MT (7 percent) on a nonhistorical basis, and the remaining 29,988 MT (28 percent) on a supplementary basis. Of the 29,988 MT of quotas issued in supplementary licenses, approximately 7,800 MT is for the EC and is allocated to eligible applicants on a modified first come, first served licensing basis (no designations of preferred importer are allowed). The remaining 22,188 MT (or 20 percent) may be "designated" by the various supplying countries to go to "preferred" importers. In 1980 virtually all of this was designated." [74:p.7]

U.S. Dairy Product Quotas

Blue Mold cheese and cheese substitutes	- 2,257,001 kg (Zero for Canada)
American type cheeses	- 3,429,711 kg (3,260,803 to EEC and New Zealand)
Edam and Gouda cheeses	- 4,185,734 kg (Zero for Canada)
Cheese and substitutes for cheese containing or processed from Edam and Gouda	- 1,432,385 kg (1,406,935 to EEC and Norway)
Italian-type cheeses, made from cow's milk, original loaves	- 5,624,736 kg (Zero for Canada)
Italian-type cheeses, made from cows's milk, not original loaves	- 704,532 kg (691,442 to EEC and Argentina)
Swiss or Emmenthaler cheese with eye formation	- 31,944,609 kg (70,146 to Canada)
Swiss or Emmenthaler cheese other than with eye formation	- 7,490,492 kg (7,410,462 to Europe)
Cheese and substitutes	- 40,666,710 kg (1,143,385 to Canada)
Cheese and substitutes containing 0.5 percent or less butterfat	- 5,736,877 kg (Zero to Canada)
Natural Cheddar Cheese, product of Canada	- 835,159 kg (835,159 to Canada)
Milk and Cream over 5.5% bf. but not greater than 45%	- 1,500,000 gal (New Zealand only)
Milk and Cream evaporated	- 1,312,000 gal
Milk and Cream condensed	- 4,074,000 gal
Butter substitutes containing greater than 45% bf.	- 545,454 kg
Dried buttermilk and whey	- 294,984 kg
Dried skimmed milk	- 819,649 kg
Dried whole milk	- 3,175 kg
Dried Cream	- 226 kg
Butter	- 320,693 kg (256,756 to EEC and New Zealand)
Chocolate containing greater than 5.5% bf.	- 9,731,455 kg (Zero to Canada)
Chocolate containing 5.5% or less bf.	- 2,127,273 kg (Zero to Canada)
Animal feeds containing milk or milk derivatives	- 7,409,090 kg (Zero to Canada)
Ice Cream	- 431,330 gal (Zero to Canada)

(ii) Peanuts: The current limitation for peanut imports to the United States is a global quota of 776,818 kg on a shelled basis. Until quite recently, peanut varieties were unavailable which could be grown commercially in Canada. New varieties were introduced during the late 1970's which have proven successful and will enable Canada to begin replacing current imports. Whether or not Canada will eventually produce an exportable surplus of peanuts that would be affected by this quota remains uncertain.

(iii) Cotton: The U.S. maintains import quotas for both raw cotton and cotton waste. Canada produces no cotton, but re-exports approximately 1,500,000 kg of raw cotton and cotton waste. The global import quota for cotton waste in the United States is 2,488,000 kg, of which 108,750 kg is allocated to Canada.

(iv) Grains: Previous quota restrictions under Section 22 for grains 35/ which affected Canadian exports have been removed. Most of these quotas were lifted by 1961, except wheat and wheat flour which was not lifted until 1974.

Tariff-rate Quotas

The U.S. imposes tariff-rate quotas on fluid milk, 36/ live cattle, certain fish species, seed and table potatoes, and brooms. As mentioned earlier, the removal of tariff-rate quotas on live cattle and potatoes was part of the trade concessions granted by the United States in the Tokyo Round of the MTNs. The over quota tariff on live cattle terminated in 1982, and the tariff for potatoes over quota is being gradually lowered in stages, with 1988 as the target date for complete removal.

Under the tariff-rate quota for fluid milk (containing over one percent, but not over 5.5 percent of butterfat), the first 3,000,000 gallons entered in any calendar year are charged $.02 per gallon duty, while the duty on any milk over this quota is $.065 per gallon. Canada is the only country to have exported fluid milk, under this tariff item, in the past two years. The volume of these exports, 246,901 gallons in 1980 and 535,602 gallons in 1981, were only a fraction of the quota available at the lower rate of duty.

Marketing Orders

Marketing orders for fruits and vegetables provide for grade, size, quality, and maturity restrictions as part of the means of improving markets and permitting more orderly marketing. Imports are not allowed unless they meet the comparable domestic market requirements. In 1981, marketing orders were in effect for 13 specific fruits and vegetables. 37/ "The import regulations aren't set up as trade barriers. They accomplish the same purpose as the marketing order itself - to see that poor-quality produce doesn't drive customers away or unreasonably depress prices to growers." [66:p.1] During the course of this study, no complaints were recorded by Canadian exporters regarding the limitations imposed on imports to the United States created by marketing orders.

35/ Barley, oats, flaxseed and linseed oil, rye, rye flour and rye meal, wheat and wheat flour.

36/ U.S. Customs also have tariff-rate quota systems in place for butter and for milk and cream over 5.5 percent butterfat, but these are not operative because these commodities have been placed under Section 22 quotas, as described above.

37/ Avocadoes, dates, grapefruit, Irish potatoes, olives, onions, oranges, limes, prunes, raisins, tomatoes, walnuts, and filberts.

Variable Import Levies

Variable levies are charges imposed on imports in addition to or in lieu of customs duties. Normally, a variable levy is associated with some minimum price which is set for domestic producers. The use of a variable import levy provides a guaranteed level of price protection for domestic production, regardless of the fluctuation of world market prices. Variable levies are most commonly used as a non-tariff barrier for agriculture in the European Community, however, the United States has a variable levy (under Section 22 of the Agricultural Adjustment Act) to protect its domestic sugar price support program.

Imports of sugars and syrups are controlled by fees based on the domestic price of raw sugar. 38/ Import fees apply to all sugars and syrups, except those used in the production of polyhydric alcohols for inedible purposes. Variable levies are determined quarterly, based on the "applicable stabili- zation price." 39/ Fees are adjusted according to the domestic daily spot price quotations. If the average of ten consecutive daily spot market prices is above the market stabilization price by more than one cent, the fee is decreased by one cent per pound. If these prices average below one cent of the market stabilization price for ten consecutive market days, import fees are increased one cent per pound. The market stabilization price for the remainder of 1982 is 19.88 cents per pound. The import fee on August 1982 was 0.40 cents per pound on raw sugar and 1.4 cents on refined sugar.

Canadian exports of refined sugar to the United States dropped in 1980 to $1.6 million from the average of $36.6 million in the three previous years. This drop occurred as world prices increased, making Canadian refiners, who are dependent on imports of raw sugar supplies, less competitive in U.S. markets. In addition, the large dumping duty that was imposed on refined sugar from Canada beginning in April 1980, had an adverse effect on exports to the United States.

Undoubtedly, the combined U.S. tariff and non-tariff barriers provide a substantial degree of protection for domestic sugar production. The Canadian Sugar Institute calculated the effective rate of protection as follows:

> "In the United States, as of October 1981, tariffs, import fees and estimated dump duties on raw and refined sugar were $2.60 and $4.49 to $7.43 (Can.) per 100 lbs., respectively. This tariff structure gave importing U.S. refiners protection of up to $4.63 (Can.) per 100 lbs. This combined with a larger market

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38/ The U.S. domestic raw sugar price is a landed price including paid duties and fees.

39/ The market stabilization price is set at the level estimated necessary to ensure that processors market their sugar domestically, rather than forfeiting it to the Commodity Credit Corporation under the purchase and loan program for sugar.

and consequently lower unit costs, ensures U.S. refiners considerable advantages over their Canadian counterparts." [14:p.41]

In May 1982, after the International Sugar Agreement of 1977 expired, the U.S. imposed quotas on sugar imports. The quota system provides for imports equal to 2.8 million short tons for fiscal year 1983. Quotas will be allocated as an historical share basis with a minimum of 16,500 tons for the smallest supplier.

Health and Disease Standards or Regulations

Animal Health Standards

All cattle imported to the United States from Canada must be "accompanied by a certificate issued or endorsed by a salaried veterinarian of the Canadian Government showing that said cattle have been inspected and found free from any evidence of communicable disease and that, as far as can be determined, they have not been exposed to any such disease during the preceding 60 days." [65:p.259] Cattle may be held at the port of entry at the importers expense.

If imported cattle are for immediate slaughter, they are sent direct from the point of entry to the slaughtering plant. Cattle imported for breeding purposes and feeder cattle from eastern Canada may only come from a listed herd or a herd qualified for export to the United States. These animals must have tuberculin test certificates and are tested for brucellosis. Feeder cattle from western Canada are given a "range privilege." Range cattle are given the status of a listed herd with respect to brucellosis, but must show evidence of such tests within 30 days of entry.

Sheep and goats must be accompanied by certificates showing they have been inspected and "found free of evidence of scrape, and of any other communicable disease." [65:p.261] If the imports are for immediate slaughter, they must have proof of inspection for communicable diseases by tests taken within 30 days of entry.

Swine imports, other than for slaughter, must bear a certificate "showing that said swine have been inspected on the premises of origin immediately before the date of movement therefrom...". [65:p.261] They must be free of communicable diseases as well as from exposure to disease during 60 days prior to entry. Certification must also assure "that no hog cholera or swine plague has existed on the premises for such 60 days." [65:p.261]

Plant Health Standards

Most plants, seeds, and bulbs are allowed to enter without permits. Phyto-sanitary certificates are required for commercial shipments. A few selected plants and seeds are restricted. Corn seed for example, requires a written permit and may require certification re: European corn borer. Individual states also may apply phyto-sanitary prohibitions to the entry of plant products. For example, Michigan placed an embargo on the importation of white beans from Canada during 1981, because of an alleged outbreak of Delta Race Anthanose. These are normal restraints for protection from diseases and insects and do not constitute trade barriers unless abused in application.

