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# U.S.-Canada Trade Relationships: Developments and Implications

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North American agriculture is passing through yet another period of adjustment in markets, production levels, and government programs. The adjustment grows out of an enormous change in global food conditions after 1980. Nations that traditionally imported large amounts of foodstuffs begin to move toward greater self-sufficiency and nations that exported to them saw surpluses began to pile up in their warehouses. The burden of these shifts was not borne evenly by exporting nations. The United States experienced a dramatic downturn in its food exports while other nations, often using government subsidies to gain market share, went on increasing production and exports.

The experience of having U.S. farm exports decline so rapidly after a period of unprecedented growth set the stage for dramatic action on international agricultural trade policy. The first attempt at revamping international agricultural trade policy was taken at a meeting of trade ministers in Geneva in 1982. At that meeting, the United States tried to convince other exporting countries that export subsidies on agricultural products were leading to a potential financial crisis that was not in the interest of any farm or national interest. Unfortunately, conditions were not yet severe enough to lead to cooperation by other countries, especially the European Community. Consequently, no agreement was reached in Geneva in 1982 and no joint action was taken. U.S. exports continued to fall and pressure continued to build.

The next step in revamping international agricultural trade policy was taken with the passage of the 1985 U.S. farm bill. That act provided authority for the United States to join other exporting nations in a policy of subsidizing farm exports. It was a reluctant shift in policy and one that led Secretary of Agriculture Richard Lyng to comment in June 1986: "Now we are engaging in some of the practices which we have strongly criticized in the past . . . We have taken this course reluctantly,

after years of unheeded appeals on our part for the EC to reduce its production and subsidies."

With the implementation of the 1985 farm bill, U.S. farm exports began to slowly regain momentum. The second part of that turnaround was less positive; program costs skyrocketed. The larger differential between lower loan rates and target prices led to growing farm program expenditures. Other changes that were made in the overall administration of domestic and export programs also added to total costs. These same changes also increased farm program costs for other nations, including the European Community.

As the financing costs of farm programs began to increase, world leaders began to focus on how these expenditures could be controlled. International meetings led to the conclusion that nations were on a collision course over agricultural trade and changes had to be made. The outgrowth was an historic agreement at Punta del Este, Uruguay in late 1986 that a new round of multilateral trade negotiations should be undertaken so that export subsidies on agricultural products could be brought under control.

This meeting was followed by other international meetings which concluded that reform of world agriculture was a high priority issue. Meetings as diverse as the Venice Summit, the Cairns Group and the Organization for Economic Cooperation and Development all reached the same conclusion. But Secretary of Agriculture Richard Lyng and Canadian Minister of Agriculture John Wise probably said it best in Ottawa early in June 1986. After a day of meetings on agriculture, the two officials stated, "The chaotic state of world agricultural trade means that we need to go beyond simply recognizing the problems facing the world's farmers. We must use the Uruguay Round to bring about fundamental and comprehensive reform of agricultural policies and programs around the world."

In short, world agricultural leaders are now saying that it is time for the agricultural trading nations to get on with the job of freeing up world trade in agricultural products. Rhetoric is no longer enough.

My own view is that we must stop producing

agricultural products without regard for prospective demand. We must stop the growth in producer and export subsidies which are destabilizing international markets. And we must stop the countries from attempting to solve their agricultural problems through retreat behind protectionist trade barriers rather than through reason. A failure to *act decisively* on these issues will almost certainly lead to a total breakdown of discipline and order in world agricultural trade.

It has taken time, but world leaders are at last coming to understand the "macro" setting in which farmers must operate today. And that is an important first step in taking appropriate action to solve the global farm crisis.

That macro picture includes: the reality of a food and agricultural world that runs in cycles; the reality of a technological world in which the spread of new innovations has become more rapid and more global; the reality of a consumer world in which the availability of imported goods and products is taken for granted; the reality of an economic world in which change is the only constant; the reality of a government world in which budgets are out of balance, forcing a re-examination of all programs; and finally, the reality of a trade policy world in which all of these issues—spread of technology, growing consumer demand for imports, growing economic variability, and growing budget deficits—are pressing governments to either protect their own markets or push for more open markets through trade negotiations.

