



KENNETH R. FARRELL  
Vice President  
Agriculture and Natural Resources

## The U.S. - Canada trade agreement: Implications for California agriculture

Congressional consideration of a new omnibus trade bill and preparations for another round of multilateral trade negotiations have overshadowed a pending bilateral trade agreement between Canada and the United States. Signed in January 1988 after nearly two years of negotiations, the accord will soon be taken up for debate on ratification by the U.S. and Canadian legislatures. If ratified, the agreement will be of substantial benefit to California agriculture.

Agricultural trade between the two countries totals about \$3.5 billion annually with a small balance in Canada's favor in recent years. Although the Canadian market absorbs only about 5 percent of all U.S. agricultural trade, it takes nearly 15 percent of California's agricultural exports, composed principally of specialty commodities. Nearly a quarter of all fruits and vegetables and related products exported from the United States go to Canada, making it our most important single export market for these products.

As is customary because of major differences in policies among countries, agriculture received special attention in the U.S.-Canada negotiations. Of particular importance to California are the provisions to eliminate all tariffs within 10 years, to minimize nontariff barriers (product standards, regulations, and the like) on agricultural, food, and beverage products, and to phase out Canada's discriminatory pricing, distribution, and marketing practices against U.S. wine.

The elimination of tariffs could be particularly important for processed and manufactured food products. While current Canadian tariffs on raw agricultural products are generally less than 10 percent *ad valorem*, those on processed and manufactured products are about 30 percent on average. Furthermore, the agreement to eliminate tariffs on fresh fruits and vegetables contains a "snapback" provision that would provide for continuance of tariffs if substantial economic injury to Canadian producers should occur.

Nontariff barriers to trade in agricultural products between the two countries are numerous and varied. The agreement seeks to prevent product standards from being used as barriers and to harmonize such standards in the two countries. A series of technical panels would be established to implement provisions over 10 years beginning in 1989.

Government-operated alcoholic-beverage distributors in Canada now apply a higher markup on U.S. wine than on Ca-

nadian wine. The new trade agreement calls for the elimination over a seven-year period of that portion of the markup not related to actual differences in costs of selling imported and Canadian wine. That provision, coupled with liberalization of Canadian distribution and marketing practices, would stimulate exports of California wine to Canada.

Other provisions of the agreement related to agriculture would reduce or eliminate licensing practices, quotas, and use of export subsidies on products shipped between the two countries. A "nonbinding" dispute-settlement process may help to moderate the contentiousness that has marked agricultural trade relations between Canada and the United States in recent years.

On balance, producers and consumers of agricultural products in both nations would gain marginally from ratification of the agreement. U.S. producers would have somewhat larger gains, but Canadian livestock producers closest to U.S. population centers in the Northeast and California would also gain. Generally, the agreement would tend to increase north-south trade and decrease east-west trade, particularly in Canada. Ratification will turn not on the gains or losses in agricultural trade in either country, but upon potential economic effects on other sectors and upon much broader political, social, and cultural implications.

The agreement represents a modest continuation of a long-term trend toward liberalized agricultural trade between the United States and Canada. Of greater significance than tariff reduction and quota relief is the reaffirmation of mutual interests in trade liberalization, recognition that policy adjustments should be coordinated between the two countries, and acknowledgment of the need for mechanisms to resolve trade disputes in an orderly way. It does not, however, alter the fact that the policies that govern agriculture in the two countries remain fundamentally different in approach and design, each with a formidable battery of protectionist devices still in place.

In that respect, the U.S.-Canada agreement is but a prelude to the much larger issues to be dealt with in the forthcoming multilateral trade negotiations.