Maine has tried to use phyto-sanitary regulation as a means of protecting its potato producers. A proposed regulation governing seed potato shipments in transit through Maine would require Canadian shipments to be sealed as they entered the state and unsealed when they leave. A fee of $200 per shipment would be imposed and five days notice of shipments arriving and departing would be required. Canadian potato exports from the Atlantic provinces generally enter the United States through Maine. The transportation costs to circumvent this state are much higher. At present, Maine has been prevented from implementing this proposal by a court injunction which was secured by U.S. federal authorities.

Product Standards, Labelling, Packaging, and Technical Details

Product Standards

"The importation [into the United States] of milk and cream is subject to the requirements of the Food, Drug and Cosmetic Act and the Import Milk Act. These products may be imported only by holders of permits from the Department of Health and Human Services, Food and Drug Administration ... and the Department of Agriculture." [77:p.59]

In order to obtain a valid permit, the shipper of raw milk must 1) obtain inspection of the dairy farm by authorized agents, 2) the dairy farm must score at least 50 points out of 100 on the sanitary inspection, 3) all cows in the herd must pass a physical examination, 4) no animal which shows positive or suspicious reactions to the tuberculin test can remain with the herd, 5) any plant handling the milk must score at least 50 points out of 100 according to a prescribed sanitary inspection. Although these criteria are strict, they do not appear insurmountable and, in fact, are very likely met by most large commercial milk shippers in Canada. There have been relatively few permits granted which suggests the administration of inspections is a problem, although the higher Canadian prices obviously limit exports unless marketed under a two-price system.

Milk can be shipped interregionally within the United States only by eligible shippers that are listed within the Interstate Milk Shippers Conference. A memo of understanding provides for FDA milk specialists to inspect the individual farms and processing plants which the state inspectors have approved. Actual FDA inspection is done on a spot check basis to determine the eligibility for listing. Canada has no memo of understanding for FDA milk specialists to inspect Canadian farms or processing plants. As a result, state inspectors may lack proper authorization under the Milk Import Act Canadian milk shippers to obtain a valid permit.

Compliance for meat inspection, building construction and other requirements applied to establishments in the United States must be met by foreign exporters to the United States. Imports are allowed only from, certified plants. These plants are visited by a U.S. inspector at least once per year.

There were 511 plants in Canada, at the end of 1980, holding authorization to export meat products to the United States. During the year 46 plants had authorizations removed, while 45 others were granted authorization. there were 20 rejected during fiscal year 1980 that were later reinstated. Thus there was a net increase during the year. Poultry imports are relatively small to the United States but Canada is one of only 4 countries eligible to export to that market.

"A meat inspection certificate issued by the responsible official of the exporting country must accompany each shipment of meat offered for entry into the United States. The certificate identifies the product of origin, destination, shipping marks, and amounts. It certifies that the meat comes from animal that received veterinary ante-mortem and post-mortem inspection; that it is wholesome, not adulterated or misbranded; and that it is otherwise in compliance with U.S. requirements." [66:p32]. U.S. inspectors are also required to inspect a part of each shipment at the port of entry. Imports are monitored for various biological residues and may be refused entry if standards are not met. In 1980 about 1.2 percent of manufacturing beef and and tongue were refused entry. Less than 1 percent of manufactured pork and about 0.5 percent of pork carcasses and cuts were refused entry.

Chemical residue testing procedures in the United States differ in practice from Canadian methods. In Canada, product inspection occurs mainly at the wholesale level after importation. Samples are selected on a random basis, and if an excessive amount of any harmful chemical is detected the shipment will be re-exported or destroyed. U.S. inspection procedures of the Food and Drug Administration are carried out at the boarder. The shipment under scrutiny is impounded while samples are being tested. If no harmful chemcial residues are discovered, the shipment may be imported.

Several Canadian export representatives suggested that the United States method of inspection is subject to abuse as a non-tariff barrier. A residue analysis, which can take several days, adds to the exporters costs and may lead to deterioration of the cargo if it is perishable. Efforts to document the incidence of this U.S. practice failed to identify sufficient cases to justify these Canadian allegations. In the authors view, the FDA inspection does not appear to be used for purposes other than maintaining public health standards, although the procedures may be sufficiently inconvenient to some importers to act as a deterrent to product entry.

Labelling

"The U.S. Fair Packaging and Labelling Act requires that labels must contain a description of the nature of the product, identify it, give the names and place of business of the manufacturer, packer, or distributor, and give the quantity or net weight of the contents. Some provisions of the act specify the placement of the marking, size of type, and terminology to be used."[80:Vol.6,p.149]

The labelling of food and drug products is administered by the U.S. Food and Drug Administration. Requirements are set out by the Federal Food, Drug, and Cosmetic Act and the Fair Packaging and Labelling Act and details on size, location and other labelling. Specifications are contained in FDA Regulations. "The law states that required label information must be conspicuously displayed and in terms that the ordinary consumer is likely to read and understand under ordinary conditions of purchase and use." [81,p.10]. Any foreign language labels must also be in English. The label must clearly show the name and complete address of the manufacturer, packer, or distributor. The package must indicate the common food name, and a list of ingredients in order of their predominance by weight. All imported foods are "subject to inspection at the time of entry through the U.S. Customs". [81,p.2]. Meat, :meat products and foods containing 3 percent meat or more, must meet FDA regulations as well as requirements of the Wholesome Meat Act as administered by the U.S. Department of Agriculture as indicated earlier.

The strict enforcement of these regulations may impose extra costs and delay the entry of imports. One Canadian exporter estimated the process required at least one year for his labels to be approved, given the time for initial approval, revision and final approval.

Technical Details

Cultural practices can sometimes affect trading patterns. An example, is the difference between the Canadian and U.S. methods of quartering beef carcasses which influences the movement of live cattle for slaughter and trade in beef cuts. In Canada, the hind quarters of beef carcasses are one rib larger than in the United States 40/ which make the cuts of beef different and imported products less acceptable. As a result, there is a bias for the shipment of live cattle for slau;ghter and grading in the country of consumption. This bias may soon be removed, however, as Canadian industry is considering adoption of the U.S. standard which is widely accepted internationally in the trade of high quality beef cuts.

Rapeseed oil for human consumption is denied general use within the United States because it is not listed in the "Generally Regarded As Safe" or GRAS list of the Food and Drug Administration. Originally used only as a lubricating oil, Canadian research between 1960 and 1975 led to the development of new rapeseed varieties which were low in both glucosinolate and erucic acid. This crop, which has now been renamed Canola, provides approximately 40 percent of the vegetable oil consumed in Canada. Despite its widespread use in Canada, the GRAS list requirement limits the quality of rapeseed (Canola) oil exported to the United States for human consumption.

40/ Canadian practice is to divide the carcass between the eleventh and twelfth ribs, while in the U.S. carcasses are divided between the twelfth and thirteenth ribs.

The GRAS list status acts as a disincentive to food processors because of the potential for their products to be declared as unsafe. Rapeseed oil for human consumption in the United States is authorized for only a few specific uses. At the present time, the FDA is examining an application for Canola oil to the GRAS list, so this technical barrier may soon be removed.

Customs Classification

A decision by the U.S. Customs authorities to change the tariff classification of an import to a category which carries a higher rate of duty can act as a restraint to trade. 41/ The latitude for such action is demonstrated by the recent charges of unfair U.S. customs classification by Canadian flower exporters.

One of the concessions granted to Canada in the recent Multinational Trade Negotiations was a tariff reduction on plants with soil attached to the roots. The new tariff rate (see Appendix Table 1) improved the competitive position of Canadian exports of ornamentals, such as the Begonia, to the northern United States. After about six months of applying the new tariff rate, the U.S. Customs made a decision that plants potted in peat moss, which is used commonly as a soil medium for ornamentals, be excluded from this new tariff category. As a result, the higher tariff rate was applied. as the rule now stands, soil must be the major component of any soil mixture 42/ in order to obtain the lower rate of duty.

The scope for abuse in customs re-classification is very limited, however U.S. producers who are affected by imports can initiate a review of customs classification via an American Manufacturer's Petition. The U.S. Customs which is highly legal in nature follows these court decisions scrupulously, may appeal such decisions and continue to pursue their case through the U.S. Court of International Trade, the Court of Customs and Patent Appeals, and finally the U.S. Supreme Court, if they feel their case warrants the cost and effort.

Government Procurement Policies

In the U.S. preferences for domestic supplies "...are clearly set out in statutes such as the Buy American Act, which establishes a price preference for bids of domestic firms." [76:p.1]. In the recent Tokyo Round of negotiations under the General Agreement of Tariff and Trade, the U.S. became a signatory to an agreement not to discriminate against product imports under government procurement. However, "All purchases by state and local governments, including purchases made with Federal funds, are excluded from the Agreement." [76:p3]. The U.S. also excludes "...purchases under its small or minority business set aside programs, procurement involving tied aid under foreign programs, and purchases by the Department of Agriculture for farm support or human feeding programs." [76:p3].

41/ Conversely, trade could be promoted by the re-classification of a product into a lower rate of duty.

42/ Styrofoam and vermiculite are also considered to be the same as peat moss.

A number of States in the United States have their own buy-national legislation or procurement rules. Restrictions are imposed largely on public works projects and industrial type purchases. However, there are instances of restriction on agricultural products. For example New Jersey Laws "...require the use, whenever available, of U.S. manufactured goods and farm products in county and municipal contracts and of U.S. materials in public works projects." [16:Appendix:p.7]. Massachusetts law includes a preference, other things being equal, for domestic purchases of supplies and materials for State departments. All State agencies in Oklahoma are required to "...purchase goods and equipment manufactured or produced in the United States..." [16:Appendix:p]22].

