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**NOTES FOR AN ADDRESS TO  
THE 1996 USDA OUTLOOK FORUM  
WASHINGTON, D.C.  
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**by Michael N. Gifford**

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I am pleased that this Panel has been asked to focus on the theme of "Building Prosperity with U.S. Trading Partners". I have been asked to provide you with Canada's perspective - a perspective which is rather unique to the extent Canada is not only one of your most important two-way trading partners in agri-food, but we are also, in a multilateral context, a major competitor as well as a major collaborator.

It struck me, in preparing for today's presentation, that a session like this would have been a very different event 10 years ago.

The regional and world trade accords which we are now implementing did not exist a decade ago. Then, agriculture was clearly the "bad boy" of international trade and the pessimists amongst us wondered whether we would ever see the day when agriculture joined the trade liberalization mainstream.

Cast your mind back. In the mid-1980's non-tariff barriers were pervasive. Record levels of trade distorting governmental support were in place. Domestic agricultural policy in almost every country was formulated in a vacuum -- with little or no attention paid to its international impact. Under the old GATT, agricultural exceptions were the rule -- and they often varied from country to country. GATT members routinely blocked the adoption of GATT panel findings that went against their interests. In

short, there was no rule of law in agricultural trade. What we had instead was anarchy.

Who would have predicted in 1986 that over the next ten years:

- the three nations of North America would join together in NAFTA; or
- we would all succeed at a new round of the GATT -- creating the World Trade Organization -- and, for agriculture, finally bringing it under effective international rules and committing to return to the table again in 1999; or
- Western hemispheric leaders would agree to pursue a Free Trade Agreement for the Americas; or
- the leaders of the Asia-Pacific region, through APEC, would defy all predictions and agree to pursue regional free trade;
- and I know few people in this room would have predicted 10 years ago that there would be murmurings of a possible transatlantic free trade area.

What a difference a decade made. In this period, there has been a sea-change. The tide is now running strongly in one direction -- toward greater trade liberalization and the agreements necessary to bring such liberalization to life.

For Canada, this is a welcome change. Given our relatively small domestic market, Canada has always looked to export markets as the key to prosperity.

For example, today, more than 50 per cent of Canadian farm cash receipts come from exports. We sell 80 per cent of our wheat abroad, almost 60 per cent of our canola, fully 40 per cent of our cattle and beef, and about one-third of our pork. With that degree of trade dependence, a more open and predictable trade environment is clearly in Canada's interest.

With respect to the U.S., total agri-food trade between our two countries reached over \$16 billion (in Canadian dollars) in 1995. That's a pretty hefty chunk of business. The growth rate in that business has been impressive. It has more than doubled in the past six years, and it continues to increase. And it's roughly in balance.

You are clearly Canada's largest agri-food market. Over 50% of our exports flow to the US. On the other side of the equation, Canada is your third largest customer, taking about 12% of all your agri-food exports, and we remain the largest single market for U.S. fruit and vegetable exports.

While bilateral trade has grown strongly since the implementation of the Canada/U.S. Free Trade Agreement (FTA) in 1989, our respective exports to markets outside of North America stagnated for much of that period -- that is until this last year or so. In the last few years we have both seen a major growth in off-shore exports. Even though exports to the former Soviet Union have dropped considerably, this has been more than compensated by increased exports to Asia, Latin America and Europe.

Clearly, the change in the agricultural trade policy environment over the past decade has had a positive impact on our respective bilateral and multilateral trade performances.

Multilateral progress in improving the world trading system has been -- and remains -- Canada's highest priority. But that has not ruled out pursuit of regional agreements, provided they are consistent with the multilateral system. This was our touchstone in the FTA and NAFTA and will remain our benchmark for future regional agreements..

By virtue of comparative demography and continental geography, more fair and open trade with the United States under a rules-based regime has long been a Canadian goal. Our agenda regionally has paralleled our agenda globally: the search for clear rules and due process; a confident basis for conflict resolution; and equitable access, fairly established and fairly applied. That was why Canada entered into the bilateral free trade agreement with the U.S. -- the FTA which was the precursor to the NAFTA.

