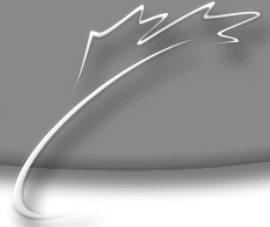




Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada



Realizing the Potential of a North American Agri-food industry:

Reducing Border Costs

April 26, 2003

Introduction

- **Assumed that it is efficient for the agri-food industry to more fully integrate across North America**
- **Costs of crossing border (e.g. barriers, uncertainty) can inhibit or distort industry decisions**
- **What is the need for mechanisms to sustain integration?**

Increasing integration -- long-term benefits, short-term costs

- **There will always be rent-seeking activity**
 - rational for specific groups to seek protection from competition and change
- **But with integration the nature of rent-seeking activity changes**
 - goal has shifted from simply protecting against competition towards
 - avoiding adjustment costs
 - compensating for uneven playing field
 - tools have shifted from traditional tools (e.g. tariffs) to new tools (e.g. safety standards)

Since existing dispute settlement framework will remain in place...

- **NAFTA created formal and informal dispute resolution mechanisms**
- **Formal mechanisms tend to be costly, slow, and difficult to change**
- **However, there is scope to make more use of informal mechanisms**
 - **provide consultative processes for dispute settlement**
 - **industry coalitions**

... need to find ways to reduce pressures for disputes

Conventional wisdom on resolving disputes and reducing border costs...

- **Increase policy convergence**
 - domestic support and trade policies
 - regulatory policies
- **Share information about:**
 - policy differences across countries
 - gains from trade and integration
- **Enabling increased integration across borders**
 - increasing trade in value-added products
 - increasing foreign investment and cross-border ownership
 - developing industry linkages across borders

...but which ones matter?

Does domestic support policy convergence promote integration?

- **Policy convergence at low levels of support facilitates integration**
 - e.g. red meat, similar domestic policies with infrequent disputes
- **Convergence at high levels of support likely to increase disputes**
 - Canada adopting U.S. style domestic support for grains would likely lead to a trade dispute
- **Differences in policy style can also be flash points for disputes**
 - e.g. Canadian Wheat Board, supply management

Regulatory harmonization could help reduce border costs and uncertainty

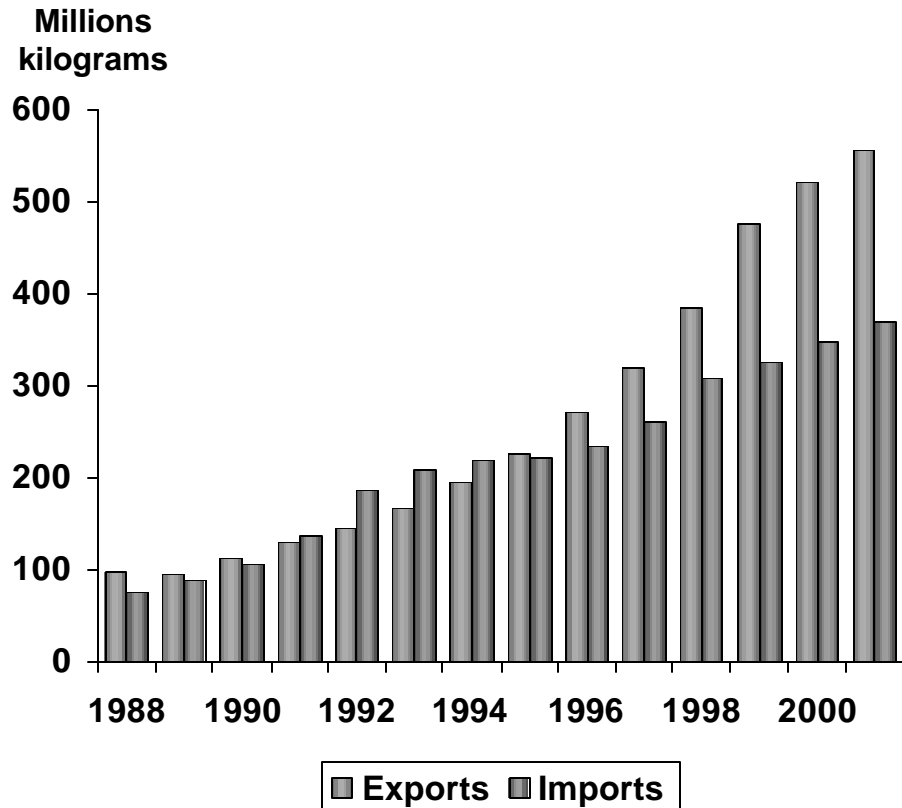
- **Having different regulations across countries imposes costs on industry**
 - **GMOs** - **animal health**
 - **inputs** - **labeling**
 - **bioterrorism** - **food safety**
- **Creates a level of frustration in the industry that can fuel demands for further disputes**
- **Transparency and consistency in way regulations are applied is important**
- **Industry trace back and on-farm HACCP systems can help**