Input Subsidies and Price Support Programs

Programs of the U.S.D.A. result in substantial but highly variable, treasury costs. Outlays in 1981 were estimated to be nearly $21 billion versus $24.5 billion in 1980 and estimates of $28 billion in 1982. [64:p.63]. Much of this variability is associated with the system of commodity supports, and to variations in outlays of the Farmers Home Administration program. Primary expenditures are for food subsidy programs such as food stamps.

Price and Income Support Programs

Since 1977 a number of commodities have been supported by a system of target and loan prices. Loan rates are set within specified guidelines by the Secretary of Agriculture and are the basis for cash loans to farmers. Target prices, based on estimated production costs determine the basis for deficiency payments. If average market prices are below the target price the difference is paid to farmers participating in set aside programs intended to control supplies. These programs have been in effect for wheat, feed grains, rice and upland cotton. Maximum payments in 1980 and 1982 were $50,000 per farm for "one or more of the annual programs established under the Acts for wheat, feed grains, upland cotton, and rice..."[67:p.30-1] During fiscal year 1979 deficiency payments amounting to $1,023,181,000 were made to producers [15:p.1].

Similar supports are available for peanuts except acreage allotments and marketing quotas have also applied. Tobacco is supported by non-recourse acreage and poundage basis. Wool is supported at 85 percent of the 1965 support price adjusted for changes in an index of prices paid by farmers. Non-recourse loans and minimum support levels apply to sugar. Additionally the sugar industry is "protected by duties, fees and quotas on imports of raw and refined sugar."[17:p.19].

"Farmers who agree to reduce the acreage under certain crops are eligible for diversion payments." [17:p.7]. In 1979, corn farmers who participated in the set-aside program and diverted acreage from production were paid 10 cents per bushel on the basis of normal yields. Payments were made to feed grain and cotton producers, amounting to over $535 million, for acreage diversion in 1979.

Farmers were also eligible for payments based on natural disasters. Producers of wheat, feed grain, upland cotton and rice may receive up to $100,000 per person for losses due to weather. For example, "disaster payments for fiscal year 1979 totaled $366,238,000" [15:p.1].

Subsidies have also been made for grain storage including direct storage payments plus subsidized interest on loans for stored grain. Estimated public costs for storage of corn and wheat from 1978/80 were $1.2 billion [59] A comparison of subsidies for 1977/78 concluded that U.S. support on wheat were nearly three times as much per ton produced as for Canadian grains. [40]

Subsidy levels fluctuate significantly but are relatively large in some years. For example, the total payments to wheat production for the support program, disaster, and deficiency were $1.24 billion in 1977/78 or about 60 cents per bushel produced. In 1978/79 they amounted to nearly 45 cents per bushel. [68]

Farm price supports are maintained by Commodity Credit Corporation (CCC) purchases. A dairy support program establishes milk prices at between 75 and 90 percent of parity. The support price is established annually and the government is required to purchase dairy products, through the CCC if necessary, to support this price. Costs of dairy and other support activities are a major budget item, but are highly variable being dependent on world market price levels, as well as production. Combined expenditures of the Agricultural stabilization and Conservation Service and the CCC in 1980 were $3.36 billion versus 466 million in 1981 and estimates of $2.5 billion in 1982.

Another mechanism to help maintain income support is provided for U.S. farmers by Section 32 of the Agricultural Marketing Act of 1846. An example of income support under Section 32 is the Livestock Feed - Potato Diversion Program. Funds are paid to producers for diverting potatoes to livestock feed or starch when a surplus threatens to depress market prices.

> "In 1979, over 140 Aroostook country [Maine] farmers signed up for the program which diverted 1.45 million hundredweight of potatoes. Farmers were reimbursed at a rate of $2.20/cwt during the first 30 days and $1.70/cwt during the final 30 days for a total of $3,233,124 in payments. In 1980, the program was again approved to benefit 118 farmers who diverted .5 million hundredweight and were reimbursed $2.25/cwt for a total of $1,105,827." [51]

Total Costs for Section 32 in 1981 were $426 million. [64]

Crop Insurance

Crop insurance is provided to U.S. producers by the Federal Crop Insurance Corporation (FCIC). 43/ This program was revised substantially

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43/ "FCIC is a wholly-owned Government Corporation created to carry out the Federal Crop Insurance Act." [64:p.11] by the Federal Crop Insurance Act of 1980. It was removed from an experimental basis providing coverage to selected crops, and extended to a "nationwide program covering all crops." [67] Crop insurance, which is offered now to farmers, carries a subsidy equal to 30 percent of the cost (farmers pay only 70 percent of the total premium). In 1980, adverse weather (drought) created record contributions of $317 million by FCIC. 44/ Budget estimates for 1981 were approximately $200 million. [64]

The Cooperative Farm Credit System

The cooperative credit system is intended "to provide the income and well being of American farmers and ranchers..." [70:p.1]. The system is made up of 12 Federal Land Banks for long term credit; 12 Federal Intermediate Credit Banks and 12 district Banks for Cooperatives. The 12 Federal Land Intermediate Credit Banks make loans through 500 local Federal Land Bank Associations. The Intermediate Credit Banks provide loans through over 400 local Production Credit Associations, and the Banks for Cooperatives make direct loans.

Interest rates charged by Federal Land Banks carry a variable interest rate which can change over the loan life. Rates are dependent on the cost of barrowing through bond sales, which is the major source of funds. However, a system of cost averaging has been very effective in reducing rates during recent high interest levels. For example, new loans as of June 1, 1981, ranged from 10.5 to 12 percent for farm loans. This was during a period when commercial bank loan rates were about 19 percent. Cost averaging is an effective way of holding interest rates down on a rising market, but could create considerable difficulties on a failing market, and require Federal treasury support.

Another form of credit is provided through the Production Credit Association [25]. However, no government subsidies are considered to be involved.

Farmers Home Administration

"An agency of the U.S. Department of Agriculture, FMHA makes loans and grants in rural areas, including towns, for housing, farming community facilities, business and industry. During recent years its volume of lending for programs has ranged to nearly $15 billion a year" [28:p.2]. Emphasis is placed on development assistance to family farms, largely of low or moderate income. Interest rates vary from program to program but "about 75% of FMHA's borrowers will receive a subsidized interest rate on their loans..." [64:p.46]. Estimated 1982 costs of operations and administration of programs was $287 million. New legislation has been directed at removing much of the subsidy in these programs.

Consumer Services and Subsidies

School lunches, child nutrition programs, special supplemental food programs and food stamps have been major sources of expenditures. Many

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44/ The Secretary of Agriculture authorized a transfer of $150 million from CCC to the FCIC to make up the shortfall. [64]

of these programs have been targeted for substantial reductions. In 1980 these expenditures amounted to nearly 60 percent of all outlays by the U.S.D.A. and in 1981 the total spent for food and consumer services was $16.2 billion or over 77 percent of all outlays.

Rural Community Development

These programs include utility loans for rural electrification housing loans, community development loans and grants and contracts. The costs of these programs operations and interest subsidies has been about $1 billion per year.

Miscellaneous

"Since the beginning of the 20th century, the Federal Government has been constructing water projects in the Western United States." [78:p.1] While Federal water projects historically required cost recovery from those who benefited, a considerable subsidy is recognized to exist. The present reclamation program was initiated by the Reclamation Project Act of 1939 which limited "...the financial obligations of irrigation beneficiaries to their ability to pay for the water." [78:p.10] A sample of projects reviewed in 1981, indicated "...the value of the repayments is less than 10 percent of the payment that would be required if full costs are to be recovered." [78:p11] Unpaid interest costs are a significant part of the subsidy, though construction costs are also largely forgiven.

Federal projects contribute to over 20 percent of the irrigated land in the United States. Irrigation is used to expand almost all agricultural products including grains, livestock and fruits and vegetables, all of which compete with Canadian production. Indications are the subsidy on corn production in areas with federal irrigation projects, for example, could amount to as much as $1.00 per bushel. The use of irrigation where dryland farming exists more than doubles corn yields. In desert areas like California and Arizona, little or no production would exist without irrigation. Undoubtedly where subsidies do exist, cost differences are largely offset by higher land prices. Nevertheless, expanded production will contribute to lower commodity prices which are more competitive on the world market.

Financing and Other Aids to U.S. Agricultural Exports

"A variety of schemes have been used to dispose of excess agricultural supplies generated by high support prices ... Also in the same category are favorable purchases terms, low interest loans for purchases of farm products, and related subsidies."[42:pp.52-53] The Commodity Credit Corporation (CCC) has an export credit program to assist sales of agricultural products. "The CCC Export Credit Sales Program provides for financing commercial sales of agricultural commodities by purchasing the exporter's account receivable arising from such export sales. It is a basic objective of the program to maintain, expand, and establish commercial markets and to enable U.S. exporters to meet competition from other exporters." [15:p.15] The program provides credit normally unavailable in commercial channels and supplies risk assurance. Interest rates are based on commercial domestic rates. When required documentation is complete the CCC pays the U.S. exporter. When payment is due, collections are made through U.S. and foreign banks. Outstanding commodity loans have ranged from $3 to $4 billion in recent years.