In some respects the effects of the FTA, and subsequently the NAFTA, on Canadian agriculture have been more Evolutionary than Revolutionary. After all, tariffs have been falling in our bilateral relationship with the U.S. since 1947. Indeed, in some sectors, such as meat and livestock, the market has been functioning as a de facto free trade area for some considerable time. And it has been mutually advantageous.

But in other respects the FTA has had more dramatic effects, particularly with respect to Canada's food processing sector.

Prior to our trade agreement with the United States, tariff walls on processed goods created an agri-food branch plant economy in Canada -- characterized by small production runs, trans-Canada patterns of movement, and an emphasis on production of a general range of products, rather than specialization. Even in those areas where tariffs



were absent, the risk that Canadian exports could at some time be subject to the American meat import law -- and vice versa -- limited investment in facilities that could serve a continental market.

Since 1988, the agriculture and agri-food sector in Canada has reflected a more confident investment environment created by a freer trade framework. Trans-national companies, which 10 years ago produced a full range of products in Canada at relatively high per unit costs, have rationalized their production lines, achieved longer production runs and now produce for a North American region or, in some cases have acquired world product mandates.

Small, medium and large Canadian owned food processing companies which originally had serious misgivings about whether they could compete on a free trade basis, have found to their surprise that they can compete head to head with U.S. firms in the Canadian market and to their greater surprise can increasingly compete in the U.S. market, particularly for niche products.

What is noteworthy in the way trade has grown since the FTA was negotiated has been the fact that, in many cases, trade has grown strongly in both directions in the same sectors (e.g. grains and grain products, red meats and fresh and processed vegetables). Consequently, the agri-food industry in North America has become increasingly orientated on a North-South, as opposed to an East-West axis.

However, regional free trade areas are not always frictionless. Although both countries have benefitted enormously from the gains from trade unleashed by the NAFTA, there are still some problems to resolve, largely

in those sectors where there are major differences in support and/or marketing systems.

A year or so ago, we had a nasty scuffle over trade in wheat and coming down the track is a NAFTA panel which will let both countries know by mid-year, whether either one can apply against the other the tariff equivalents resulting from the conversion of our respective import quotas. The results of this Panel will of course have implications not just for Canada's dairy and poultry tariffs, but also for the U.S. tariffs on dairy, sugar and peanuts.

There are also differences of view as to whether single desk selling agencies, such as the Canadian Wheat Board have an unfair advantage over multiple seller marketing systems.

However, these occasional differences should never be allowed to obscure the fact that the vast bulk of our two-way trade in agri-food products continues to grow on an unrestricted basis to the mutual benefit of both countries.

Thus, while it is always possible for any dispute to become so highly politicized that facts become irrelevant and perceptions become reality, I share the view that in the longer run, wiser heads will prevail and these problems will be resolved in a responsible and sensible way.

Although the nature of the political economy of agriculture is such that regional or special interests can from time to time have a disproportionate impact on public policy, in the longer-term the broader national economic interests and common sense do tend to dominate.



This is not to suggest that we are inevitably heading towards some kind of a "North American Common Agricultural Policy". Different national agricultural policies can and will continue to co-exist within a free trade area. But a free trade area means that, over time, the policies of the members will have to converge and become more, rather than less, compatible if cross-border problems are to be minimized.

In the meantime, we will have to continue to deal with periodic cross-border problems. That is why effective, objective dispute settlement is absolutely essential to successful trade agreements.

Dispute settlement was at the core of the FTA. It is at the core of NAFTA. And it is one of the singular improvements contained in the WTO. But the existence of such mechanisms does not always lead members to avail themselves of those options.

Effective trade agreements do not ensure that governments will always act according to their enlightened self-interest. But they do make that more likely -- through clear rules, clear sanctions and the availability of an impartial panel of experts to establish the facts in dispute and judge the merits of arguments made.

Currently, Canada and the United States have a few issues which are either the subject of a Panel or could become panel issues. We are also supporting each other in a number of Panel cases against third country markets where we share common export interests. Panel requests should not be viewed as a hostile act. Quite the contrary, it reflects the fact that sometimes trade disputes become so politicized that the parties need assistance in reconciling their differences. This is not a case of

surrendering sovereignty. It is a case of recognizing that the rule of law is preferable to the law of the political jungle.