The United States and Canada have chosen to follow the path of trade negotiations. Both our countries are working hard for a U.S.-Canadian agreement that would open up trade along our mutual border—the longest border anywhere in the world that is open, unguarded and friendly. A lot of trade already crosses that border—and it is in the interest of both countries to expand that trade further.

Negotiations—even agreements—between the United States and Canada on free trade date back more than 100 years. The first move in this direction came in 1854 when our two countries signed an agreement that permitted each to fish in the other's waters and to trade freely in natural resources. That first treaty lasted 12 years but was not renewed following British support for the Confederacy in the 1860's.

Another major effort at free trade between the two nations was made in 1911, when we negotiated a Reciprocity Agreement that would have introduced free trade for agricultural products and reduced tariffs on manufactured products. That agreement was never ratified by Canada because

U.S. political rhetoric raised concern that the free trade might be a first step in eventual annexation<sup>6</sup> of Canada.

During the mid-1930's, the United States and Canada negotiated a treaty that reduced U.S. tariff<sup>7</sup> on Canadian goods imposed during the Depression<sup>8</sup> under the Smoot-Hawley Tariff rules. The pact was renewed in 1938 but then abandoned in 1948 when both countries participated in the multilateral General Agreement on Tariffs and Trade (GATT).

At the present time, only one major bilateral economic accord—the 1965 treaty creating a duty-free market for automobiles and parts—is in effect between the two countries.

The current talks are the first in nearly 40 years in which the United States and Canada have addressed the issue of free trade. They are the result of a summit meeting two years ago in March 1985 between President Ronald Reagan and Prime Minister Brian Mulroney.

The U.S. Congress has authorized the Reagan Administration to pursue these negotiations on a "fast track" basis. However, this authority expires at the end of the year. To meet the deadline, U.S. negotiators need to submit whatever they have come up with to Congress by early October. This means the negotiations are being conducted under great time pressure.

What is the likelihood for success? I have been involved in the negotiations regarding agriculture, so I tend to judge progress from this point of view. On the agriculture side, we have held meetings at least once a month since last July. We have focused<sup>9</sup> much attention on the harmonization of health and sanitary regulations. A task force with representatives from both governments was formed to discuss this topic—and I believe we have made some headway on this issue.

We have also undertaken to identify the various agricultural subsidy programs—at the federal as well as the State and Province levels—that distort agricultural trade between our two countries. The subsidy question is one of the more contentious issues that we are addressing. In Canada, the Secretary for External Affairs, Joe Clark, has blamed both EC and U.S. subsidies for "devastating" the livelihood of Canadian farmers. He comments that, "Agricultural production in Europe is subsidized to an extent that defies all economic sense. The United States finally responded to this structural distortion with equally absurd export subsidies of its own."

While U.S. subsidies are a highly charged issue in Canada, the Canadians' hands aren't perfectly clean either. Last December the government authorized one billion Canadian dollars for the special

Canadian Grains Program to use as a subsidy for the country's grain and oilseed producers. That's certainly a step in the *wrong* direction, as far as our free trade talks are concerned. Equally troubling to the United States are Canada's freight payments and some of its production incentives for cattle and hogs.

Also, as part of the free trade talks, we have formed a working group on access issues. This group is concentrating on non-tariff barriers such as Canadian provincial wine regulations and marketing boards' import licensing requirements and the restrictions imposed by the U.S. under various import regulation programs.

Will U.S. and Canadian negotiators be able to come up with an agreement by the October deadline? More to the point, will we be able to draft an agreement where both sides will come out winners—in other words, an agreement that stands a chance of being approved in both the United States and Canada?

One thing that augurs success is that there are strong pressures for a free trade agreement in both countries. While oftentimes the opponents seem to get most of the publicity, there are many, many businesses on both sides of the border for whom freer trade is essential for continued economic growth.

There are also pressures on both of our nations from outside sources—in particular, the European Community which is becoming more and more protectionist and the Pacific Rim countries which are becoming more and more aggressive in exporting. These trade policies of Europe and the Pacific Rim have heightened the importance of the U.S. market for Canada, and the Canadian market for the United States.

The United States and Canada already enjoy the largest bilateral trade relationship in the world. For U.S. agriculture, Canada is both a major U.S. market and a major supplier to the United States. According to U.S. data, U.S. agricultural imports from Canada in 1986 totaled nearly \$2.0 billion and Canadian imports from the United States totaled \$2.4 billion.