A current example of assistance in trade was the U.S. Government agreement in August of 1981 to sell 220 million pounds of surplus butter to New Zealand. This sale was made at a significant reduction price at $1550 per ton.[69]

The U.S. Export - Import Bank "...is an independent government agency whose central purpose is to facilitate and finance United States export trade" [43:p.33]. It offers special financing for agricultural products guaranteeing most of the export loans. The Bank provides information, technical assistance insurance, direct loans and guarantees to aid in the expansion of storage and processing facilities abroad considered to be useful in increasing U.S. product export sales. [24] it organizes agricultural export conferences and supplies information to foreign buyers on goods and services available including credit. However, the Bank is "A self-sustaining U.S. Corporation..."[24:p.4] and does not receive taxpayer support.

An Agricultural Trade Act was passed in 1978 authorizing three to 10 year credit terms on export sales of CCC and private stock of agricultural commodities. The intent of the law is to improve long term markets for U.S. products. The funds may be used to develop reserve stocks, to export breeding animals, to meet other country credit competition and to establish or improve handling facilities in an importing country.

The Foreign Credit Insurance Association (FCIA) was established "to place U.S. exporters on a basis of full equality with their foreign competitors." [29:p.3] The FCIA is an association of private insurance companies and operates in cooperation with the Export-Import Bank. It insures against political risks and some large commercial risks.

Technical and Food Aid

Public Law 480 is used to help expand U.S. exports in addition to assisting developing countries. Sales are made under long term credit arrangement either for dollars or domestic currencies. Credit may be extended for up to 40 years. Interest rates may be as low as two percent in the first 10 years and three percent thereafter. Agricultural commodities are also donated for special needs as famine relief, malnutrition and other development requirements.

Assistance is provided in three forms: Title 1 provides financing of sales on credit and with convertible foreign currencies. Title 11 supplies donations of agricultural products for famine and emergency relief, to promote economic development, and to combat malnutrition. Title 111 provides multiyear Title 1 commitments and loan forgiveness tied to development activities by the recipient. "Total Title 1/111 costs from the inception of the program in 1955 to September 30, 1980, amount to $27.9 billion, including ocean freight for shipment on U.S.

ships. During this same period receipts from repayments on previous Title 1 programs including proceeds of sales of foreign currencies have amounted to $6.2 billion. Major commodities shipped under this title have been wheat, rice, feed grains, vegetable oils, and cotton. Total Title 11 costs from 1955 to September 30, 1980, amount to $8.0 billion." [64:p.28] Outlays on the program in 1981 were $1.3 billion with a similar amount expected for 1982. Expected shipments for fiscal year 1982 were 4.2 million metric tons of grain under title 1 and 111 and 1.7 million under title 11.

The impact of P.L. 480 sales on third countries such as Canada are difficult to assess. Numerous studies have been done; many of which have concluded that there are recipient benefits but there are also losses resulting from lower prices which depress domestic production. A study in the experience with P.L. 480 sales to Brazil during the 1950's and 1960's concluded "...the results show the PL 480 imports have displaced commercial wheat imports, in spite of the Usual Marketing Requirements imposed, and this disruption of international commercial wheat markets has obvious implications for third country wheat exporters."[39:p.27]

IMPORTANCE OF TRADE RESTRAINTS

The United States maintains a substantial favorable trade balance in agricultural products with Canada, though Canadian exports to the United States grew faster in the 1970's, than imports from the United States. A major part of this trade moves duty free and the rates of duty applied tend to be relatively small, particularly since the most recent GATT negotiations. An exception is the relatively high Canadian tariffs on selected fruits and vegetables that are applied for limited, but very important periods of the marketing season.

While it is true that tariffs are not a major factor in Canada-U.S. agricultural trade, there are selected areas of significant non-tariff restraints. These restraints include quotas, licenses, embargoes, subsidies to production, restrictions due to health and sanitary regulations, packaging, marking and other minor items. Unlike the protection offered by tariffs which is both limited and visible, the protection of some non-tariff barriers is hidden behind legislation that professes to have other aims and objectives. Non-tariff measures tend to be more inequitable than tariffs. The trade of certain products, may move unimpeded between Canadian and U.S. markets in one form, but in another form there may be no trade whatsoever. During the past 40 years, multilateral negotiations have been very successful in removing some tariffs and reducing others to an inconsequential level. Over this same period, a multitude of new government regulations have been unilaterally decreed that add to the number and strength of non-tariff trade distortions.

Quotas and Embargoes

There is practically no trade in fresh and processed dairy products due to quotas or embargoes applied by both countries. While it has been argued that free trade would not significantly alter the current situation in dairy products [47], on balance some significant changes would undoubtedly occur. Trade flows between the two countries could be expected to shift back and forth much as for beef and pork. Certainly regional advantages could be expected involving flows northward in some markets and southward in others. For example, coastal British Columbia likely would receive some supplies from Washington State and much of the Prairie market might be taken over by Minnesota and Wisconsin. Parts of Ontario and Quebec would interchange with northeastern and Great Lakes states. It seems likely that selected Canadian cheese could well experience a substantially expanded market in the United States and that speciality U.S. cheeses would have increased sales in parts of Canada. Barichello [8] estimated Canada would gain $200 million annually assuming free trade with the United States at world prices. The magnitude of these estimated cost savings suggests further consideration should be given to the potential benefits of a more open North American market in dairy products.

Except for corn and soybeans, there is very little trade in most traditional grains, which are largely under the control of the Canadian Wheat Board. Both countries maintain highly competitive prices and sell into similar world markets, but increased flows each way could be expected based on locational and temporary market advantages. With free trade, exchanges likely would take place that are similar to the flows of livestock and meat which adjust to the changing supply and demand situations in each country. For example, barley and oats from the eastern United States would probably compete in the markets of Quebec and the Maritimes, while Alberta might supply these same grains to livestock regions ;such as Montana and Colorado. Exporters surveyed in the U.S. Tariff Commission study on non-tariff barriers reported that "U.S. shipments of wheat, barley, oats and their products to Canada could increase to some degree if state trading were abolished."[80:Vol.11,p.109]

With current relatively substantial price differentials between Canada and the United States for eggs, chickens and turkeys, trade would expand significantly if Canadian import quotas were eliminated on these products. Given the historic basis, however, there is real question whether trade would be increased if Canadian supply management programs had not been instituted. In fact, it appears the quotas have given the United States a somewhat larger and more secure market than existed traditionally with these products. Prior to the supply management programs, Canadian imports were not only smaller but there were Canadian exports at times. Given the fact that Canadian producers have gained the equivalent of nearly 25 percent price advantage over the United States through a reduced exchange rate, it seems reasonable to assume that Canadians could have been exporting rather than importing, had traditional competitive conditions remained. Certainly this has been the case for both pork and potatoes, commodities which have not been under supply management control.

The cost to Canadian consumers of protecting these industries is felt in higher domestic and import prices. In a recent study of Canadian egg, chicken, and turkey, marketing Veeman [82:p.34] concludes: "the demonstration of the substantial widening in Canada-United States price differentials alone confirms the substantial and increasing consumer costs of the [supply management] programs." Veeman's findings are corroborated by Qudrat-1-El-ahi [55] in an empirical analysis of poultry and egg marketing margins in the United States and Canada.

An estimate of the current costs to Canadian consumers of controlling the poultry trade may be illustrated by examining price differences in the two markets for broilers. The average retail price of chicken in Canada and the United States (both expressed in Canadian dollars) and the price difference between these markets is presented in Table 1. In 1978, the price differential was about $0.25 per pound, while in 1981 it ranged from $0.508 per pound higher in the first quarter to $0.641 per pound higher in the last quarter, averaging $0.579 per pound higher than U.S. prices for the year. It is of interest to note that the widening of these differentials corresponds closely to the imposition of the global quota on chicken imports to Canada which was introduced in October of 1979.

In part, these price differentials can be explained by the tariffs, transfer costs and regulations on preparation. The Canadian tariff is a maximum of $0.10 per pound (Appendix 2) and transportation costs are approximately $0.05 per pound. In addition, poultry exports to Canada required the kidneys to be removed at the time of slaughter, 45/ and U.S. plants must be approved (to not be using hyperchlorinated water). The product preparation difference was estimated by one importer to add about $0.03 per pound to the cost of U.S. chicken imported to Canada. Summing the tariff, transfer costs and preparation difference, the Canadian price should not exceed the U.S. price by more than $0.18 (Can.) per pound, when adjusted for the foreign exchange differential.

After correcting for the above factors, it was estimated that Canadian consumers did pay on average $0.18 more per pound for chicken in 1980 and $0.40 in 1981, than would have been the case if imports of U.S. broilers had not been restricted, except by the tariff. Based on national consumption of over 800 million pounds of broilers, the costs to Canadian consumers of import controls was about $144 million in 1980 and $320 million in 1981.

There are other aspects to the above scenario. Higher Canadian prices act as a regressive tax on low income groups whose food expenditures represent a greater portion of their budget. Lower prices in Canada would result in reduced returns to producers, but this would be offset in part by increased efficiency in the industry. Undoubtedly, consumers would purchase more broilers at lower prices which would reduce the capital costs per unit of production. In addition, Canada could begin to supply the expanding world markets in the Middle East and Communist countries.

Both the U.S. and Canada have applied quotas to beef imports based on "counter-cyclical" production formulas. These quotas have not hampered flows significantly since the cattle production cycles in these two countries are almost identical. Prices are closely related between the markets and are seldom in excess of transfer costs, when adjusted for exchange rate differences.

The United States applies quality restraints on a number of fruit and vegetable products where marketing orders are in force. Generally Canadian prices exceed U.S. prices and Canadian exporters do not find the quality restraints a significant problem. Ironically, U.S. exporters have sometimes complained that their own system is used against them. "Under the fresh fruit and vegetable regulations of Canada's Agricultural Products Standards Act, Canada forbids the importation of U.S. fruit and vegetables that do not meet the grade and quality standards of any U.S. Marketing order in effect for these products if marketed in the United States. However, under the act, Canada's Department of Agriculture may authorize import shipments under such conditions as it may prescribe." [80:Vol.6,p.133] Canadian imports of Mexican tomatoes are often cited as an example of the above. The impact of this regulation is not considered to be very significant.

