

# **Canadian Agriculture After 25 Years of Regional Trade Agreements\***

Mike Gifford comments  
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# First CUSTA, then NAFTA

- Canada/US Trade Agreement into force 1989 (building on 40 years of tariff reductions in GATT)
- CUSTA incorporated into NAFTA effective 1994
- QR's retained in sensitive sectors, all tariffs eliminated in CUSTA (Uruguay Round transformed QR's into TRQ's effective 1995)

# THE CUSTA/NAFTA POSITIVES

- Encouraged regional growth in trade and direct foreign investment in food processing
- Canadian food processing sector transformed (tariff protected branch plants and small national firms forced to adjust to compete in zero tariff environment)
- Encouraged north/south trade at expense of trans-Canada trade

# Canada/US TRQ's remain on bilateral trade

- US willing in NAFTA to phase-out QR's, only way to negotiate big agricultural result with Mexico
- Canada unwilling to negotiate QR's in NAFTA (protecting Uruguay Round position)

# Sector Impacts

- Fresh fruit and vegetables forced to adapt to loss of seasonal tariffs
- Emergence of highly efficient greenhouse industry (growing exports of tomatoes, peppers and cucumbers)
- US investment in world scale Canadian meat packing plants
- Despite cries of inevitable collapse, grape and wine sector survived and prospered (only sector to receive structural assistance)

# Indirect Policy Impacts

- Elimination of Western grain transportation subsidies encouraging more north/south trade as compared to traditional east/west coast trade
- More recently, Canadian Wheat Board loss of export monopoly and transformation to private grain company will (hopefully) mitigate US wheat import sensitivities

# Increasing importance of technical regulations as trade barriers

- Positive: promotion of regional as opposed to national treatment; collaboration in dealing with BSE (mad cow); CUSTA/NAFTA precedent for WTO Sanitary and Phytosanitary Agreement
- Negative: prolonged (7+year) dispute over US country of origin labelling for meats severely distorted North American livestock economy (roughly \$1billion annual export damage for Canada)
- As tariffs reduced/eliminated, technical barriers (and trade remedies) used to reflect import sensitivities

# Politics of Agriculture still alive and well

- US sugar and dairy import protection hardly touched by TPP, sugar (and tomatoes) a recurring problem with Mexico
- Supply management (SM) for dairy, poultry and eggs supported by all major political parties in Canada
- SM system can survive TRQ expansion
- TPP (and Canada/EU Trade Agreement) expanded TRQ access to allow imports to capture over 10% of domestic consumption



# Handsome TPP Compensation Package for Supply Managed Sectors

- In midst of election campaign \$4.4 billion compensation package announced
- \$2.4 B full income guarantee program for 10 years with additional 5 year tapered phase-out
- Ten year \$1.5 B protection against reduction of quota value
- \$450 million processor modernization program to improve competitiveness of dairy, poultry and egg processors

# Dairy processor adjustments

- Continuation of SM inhibits domestic dairy market growth
- Efficiency gains through consolidation of dairy processors nearly exhausted
- Major domestic dairy processors (Agropur and Saputo) now growing via foreign acquisitions in US, Argentina, Australia and EU

# Concluding Comments

- Little doubt that 80% of Canadian agriculture (non-SM) has adapted well to CUSTA/NAFTA
- Primary agriculture and food processing sectors are more dynamic and competitive than otherwise
- Up until turn of century trade expanded faster regionally as compared to rest of world
- More recently, exports to rapidly growing emerging markets (China, India, Indonesia) have been growing faster than NAFTA

# Dangerous to place eggs in one basket

- COOL experience for livestock and meats underlines importance for Canada of diversifying export markets
- Trade agreements with EU and now TPP major diversification drivers
- Only a few major markets (e.g. China, India, Indonesia) not covered by preferential trade agreements
- Nevertheless, Australia/China Trade Agreement underscores dangers of preferential trade agreements for third parties and desirability of resuming multilateral trade liberalization and/or expanding membership of regional trade agreements
- Very unlikely regional trade agreements will deal with domestic support – a major attraction of WTO forum.
- However, WTO prospects for agriculture not good if US/EU leadership lacking

# NAFTA sidelined after TPP?

- NAFTA will be effectively subsumed by TPP, just as CUSTA was subsumed by NAFTA
- Nevertheless there will be ongoing pressure for harmonization/convergence of technical regulations on a North American basis, even within the TPP
- In theory, best hope for further expansion/phase-out of remaining TRQ's is WTO which covers domestic support
- Commodity specific reductions in domestic support key if sensitive sectors are to be addressed

# No easy path to phase-out remaining TRQ's

- However, difficult to see how Doha type agenda for agriculture can be reignited in WTO, especially if US and EU conclude trans-Atlantic FTA
- Sweeping unilateral reforms within North America appear doubtful but further incremental reforms possible
- For example, elimination of export subsidies in WTO will increase pressure on Canada to price more milk at competitive prices