I know that many in this audience will recognize that in agricultural trade relations there are relatively few examples of black or white situations. In most cases, the parties exhibit various shades of grey -with the tint depending on whether they are pursuing their export or import interests. However, external and internal pressures are ensuring that the shades of grey are beginning to converge.

Although, agricultural support and marketing systems differ from country to country, agriculture ministries today face remarkably common challenges: to make our industries more competitive, to encourage a more "growth and market orientated" mind-set, to get the best value out of shrinking government budgets, and to encourage adaptation to a more open and interdependent trading system.

Canada is facing all of these challenges.

Domestically, Canada implemented a package of fundamental and far-reaching agricultural reforms announced in the federal budget of last February. This responds to the pressure to reduce deficits -- but also to the need to be as innovative, efficient and competitive as possible in what is fast becoming a global agricultural village.

Last February, we moved to bring our domestic policies more in line with a more open and interdependent trading system. We ended one important subsidy that had its origins in the last century. Subsidies under our Western Grain Transportation Act have now ended, and Canada is now entirely out of the export subsidy business in the grains and oilseeds

sector. We expect that, as a result, our prairie economy will strengthen -- with higher value crops, greater diversification -- including more livestock, more value-added processing and a more efficient transportation system.

More open trade agreements are not an end in themselves. They are a means. A means to achieve greater domestic growth, greater stability, greater predictability, greater fairness. A way to provide an environment within which producers and processors can plan and invest with greater certainty and to face the future with greater confidence. In short, trade is one of the key means of building a more prosperous country as well as a richer international community.

And it should spur us on to meet fully the challenges we have only partly met thus far.

We must work globally to finally put an end to the era of agricultural export subsidies. And we must continue to build regional and multilateral trade frameworks that complement each other, that work together towards one objective we all share -- economic growth and good jobs.

In North America, as elsewhere, we have shown what we can do if countries work together to achieve common goals. What we must show in the future is how to turn that common ground into higher ground still.

I have talked so far about how governments have cooperated to reduce trade barriers and distortions. However, complementing the improvements in the agricultural trading system has been a parallel improvement in the underlying market fundamentals for a number of products - particularly, but not exclusively, in the grain sector.

We are all aware that grain prices are higher to-day than they have been for more than twenty years. Is this a bubble, a repeat of the 1970's which saw prices soar to record levels only to be followed by record lows a few years later? A number of observers have noted that rising populations and strong income growth in Asia and Latin America have created a more solid and sustainable basis for agricultural trade growth than the credit and inflation - led import surges of the 1970's.

This leads me to my last point -- the critical relationship between economic growth and the demand for agricultural and agri-food imports. Those of us who have been heavily involved in the agricultural trade policy initiatives of the past decade must keep things in perspective and recognize that improving the rules of the agricultural trade game, while very important, is only part of the prosperity equation. What is also required is solid economic growth, particularly in those markets whose propensity to buy food is higher than that in the more mature markets of the developed countries.

However, the explosion in the demand for agri-food imports in Asia and Latin America has an important trade policy element. That is, it is very unlikely that these markets would be growing as fast as they are without good international access for their own export products, particularly their non-agricultural products, such as, consumer electronics, textiles, shoes and steel.

Thus, I have managed to come full circle. Trade is truly a two-way street and, if the traffic is allowed to increase, all will share in the ensuing prosperity, including the agri-food sector of North America.

While much remains to be done one cannot help but be optimistic that agricultural trade has finally found its way back to the main thoroughfare,

after spending far too many years stuck in narrow backstreets and dead-ends.

Because we live in a real rather than a text-book world, there will be occasions when political imperatives will cause some to become disoriented and wander back into the back streets. However, it is in all of our interests to ensure that these deviations never again become the norm.

The trade policy initiatives of the last decade have served North American agriculture well and we will only have ourselves to blame if we do not do everything in our power to ensure that this momentum is continued as we prepare ourselves for the opportunities and challenges of the next decade.