Health and Disease Standards or Regulations

Standards necessary for health and disease control are respected on both sides of the border. Most importers and exporters consider the requirements to be necessary, but they find some of the administrative details to be onerous. The standards to limit some trade flows.

Disease certification requirements take time and add some uncertainty not present in intra-country sales. Hogs for slaughter and feeder cattle have been restricted from entry to Canada because of disease problems. Live animal restrictions do limit trade but have little if any impact on product prices for consumers. Movements of red meats are large and relatively unimpeded except for some grading differences and plant inspection requirements. Poultry imports to Canada are restricted to a few U.S. plants which meet Canadian requirements for eviscertion and cleaning procedures. However, this restriction is considered to be irrelevant because the absolute import quotas has been filled each year since it was imposed.

Disease problems, phyto-sanitary regulations and quality standards also affect the trade of certain crops and horticultural plants, such as rapeseed, white beans and potatoes. Health and sanitary standards are suspected to be one of the primary tools used to inhibit the shipment of fluid milk between these two markets. "Milk and cream may only be imported [to the U.S.] under permits issued to individual foreign plants which have certain sanitary prerequisites. Each permit identifies what product may be imported from the specified foreign producer. Importers of products affected feel the requirements ere unnecessarily restrictive and estimated annual imports would increase $1.5 million [1974 dollars] if the system was moderated." [80:Vol.6,p.164]

45/ This requirement was removed in April 1982.

Table 1--Average Quarterly Retail Prices for Grade A Broiler Chickens, in Canada and the United States, and Retail Price Differentials, 1978-81.

Year and Quarter	(1) Retail Price of Chicken in Canada 1/	(2) Retail Price of Chicken in United States 2/	(3) Retail Price Differentials 1-2
	--- Canadian dollars per pound ---		
1978 1st	$ .896	0.670	0.226
2nd	.976	0.769	0.207
3rd	1.07	0.806	0.264
4th	1.105	0.791	0.314
1979 1st	1.105	0.826	0.279
2nd	1.128	0.814	0.314
3rd	1.112	0.769	0.343
4th	1.108	0.763	0.346
1980 1st	1.112	0.800	0.312
2nd	1.101	0.764	0.337
3rd	1.212	0.884	0.328
4th	1.386	0.915	0.471
1981 1st	1.414	0.906	0.508
2nd	1.449	0.865	0.584
3rd	1.498	0.915	0.583
4th	1.448	0.847	0.641

Sources: 1/ Agriculture Canada Retail Food Price Survey (average price of Halifax, Montreal, Toronto, Winnipeg, Edmonton and Vancouver), courtesy of Food Markets Analysis Division.

2/ U.S.D.A. "Poultry and Egg", Outlook and Situation, (average price for four regions) converted to Canadian dollars by the average noon exchange rate published by the Bank of Canada, Bank of Canada Review.

Labelling, Packaging and Technical Requirements

While these items are considered to be primarily a nuisance which adds some expense, large exporters and importers generally seem to feel that these regulations do not cause difficulty unless they are not fully known to the trade. However, for smaller exporters and new entrants, the maze of regulations can act as a trade barrier by increasing uncertainty.

There is some indication that U.S. industry has not been prepared to make the necessary adjustments to meet Canadian standards because of the relatively small market in Canada. An example is the regulations that prohibit the sale of some common U.S. retail can and package size, plus the added cost of preparing a small volume of a special package size. The current move to metrification in Canada creates problems in both directions of trade.

The duplication of regulations and overlap of jurisdictions can create complexities for potential exporters that serves to discourage trade. A Canadian exporter stated: "In dealing with the U.S. government we are dealing with many government agencies which throw the ball one to the other. One is in charge of labels, another takes care of classificaton, still another is in charge of the customs entry, then another sees to licensing, etc. Hence, we need a good customs-broker and a buyer eager to purchase one's product. This demands one to be very patient."46/ Undoubtedly, this same comment could have been made as easily by a U.S. exporter regarding the Canadian government

Government Procurement Practices

While Government procurement practices may be crucial for the trade of some products, they are not generally important for agricultural items, except for alcoholic beverages. Preferences are given by some States and Provinces for domestic products, but the differentials and purchases are considered to be small. At the national level such discriminatory practices are subject to censure following the latest GATT negotiations. But, the many exemptions provided for agricultural products under this agreement, such as purchases for national defense, foreign aid, support programs, etc., place the major areas of government procurement of food outside the rule of GATT.

Provincial government procurement, distribution and pricing practices do restrict trade in alcoholic beverages. Foreign wines are especially affected by higher markups plus a handling surcharge on imports to some Canadian provinces. For example, wines from neighboring New York State are assessed a handling surcharge of $0.65 per bottle in Ontario, just to cross the boarder at Niagara. 47/

46/ Personal communication

47/ This is $0.40 more than the surcharge on B.C. wines which have to be trucked over 2000 miles to Ontario.

Also the system of licensing retail beer outlets is restrictive to imports. Imported U.S. beers are only distributed through Provincial Liquor Control Board outlets, and face a significantly higher markup. While there may be some discriminatory buying in the United States by state liquor control boards, it is not evident that the practice affects trade with Canada.

Government Programs affecting Production

Both the U.S. and Canada have various policies and programs affecting production costs, output and therefore trade. The Federal and Provincial Governments in Canada have various stabilization and other subsidy programs including credit assistance. The U.S. government assistance includes support, or target prices, and purchase programs involving stocks of dairy products and grains worth billion of dollars. Large subsidies also have been involved for production inputs such as water for irrigation. Both countries provide significant government support through producer crop insurance programs.

Undoubtedly, the various government programs do have an impact on production and trade. In the long run the impacts are probably less than might be assumed. Generally, the value of any continued subsidy program becomes capitalized into fixed assets, such as land. To the extent this occurs the longer run cost advantages tend to be negated. Aside from this fact, it seems likely that advantages are generally offsetting in the two countries, though short run distortions in comparative advantage may occur for selected products.

Export Financing and Promotion

Both Canada and the United States have trade interferences that affect agricultural exports. It has been noted that Canada has been providing an export subsidy for grains through its statutory railway freight rates. Inflation has added considerably to the size of public contributions under the "Crow's Nest Pass" freight rates. "Transportation costs for grain travelling from the province of Manitoba to Vancouver on the West Coast total 16 cents per bushel. Grain travelling from Midwestern points in the United States to Pacific Northwest ports often requires rates more than five times higher."[30] There is some debate whether or not these subsidies are actually supporting increased exports. Constraints in transportation and handling which can be traced directly to this policy were estimated to have reduced exports by 0.7 to 1.7 million metric tons in 1977/88.[60] It may also be argued that the advantage to producers has largely been lost through higher capitalization of land values. While transportation subsidies are less direct in the United States it is recognized that there are federal subsidies involved, for example, in the maintenance of the internal waterways.

Other products which receive direct export subsidies or employ multiple pricing systems are all commodities with supply management marketing boards -- milk powder, poultry products, and tobacco. The impact of these subsidies on prices in some small markets may be significant especially in the case of skim milk powder.

Both Canada and the U.S. supply export financing for agricultural products. The impact of the U.S. program is substantially larger because of the volume of trade which it supports. U.S. export subsidies on sales such as the recent dairy contract with New Zealand and on P.L. 480 commodities are often relatively large and have far reaching impacts. On the other hand, U.S. financial assistance has also maintained an important proportion of total grain stocks which has added stability to world prices and food security.

SUMMARY AND CONCLUSIONS

The border that divides Canada and the U.S. cuts through major geo-economic regions that extend north and south. As a result, agricultural markets for certain commodities extend across this political boundary and are served more economically by bordering states than by other sources of supply within each country. At the same time, local producers can often be advantaged if the producers in neighboring states are inhibited from delivering to their market. This creates an incentive for certain producers in each country to seek restraints to trade.

The history of agricultural trade between Canada and the United States contains several cycles of rising and falling protectionism. Commodity groups that were afforded protection have changed over time, but the underlying impetus for protection can be traced in virtually every case to conditions of economic distress.

It was under the severe economic hardship of the 1930's that agricultural tariffs reached a peak and several non-tariff restraints were introduced. The destructive impact and the obvious failure of this protection to benefit producers in either Canada or the United States led to the implementation of bilateral, and later multilateral negotiations under GATT's auspices to remove trade barriers. Since that time, tariffs have been declining and except for isolated cases are not considered to be significant in terms of trade flows. On the othe hand, progress on removing non-tariff measures has been mixed, and in the past decade there has been a gradual drift towards more non-tariff restraints to trade between Canada and the United States. This drift threatens to be accentuated by the current situation of slow economic growth, inflation and relatively high interest rates and unemployment.

The primary non-tariff restraint occurs from the use of import quotas, licenses, and embargoes. There is very limited trade between Canada and the United States in dairy products because of programs requiring import quotas. Practically no trade exists in small grains which require import and export licenses from Canadian Wheat Board. The only grains and oilseeds that are traded in large volumes are corn and soybeans. Canada also imposes import quotas on eggs, turkeys and broilers. While trade in pork and beef remains relatively free, both countries have beef quotas legislation which may be enforced.

The GATT negotiations have achieved some limited success in controlling the use of selected non-tariff barriers, but have done little to reduce those of major significance. Agreements have been reached to try to eliminate discrimination in government procurement programs. An exception for Canada is the discriminatory pricing and distribution practices of its provinces with respect to their marketing monopoly on alcoholic beverages. Some provincial liquor control boards exercise discrimination against foreign and out-of-province beverages which the government of Canada has been powerless to curtail.