Need a more strategic approach to information sharing

- **Information sharing does not address rent-seeking behaviour**
- **But there is potential to erode incentives for rent seeking**
- **To be helpful, information needs to be targeted**
 - **show specific effects from disputes (winners and losers)**
 - **communicate to a broader set of interest groups and policy makers**

Shift to value-added production dissipates rent-seeking incentives

Canadian bakery and pasta products
trade with U.S. and Mexico



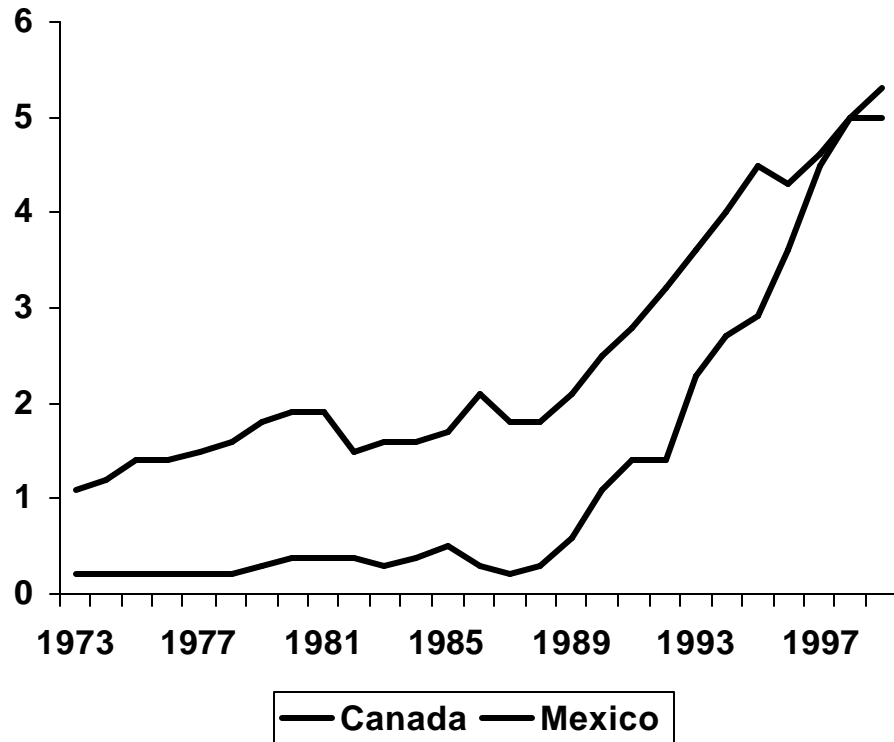
- **Growth in value-added products attract less attention than bulk commodities**
- **Less trade disputes on value-added products**
 - durum wheat vs. bakery and pasta products
- **Reduces SPS issues**
 - PEI potatoes vs. frozen french fries

Source: AAFC

Cross-border investment and ownership blurs domestic and foreign interests

U.S. Foreign Direct Investment in Canada and Mexico Processed Food Industries

\$US billions



- Changes cost/benefit analysis of trade action
- But disputes continue even in highly integrated sectors

Source: Bureau of Economic Analysis, USDA ERS

Do growing linkages feed integration?

- **Corn trade**
 - **Mexico: concern over corn imports, but have to allow imports over TRQ**
 - **Canada: growth of livestock sector has led to end of feed surplus – access to U.S. feed is important**
- **Pork trade and COOL**
 - **highly intertwined supply chain**
 - **will require adjustments on both sides of the border, but weanlings, pigs, and pork will continue to flow**

Summary

- **Going in the right direction**
- **But lots of new issues with substantial risk**
- **Need continued effort**
 - information
 - regulatory harmonization
 - industry systems
- **Is it feasible to modify the dispute framework?
Would it help?**