Canada consistently ranks as the fifth or sixth largest U.S. agricultural customer. It is the biggest foreign buyer of a number of high-value products such as oranges and orange juice, fresh grapes, fresh tomatoes, lettuce, and nursery stock and flowers. About 70 percent of U.S. agricultural exports to Canada is comprised of 100-plus products where the export value is relatively small—less than \$40 million annually.

Canada also is one of our foremost competitors in third-country agricultural markets, with nearly

three-fourths of its exports destined for countries other than the United States. Besides being our No. 1 rival in world wheat markets, especially for spring varieties and durum, Canada also is a major competitor in barley, oilseeds, horticultural and livestock items.

Canada is the United States' largest supplier of competitive agricultural products. Frozen pork, beef and veal plus live cattle and hogs and products led the list at nearly \$1 billion. Other significant Canadian exports to the United States include horticultural items and grain products. Some of Canada's most important exports to the United States are commodities for which it has few alternative markets—for example, live hogs and fresh potatoes.

While many parties on both sides of the border desire freer trade between our countries because it would spur economic growth, the value of mutual trade is not all that makes the U.S.-Canadian free trade talks significant.

Rather, these talks offer both countries an opportunity to get a head start on issues that will undoubtedly be addressed in the multilateral forum of the Uruguay Round. Among these are: the need to stop the growth in new barriers to agricultural trade and to phase out the tariff and nontariff barriers which exist now; the need to freeze the present level of trade-distorting agricultural subsidies and to phase out the use of these subsidies over time; the need to reconcile differences in food, plant, and animal health regulations in order to facilitate greater trade; and finally, the need to improve the dispute settlement process under GATT, so that once trading nations have agreed on better rules, there is assurance that they will be applied consistently and dependably.

The Uruguay Round of multilateral trade negotiations represents the best opportunity U.S. and Canadian agriculture will have in this decade, and possibly for the rest of the century, for developing ground rules that will facilitate expanded trade. The opening declaration for the new Uruguay Round cited the urgent need to bring more discipline and predictability to world agricultural trade. This declaration was a landmark for world agriculture.

Ministers of the 24 industrial nations that belong to the Organization for Economic Cooperation and Development took things an important step further with their endorsement in May of "concerted" action to halt the rise in agricultural surpluses and government farm subsidies. I think the OECD's bold stand on the subsidy issue was a surprise to some of its members. Frans Andriessen, agricultural commissioner for the European Community, was quoted as saying, "A few years ago it would

have been impossible to have agreed on an issue as controversial as farm policy. Our agreement says something about the urgency of the problem worldwide."

The seven nations participating in the Venice Summit also reaffirmed their commitment to agricultural reform. In that session's final communique the seven agreed "to refrain from actions which, by further stimulating production of agricultural commodities in surplus, increasing protection or destabilizing world markets, would worsen the negotiating climate and more generally damage trade relations."

However, talk aside, for the Uruguay Round to succeed, all nations must be prepared to put their trade policies and farm programs on the negotiating table. Likewise, all nations must be willing to examine their trade policies and farm programs from the perspective of how these policies will affect other nations, developed and developing alike. In this context, world agricultural leaders are keeping a close watch on the progress of the U.S.-Canadian free trade talks. If the United States and Canada

—both of which have highly developed agricultural systems, and both of which a big stake in freer and fairer agricultural trade—cannot resolve any of the issues that trouble our trade, what chance for success will there be for the Uruguay Round? Our achievements in these bilateral talks will doubtless be perceived as a test of whether progress in resolving agricultural trade disputes is possible in the multilateral GATT forum.

I am optimistic about success in our talks with the Canadians and in our negotiations with our Uruguay Round partners, provided we set ourselves the right goals. If our sole object in these talks is to boost exports of U.S. products, we have set the wrong goal and I suspect both these exercises are doomed to fail. If, however, our goal is to create a trade environment whereby this country and Canada and all other countries can compete fairly, then I think we are aiming at the right goal and we have a real chance to succeed. That is the outcome that U.S. agriculture, Canadian agriculture, and world agriculture needs.