There are a number of regulations regarding health, sanitation, packaging, grading, and marking which in some cases place restraints on trade. However, most of these are considered to be necessary and primarily nuisances which a serious exporter can overcome.

Both countries have price and income supports, subsidies, and other programs for agriculture. Undoubtedly, these programs distort production and comparative advantage of different regions, at least in the short run. Without an in depth study of such programs, it is impossible to estimate the degree of distortions. Given the long run tendency for program benefits to be capitalized, into various assets, there are probably limited longrun trade impacts associated with the programs.

It is significant however, that non-tariff barriers are considered to be on the increase. Basically, the overall U.S. trade policy is not inconsistent with the spirit of GATT, although actions such as the subsidization of butter exports through the recent dairy contract with New Zealand, are not consistent with open international trade. Sugar and beef are other examples where quotas on imports have had a bearing on Canada-U.S. trade. The U.S. also has a long record of helping to expand its exports through Public Law 480 by granting long term credit, low interest rates, and by outright donations. These programs continue to be used, though on a reduced basis. There is also use of strong bargaining power to obtain voluntary restraints such as those that were applied to beef imports.

Canada, on the other hand, has been giving strong support to further extension of supply management programs which are employed to achieve selected Canadian agricultural policy objectives. To be effective, supply management programs require import restraints. Import quotas are permitted under current GATT rules, when domestic production controls are imposed, but they are contrary to the basic GATT goal of freer trade. There is significant pressure to add these programs to red meats and potatoes. Canada has obtained higher tariff protection for fresh fruits and vegetables and the Canadian provinces are pushing for various methods, including subsidies, to obtain a greater share of both fresh and processed markets for fruit and vegetables. Indeed the Canadian provinces are openly advocating higher levels of self-sufficiency on all foods.

Despite the relatively free trade between Canada and the United States the tendency for both countries to accept and even expand selected non-tariff distortions to agricultural trade is of major significance. The benefits from halting imports that may appear so obvious to the aspirants can be offset, or exceeded, by a subsequent loss of exports of the same or other products. Additionally, there are immediate losses to consumers who are faced with higher prices if access to competitive markets is denied. It is important to retain the momentum towards freer trade by tariff reductions through GATT, but nothing will have been gained if tariffs are finally removed, or diminished to an inconsequential level, only to have non-tariff measures moved in to fill the void.

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APPENDIX 1

U.S. and Canadian MFN (1979) Tariffs

for selected Agricultural Commodities

and

Tariff Concessions

agreed to
in the

Multilateral Trade Negotiations

under the

General Agreement on

Tariffs and Trade

in 1979

APPENDIX TABLE I

United States				Canada			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Live Animals				Live Animals		
100.40	Live cattle, under 200 lbs., quota 200,000 head	1.5¢ per lb.	1982: 1.0¢ per lb.	500-1	Live cattle	1.5¢ per lb.	1987: 0.5¢ per lb.
100.43	Live cattle, under 200 lbs., ex-quota	2.5¢ per lb.	1982: 1.0¢ per lb.				
100.45	Live cattle, over 200 lbs., but less than 700 lbs.	2.5¢ per lb.	*				
100.50	Live cattle, over 700 lbs., for dairy purposes	Free	*	504-1	Cows imported for dairy purposes	Free	*
100.53	Live cattle, over 700 lbs. quota	1.5¢ per lb.	1982: 1.0¢ per lb.				
100.55	Live cattle, over 700 lbs., ex-quota	2.5¢ per lb.	1982: 1.0¢ per lb.				
100.85	Live swine	Free	*	600-1	Live hogs	Free	*
100.65	Live goats	$1.50 per head	*	502-1	Live sheep, lambs and goats	$2.00 per head	1982: Free
100.81	Live sheep	Free	*				
100.75	Live horses, not for slaughter, valued over $150	3.0 percent	Free	400-1	Live horses, n.o.p.	Free	*

United States				*Canada*			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Meats				Meats		
106.10	Beef and veal, fresh/chilled/frozen	3.0¢ per lb.	1981: 2.0¢ per lb.	701-1	Beef and veal	3.0¢ per lb.	1981: 2.0¢ per lb.
106.22	Sheep meat	2.5¢ per lb.	1987: 1.5¢ per lb.	703-1	Lamb and mutton	3.0¢ per lb.	1987: 3.0¢ per lb.
106.25	Goat meat	2.5¢ per lb.	1987: Free				
106.30	Lamb meat	1.7¢ per lb.	1987: 0.5¢ per lb.				
106.40	Pork, fresh/chilled/frozen	0.5¢ per lb.	Free	704-1	Pork, fresh/frozen	0.5¢ per lb.	Free
106.85	Edible meat offal, fresh/chilled/frozen	Free	*	707-1	Edible meat offal of all animals	Free	*
107.10	Fresh pork sausages	1.6¢ per lb.	0.6¢ per lb.	1001-4	Pork sausages	0.6¢ per lb.	*
107.15	Pork sausages, other than fresh	1.625¢ per lb.	0.6¢ per lb.				
107.30	Pork prepared/preserved not boned	2.0¢ per lb.	1.0¢ per lb.	1001-1	Bacon, hams, shoulders and other pork	1.0¢ per lb.	*
107.48	Corned beef in airtight containers	7.5 percent	3.0 percent				
107.52	Canned beef, not corned beef	7.5 percent	3.0 percent	800-1	Canned beef	15.0 percent	*

United States

Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Meats		
107.61	Beef and veal, (portion controlled beef cuts) USDA prime or choice	10.0 percent	4.0 percent
107.63	Beef and veal, prepared/preserved, other	10.0 percent	4.0 percent

Canada

Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Meats		
805-1	Canned pork	15.0 percent	*
810-1	Canned hams	15.0 percent	*
825-1	Canned meats, n.o.p.	15.0 percent	*

United States

Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Poultry		
100.07	Live birds in the downy stage	2.0¢ each	*
100.09	Other live birds	2.0¢ per lb.	*
105.10	Chickens, whole plucked but not otherwise prepared.	3.0¢ per lb.	*
105.20	Turkey, (as above)	8.5¢ per lb.	*
105.30	Other birds, (as above)	2.5¢ per lb.	*
105.40	Chickens, plucked and eviscerated but not cut into pieces	5.0¢ per lb.	*
105.50	Turkey, valued under 40¢ per lb.	5.0¢ per lb.	*
105.55	Turkey, valued over 40¢ per lb.	12.5 percent	*
105.70	Other birds, whole, fresh/chilled/frozen	10.0¢ per lb.	*
105.84	Birds, otherwise prepared or preserved	5.0¢ per lb.	*

Canada

Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Poultry		
905-1	Live poultry, n.o.p.	2.0¢ per lb.	*
915-1	Turkey poults, baby ducklings and baby goslings	12.5 percent	*
920-1	Baby chicks, n.o.p.	2.0¢ each	*
925-1	Dead poultry, n.o.p.	12.5 percent	*
930-1	Eviscerated poultry, whether or not divided into portions and whether or not cooked	12.5 percent but not less than, 5.0¢ per lb. or more than, 10.0¢ per lb.	*

United States				Canada			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	<u>Eggs</u>				<u>Eggs</u>		
119.50	Poultry eggs, in shell, except chicken	3.5¢ per doz.	*	1600-1	Eggs in shell	3.5¢ per doz.	*
119.55	Chicken eggs, in shell	3.5¢ per doz.	*				
119.65	Whole eggs, <u>not</u> in shell, egg yolks, albumen, dried	27.0¢ per lb.	*	1605-1	Eggs, whole, egg yolk or egg albumen, frozen or otherwise prepared, n.o.p.	7.0¢ per lb.	*
117.70	Whole eggs, <u>not</u> in shell, egg yolks, albumen, other	5.5¢ per lb.	*	1610-1	Eggs, egg yolk or egg albumen, dried, evaporated, desiccated or powdered	20.0 percent	*

	United States				Canada		
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Dairy Products				**Dairy Products**		
115.3	Milk or cream, not sweetened, evaporated or other, in airtight containers	1.0¢ per lb.	*	4300-1	Condensed milk	3.0¢ per lb.	*
115.35	Milk or cream, sweetened, condensed, or other, in airtight containers	1.75¢ per lb.	*	4300-2	Evaporated milk	3.0¢ per lb.	*
				4305-1	Powdered Milk	3.5¢ per lb.	*
115.40	Milk or cream, other than in airtight containers	1.5¢ per lb.	*	4305-2	Dried whey, dried skim milk and dried buttermilk for animal or poultry feeds	3.5¢ per lb.	*
115.45	Dried buttermilk, not exceeding 6% fat	1.5¢ per lb.	*				
115.50	Dried milk, not exceeding 3% fat	1.5¢ per lb.	*	4500-1	Milk foods, n.o.p.	15.0 percent	*
115.55	Dried milk, exceeding 3% but not over 35% fat	3.1¢ per lb.	*				
115.60	Dried milk, exceeding 35% fat	6.2¢ per lb.	*				
117.15	Cheddar cheese, not proc.	15.0 percent	12.0 percent	1700-1	Cheese	3.5¢ per lb.	*
117.20	Cheddar cheese, processed	20.0 percent	16.0 percent	1700-2	Cheddar cheese	3.0¢ per lb.	*
116.00 - 116.20	Butter and cream over 45% butterfat, quota	7.0¢ per lb.	5.6¢ per lb.	1800-1	Butter	12.0¢ per lb.	*

United States				Canada			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Cereal Grains and Products				Cereal Grains and Products		
130.63	Seed wheat	5.0 percent	*				
130.66	Other wheat, for feed	5.0 percent	*	6000-1	Wheat	12.0¢ per bushel	*
182.96	Wheat gluten	10.0 percent	8.0 percent				
130.70	Other wheat, for human consumption	21.0¢ per bu.	*				
131.40	Milled wheat	52.0¢ per cwt.	*	6100-1	Wheat flour and semolina	50.0¢ per barrel	*
130.30	Corn, certified seed	6.0¢ per bu.	1987: Free				
130.32	Yellow dent corn	25.0¢ per bu.	1987: 5.0¢ per bu.	5501-1	Yellow dent corn	8.0¢ per bushel	1987: 5.0¢ per bu.
131.20	Milled corn, for human consumption	50.0¢ per lb.	1987: 30.0¢ per lb.	5300-1	Corn meal	40.0¢ per barrel	*
176.16	Corn oil	10.0 percent	4.0 percent	27712-1	Corn oil, crude	10.0 percent	1987: 7.5 percent
				27732-1	Corn oil, other than crude	17.5 percent	1987: 15.0 percent
130.50	Rice, paddy or rough	1.25¢ per lb.	*	6200-1	Rice, uncleaned, unhulled or paddy	Free	*

United States				Canada			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Cereal Grains and Products				Cereal Grains and Products		
130.56	Rice, brown basmat	0.6¢ per lb.	*	6300-1	Rice, cleaned	25¢ per cwt.	*
130.58	Rice, other	1.5¢ per lb.	*				
130.40	Grain sorghum	0.4¢ per lb.	*	5505-1	Grain sorghum	8.0¢ per bushel.	1987: 5.0¢ per bu.
130.08	Barley for malting	7.5¢ per bu.	1987: 5.0¢ per bu.	5200-1	Barley, n.o.p.	7.5¢ per bushel	1987: 5.0¢ per bu.
130.45	Oats, hulled, or not hulled	4.0¢ per bu.	1987: Free	5600-1	Oats	4.0¢ per bushel	1987: Free
130.60	Rye	6.0¢ per bu.	1987: Free	5800-1	Rye	6.0¢ per bu.	1987: Free

	United States				*Canada*		
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Oilseeds and Products				Oilseeds and Products		
175.51	Sunflower seed	Free	*	27616-1	Sunflower seed	Free	*
176.54	Sunflower oil, for food	0.9¢ per lb.	*	27719-1	Sunflower oil, crude	10.0 percent	1987: 7.5 percent
176.55	Sunflower oil, other	0.9¢ per lb.	*	27739-1	Sunflower oil, other than crude	17.5 percent	1987: 15.0 percent
175.45	Sesame seed	Free	*	27610-1	Sesame seed	Free	*
176.49	Sesame oil, for food	2.2¢ per lb.	*	27720-1	All other, n.o.p. vegetable oil, crude	10.0 percent	*
176.50	Sesame oil, other	0.7¢ per lb.	*	27740-1	All other, n.o.p. vegetable oil, other than crude	17.5 percent	*
175.15	Cottonseed	0.33¢ per lb.	*	27701-1	Cottonseed oilcake & meal	Free	*
176.18	Cottonseed oil	3.0¢ per lb.	*	27713-1	Cottonseed oil, crude	10.0 percent	1987: 7.5 percent
				27733-1	Cottonseed oil, other than crude	17.5 percent	1987: 12.5 percent
175.18	Flaxseed (linseed)	50.0¢ per bu.	22.0¢ per bu.	7000-1	Flaxseed	Free	*

United States

Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Oilseeds and Products		
175.49	Soybeans	Free	*
184.53	Soybean oil	22.5 percent	*
184.52	Soybean oilcake and meal	0.3¢ per lb.	*
175.39	Rapeseed	1.0¢ per lb.	1987: 0.4¢ per lb.
176.45	Rapeseed oil, inedible, not for manufacture of rubber substitutes or lubricating oil	1.8¢ per lb.	1987: 0.7¢ per lb.
176.46	Rapeseed oil, edible, for manufacture of rubber substitutes or lubricating oil	0.45¢ per lb.	1987: Free
176.47	Rapeseed oil, edible not for manufacture of rubber substitutes or lubricating oil	2.4¢ per lb.	1987: 7.5 percent
178.10	Hydrogenated rapeseed oil	5.0¢ per lb.	1987: 9.0 percent
184.51	Rapeseed oilcake and meal	0.3¢ per lb.	0.12¢ per lb.

Canada

Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Oilseeds and Products		
27625-1	Soya beans	Free	*
27718-1	Soya bean oil crude	10.0 percent	1987: 7.5 percent
27738-1	Soya bean oil, other than crude	17.5 percent	1987: 15.0 percent
27704-1	Soya bean oilcake and meal	Free	*
27605-1	Rapeseed	Free	*
2717-1	Rapeseed oil, crude	10.0 percent	*
27737-1	Rapeseed oil, other than crude	17.5 percent	*
27815-1	Oils, hydrogenated, blown or dehydrated	17.5 percent	*
27705-1	All other, oilcake & meal	Free	*

Unites States				*Canada*			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Oilseeds and Products				Oilseeds and Products		
				25800-1	Linseed or flaxseed oil, raw or boiled	10.0 percent	1987: 7.5 percent
				25805-1	Linseed or flaxseed oil, other than raw or boiled	17.5 percent	1987: 12.5 percent
161.61	Mustard seeds (whole)	0.43¢ per lb.	1987: Free	27600-1	Mustard seed	Free	*
161.59	Mustard, ground	2.0¢ per lb.	1987: Free	3400-1	Mustard, ground	7.5 percent	1987: 5.0 percent

United States				Canada			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Fresh and Processed Vegetables				Fresh and Processed Vegetables		
137.20	Seed potatoes, certified, within quota of 114 million lb.	37.5¢ per cwt.	1987: 35.0¢ per cwt.	7120-1	Seed potatoes	37.5¢ per cwt.	1987: 35.0¢ per cwt.
137.21	Seed potatoes, certified, above quota	75.0¢ per cwt.	1987: 35.0¢ per cwt.				
137.25	Table potatoes, not certified, within quota of 45 million lb.	37.5¢ per cwt.	1987: 35.0¢ per cwt.	8305-1	Potatoes, in their natural state, n.o.p.	37.5¢ per cwt.	1987: 35.0C per cwt.
137.28	Table potatoes, not certified, above quota	75.0¢ per cwt.	1987: 35.0¢ per cwt.				
141.86	Potatoes, prepared, or preserved	17.5 percent	1987: 10.0 percent	9035-1	Potatoes, processed, frozen	10.0 percent	*
132.50	Potato starch	0.4¢ per lb.		9036-1	Potato starch and flour	12.5 percent	*
138.30	Rutabagas, fresh/chilled/frozen	17.5 percent	1987: 7.0 percent	8744-1	Turnips and rutabagas	Free	*
137.60	Tomatoes, entering from 3/1 to 7/14, or 9/1 to 11/14	2.1¢ per lb.	*	8742-1	Tomatoes, fresh, n.o.p.	2.5¢ per lb., but not less than 15 percent, up to 32 weeks per year, otherwise free	*
137.62	Tomatoes, entering from 7/15 to 8/31	1.5¢ per lb.	*	8743-1	Tomatoes for processing	1.0¢ per lb. but not less than 15.0 percent	*

United States				*Canada*			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Fresh and Processed Vegetables				Fresh and Processed Vegetables		
136-90	Onion sets	0.6¢ per lb.	*	8727-1	Onions and shallots, green	2.5¢ per lb. but not less than 12.5 percent, up to 22 weeks per year, otherwise free	*
136.92	Pearl onions, not over 10/16" in diameter	1.75¢ per lb.	1987: 0.7¢ per lb.	8728-1	Onions, spanish-type, for processing	1.5¢ per lb. but not less than 15.0 percent, up to 12 weeks per year, otherwise free	*
140.40	Onions dried/desiccated/dehydrated	35.0 percent	1987: 25.0 percent	8729-1	Onions and shallots, n.o.p.	1.5¢ per lb. but not less than 15.0 percent, up to 46 weeks per year, otherwise free	*
141.50	Onions, prepared or preserved	17.5 percent	7.0 percent				
135.75	Corn-on-the-cob	25.0 percent	*	8716-1	Corn-on-the-cob	1.5¢ per lb. but not less than 15.0 percent, up to 12 weeks per year, otherwise free	*
141.83	Corn, prepared or preserved, airtight containers	17.5 percent	1987: 10.0 percent	8904-1	Corn, prepared, airtight containers	12.5 percent	*
135.41	Carrots, fresh/chilled/frozen under 4" long	1.0¢ per lb.	*	8712-	Carrots, n.o.p.	0.5¢ per lb. up to 40 weeks per year otherwise free	*
135.42	Carrots, fresh/chilled/frozen over 4" long	0.5¢ per lb.	*	8713-1	Carrots, baby, not exceeding 4.5 inches in length	1.0¢ per lb., but not less than 5.0 percent, up to 40 weeks per year otherwise free	*
				9002-1	Baby carrots, frozen	17.5 percent	*

United States				Canada			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Fresh and Processed Vegetables				Fresh and Processed Vegetables		
137.63	Tomatoes, entering from 7/1 to 2/28	1.5¢ per lb.	*	8905-1	Processed tomatoes	13.6 percent	*
				and			
				8915-1	Tomato paste		
				9030-1	Tomato juice	15.0 percent	*
135.90	Cucumbers, entering from 12/1 to 2/28	2.2¢ per lb.	*	8717-1	Cucumbers, fresh, n.o.p.	2.25¢ per lb. but not less than 15.0 percent, up to 30 weeks per year, otherwise free	*
135.92	Cucumbers, entering from 3/1 to 6/30, or 9/1 to 11/30	3.0¢ per lb.	*	8718-1	Cucumbers for processing	1.0¢ per lb., but not less than 10.0 percent	*
							*
135.94	Cucumbers, entering from 7/1 to 8/31	1.5¢ per lb.	*	9020-1	Vegetables, pickled or preserved in salt, brine, etc., n.o.p.	12.5 percent	*
137.10	Peppers, fresh	2.5¢ per lb.	*	8734-1	Peppers, including pimentos, fresh, n.o.p.	2.0¢ per lb. but not less than 10.0 percent, up to 12 weeks per year otherwise free	*

United States				Canada			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Fresh and Processed Fruits				**Fresh and Processed Fruits**		
147.61	Grapes, fresh, except hot house, entering from 2/15 to 3/31	5.25¢ per cu.ft.	1987: 4.0¢ per cu.ft	9209-1	Grapes, Vitis Vinifera species	Free	*
				9210-1	Grapes, Vitis Labrusca species	1.0¢ per lb. up to 15 weeks per year, otherwise free	
147.63	Grapes, Entering from 4/1 to 6/30	Free	*				
147.64	Grapes, entering at other times	6.0¢ per cu.ft	*				
147.66 - 147.70	Raisins made from seedless grapes	1.0¢ per lb.	*	9915-1	Raisins	Free	*
146.10	Apples, fresh	Free	*	9201-1	Apples, fresh	Free	*
146.12	Apples, dried	0.75¢ per lb.	*				
146.24	Apples, otherwise prepared	0.5¢ per lb.	*				
				10659-1	Apple juice not concentrate or reconstituted	5.0 percent	*
				10660-1	Apple juice concentrate	50.0¢ per gallon but not less than 10.0 percent	*
146.20	Apricots, fresh	0.2¢ per lb.	*	9202-1	Apricots, fresh, n.o.p.	2.5¢ per lb. but not less than 12.5 percent, up to 10 weeks per year, otherwise free	*

United States				Canada			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Fresh and Processed Fruits				Fresh and Processed Fruits		
146.22	Apricots, dried	1.0¢ per lb.	*				
146.24	Apricots, otherwise prepared	35.0 percent	*				
				9203-1	Apricots for processing, fresh	1.5¢ per lb. but not less than 12.5 percent	*
148.81	Pears, fresh or in brine entering from 4/1 to 6/30	0.25¢ per lb.	1987: Free	9214-1	Pears, fresh, n.o.p.	1.5¢ per lb. but not less than 12.5 percent, up to 24 weeks per year otherwise free	*
148.82	Pears, fresh or in brine entering at other times	0.5¢ per lb.					
148.83	Pears, dried	1.5¢ per lb.	1987: Free	9215-1	Pears for processing, fresh	1.5¢ per lb. but not less than 12.5 percent	*
148.70	Peaches, fresh or in brine, entering from 6/1 to 11/30	0.2¢ per lb.	*	9212-1	Peaches, fresh, n.o.p.	3.0¢ per lb. but not less than 12.5 percent, up to 14 weeks per year, otherwise free	*
148.72	Peaches, fresh or in brine entering at other times	0.1¢ per lb.	1987: Free	9213-1	Peaches for processing, fresh	2.0¢ per lb. but not less than 12.5 percent	*
146.90	Cherries, not in airtight or watertight containers	0.2 ¢ per lb.	1987: Free	9205-1	Cherries, sour, fresh	4.0¢ per lb. but not less than 12.5 percent, up to 10 weeks per year, otherwise free	*

United States				Canada			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Fresh and Processed Fruits				Fresh and Processed Fruits		
146.91	Cherries, in airtight, or watertight containers	1.0¢ per lb.	*				
				9206-1	Cherries, sweet, fresh	3.0¢ per lb. but not less than 10 percent, up to 8 weeks per year, otherwise free	*
				9207-1	Cherries, sweet, for processing, fresh	4.0¢ per lb. but not less than 12.5 percent	*
				10702-1	Cherries, frozen	5.0¢ per lb. but not less than 15.0 percent	*
•146.58	Strawberries, entering from 6/15 to 9/15	0.2¢ per lb.	*	9220-1	Strawberries, fresh, n.o.p.	3.0¢ per lb. but not less than 10.0 percent, up to 8 weeks per year, otherwise free	*
146.60	Strawberries, entering at other times	0.75¢ per lb.	*				
146.76	Frozen strawberries	14.0 percent	*	9221-1 and 10704-1	Strawberries for processing, fresh frozen	3.0¢ per lb. but not less than 10.0 percent	*
				10705-1	Strawberries, frozen, n.o.p.	15.0 percent	*
146.50	Blueberries, fresh	0.3¢ per lb.	Free	9204-1	Blueberries, fresh	Free	*
146.68	Blueberries, frozen	3.0 percent	Free	10701-1	Blueberries, frozen	Free	*

United States				*Canada*			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Fresh and Processed Fruits				Fresh and Processed Fruits		
146.74 - 146.84	Raspberries, frozen otherwise prepared or preserved	14.0 percent	7.0 percent	9219-1	Raspberries and loganberries, fresh	2.5¢ per lb. but not less than 7.5 percent, up to 6 weeks per year, otherwise free	*
				10706-1	Fruit frozen, n.o.p.	10.0 percent	*
				9208-1	Cranberries, fresh	Free	*
146.71 - 146.83	Cranberries, frozen otherwise prepared or preserved	14.0 percent	6.0 percent	10707-1	Cranberries, frozen	10.0 percent	1982: 6.0 percent
147.22	Oranges, fresh, other than tangerines and mandarins	1.0¢ per lb.	*	10100-1	Oranges, n.o.p.	Free	*
				10652-1	Orange juice, n.o.p.	5.0 percent	1984: Free
				10653-1	Unsweetened orange juice concentrate, not less than 58 degrees Brix	Free	

United States				Canada			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Live Plants, Seeds and Flowers				Live Plants, Seeds and Flowers		
125.32	Bulbs, roots, etc. nes, horticultural, with soil	5.5 percent	2.2 percent	7803-1	Hydrangeas and other pot-grown plants, n.o.p. rose stock and other for grafting and budding n.o.p., bulbs, corms, tubers, etc. n.o.p.	12.5 percent	1987: 10.0 percent
125.50	Fruit trees, cuttings/seedlings, nes.	5.0 percent	1987: Free				
125.65	Rose plants, budded/grafted/grown on own roots	1.0¢ each	Free	7920-1	Trees, being seedling stock for grafting	Free	*
125.82	Live plants, napf, with soil	7.5 percent	1987: 3.0 percent	7940-1	Multiflora rose bushes	12.5 percent	1987: 10.0 percent
				7945-1	Rosebushes, n.o.p.	3.0¢ each	Free
126.23	Alsike clover seed	1.0¢ per lb.	1987: Free	7111-1	Clover seed	Free	*
126.27	Red clover seed	0.4¢ per lb.	1987: Free				
126.29	Sweet clover seed	0.4¢ per lb.	1987: Free				
126.35	Creeping red frescue seed	0.5¢ per lb.	1987: Free	7308-1	Red frescue seed	Free	*

United States				Canada			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Live Plants, Seeds and Flowers				**Live Plants, Seeds and Flowers**		
192-17	Miniature (spray) carnations	10.0 percent	4.0 percent				
				7850-1	Laurel or holly foliage, natural/preserved, in designs or not	12.5 percent	*
192.21	Other cut flowers, fresh: bouquets, wreaths, sprays etc. made from flowers or plant parts	10.0 percent	8.0 percent				
				7915-1	Flowers and foliage, natural/cut in designs or not	12.5 percent	*

	United States				Canada		
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Wines				**Wines**		
167.10	Champagne-type wines	$1.17 per gal., plus 17.0¢ per gal. special tax	*	16501-1	Champagne and all other sparkling wines	$4.00 per dozen quart bottles, plus $1.75 per gallon	*
167.30	Still wine from grapes, less than 14 percent alcohol, in containers less than one gallon	37.5¢ per gal., plus 17.0¢ per gal. special tax	*	16405-1	Wines of the fresh grape, not sparkling, containing not more than 26 percent of proof spirit	20.0¢ per gallon, plus 42.5¢ per gallon	*
167.32	Still wine from grapes, less than 14 percent alcohol, in containers greater than one gallon	62.5¢ per gal., plus 17.0¢ per gal. special tax	*	16310-1	Other wines, n.e.s., containing not more than 24 percent of proof spirit	20.0¢ per gallon, plus 42.5¢ per gallon	*
167.34	Still wine from grapes, greater than 14 percent alcohol, in containers less than one gallon	31.5¢ per gal., plus 17.0¢ per gal. special tax	*	16315-1	Wines of all kinds, containing more than 24 percent of proof alcohol	50.0¢ per gallon, up to 26 percent of proof and 3.0¢ per each extra degree of proof up to 40 percent of proof, plus 42.5¢ per gallon	*
167.37	Still wine from grapes, greater than 14 percent alcohol, n.e.s.	$1.00 per gal., plus 17.0¢ per gal. special tax	*				

United States				Canada			
Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession	Tariff Item	Commodity	MFN (1979) Tariff	MTN Concession
	Tobacco				**Tobacco**		
170.32	Filler tobacco, not stemmed	12.75¢ per lb.	*	14203-1	Tobacco, n.o.p. unstemmed	20.0¢ per lb.	1987: 12.75¢ per lb.
170.35	Filler tobacco, stemmed	45.0¢ per lb.	1987: 20.0¢ per lb.	14202-1	Tobacco, stemmed	20.0¢ per lb.	*
170.60	Scrap tobacco	16.1¢ per lb.	*				
170.66	Cigars valued 15¢ or more each	95.0¢ per lb. & 5 percent	86.0¢ per lb. & 4.5 percent	14305-1	Cigars, weight of bands and ribbons included	$1.45 per lb. and 10 percent	*
170.64	Cigarettes	$1.06 per lb. & 5 percent	*	14315-1	Cigarettes	25.0 percent	1987: 20.0 percent