

—DISCUSSION—
**POLICY DEVELOPMENT AND PROGRAM ASSESSMENT NEEDS:
U.S. PRODUCER PERSPECTIVE**

Peter Vitaliano

The perspective of U.S. dairy producers on the current U.S.-Canada dairy trade dispute, and the associated policy development and program assessment needs, must be viewed in the context of an ongoing evolution in producer attitudes toward international trade.

BACKGROUND TO THE DISPUTE

The current bilateral trade dispute had its genesis virtually a decade ago, when the U.S.-Canada Free Trade Agreement (FTA) and the Uruguay Round negotiations under the GATT were beginning. At that time, world dairy markets were stagnant and highly distorted by the heavy use of export subsidies. Commercial dairy export expansion was, for all intents and purposes, a contradiction in terms; most international dairy trade flows occurred only with substantial government assistance.

The policy position of U.S. dairy farmers at the time was, not surprisingly, concentrated on maintenance of import protection. Guided by this policy, the National Milk Producers Federation (NMPF) concurred with the U.S. government's decision not to attempt to negotiate bilateral disciplines on the use of non-tariff dairy import restrictions in the FTA but nevertheless to agree to phase out all tariffs on dairy products over ten years.

Just a few years later, however, NMPF strongly supported the North American Free Trade Agreement. Several factors accounted for this apparent change in attitude. It had become clear that the NAFTA and the Uruguay Round GATT negotiations were just the beginning of a process that would achieve slow, but progressive liberalization of farm product trade. Further, the U.S. dairy industry was clearly demonstrating that it had the capacity to expand production faster than its traditional (domestic) market was likely to grow, elevating the importance of seeking potential new markets through exports. With the

attractive Mexican market becoming clearly accessible through NAFTA disciplines, and other dairy importing nations likely to become more accessible through the Uruguay Round trade agreement, U.S. dairy producers began to recognize that trade agreements could produce benefits in the form of expanded access to potential export markets, and that these benefits needed to be weighed against the risks of increased access by imports to their own market. This decision calculus came out positive for Mexico, and the NAFTA became the first free trade agreement ever supported by NMPF.

During the NAFTA negotiations, the U.S. dairy industry also actively supported phasing out non-tariff restrictions on dairy trade between the United States and Canada. However, U.S. NAFTA negotiators were focussed on Mexico and showed no interest in negotiating with Canada on agricultural issues other than to incorporate the bilateral commitments already agreed to in the earlier FTA into the NAFTA.

The failure of the NAFTA to address the U.S.-Canada dairy trade was viewed as a significant problem, but one that did not stop NMPF from supporting the agreement because it gave the U.S. preferential access to one of the world's largest dairy-importing countries, namely Mexico. NMPF anticipated that the Canada issue would be addressed subsequent to the adoption of tariffication in the Uruguay Round agreement, which provided the opportunity to bring the current challenge under the dispute resolution provisions of the NAFTA.

THE CURRENT SITUATION

The issue of U.S. access to Canada's dairy markets is now, nearly ten years after it first arose in the FTA negotiations, in the hands of a formal international trade dispute settlement body. Despite the tensions and the rhetoric that, given the economic importance of this debate on both sides of the border, are inevitable in this dispute, the U.S. dairy industry sees the debate in very clear terms. The steep duties Canada imposed on U.S. dairy imports last year violate Canada's FTA and NAFTA commitments to phase out all tariffs and not to impose new ones, and there is no exception in the NAFTA on which they can be justified. Canada's argument hinges on negotiating history and intentions rather than on commitments. It attempts, but fails, to obscure the fundamental facts on which the United States has based its case.

THE BIGGER PICTURE

The U.S.-Canada dairy trade dispute is the most important, but by no means the only, trade policy issue confronting the U.S. dairy industry at this time. Its importance stems not

just from the potential benefits, in terms of increased net U.S. exports, that would follow from the removal of bilateral restrictions on U.S.-Canada dairy trade. It also constitutes an important test of whether agricultural trade liberalization will proceed on a truly comprehensive basis in the future or whether instead individual countries will be allowed instead to pick and choose the farm sectors they will agree to liberalize, based on their particular sensitivities.

U.S. agriculture is facing a seemingly unending stream of trade consultations and negotiations with the potential to expand U.S. exports. These include NAFTA implementation, NAFTA expansion, the Free Trade Area of the Americas (FTAA), the Asia-Pacific Economic Cooperation (APEC) forum, WTO implementation and the WTO continuation negotiations, to begin by 1999. The U.S.-Canada dispute on dairy and poultry is one component of this process.

Given the importance of trade expansion to the U.S. dairy industry and the importance of striking tough and enforceable trade agreements to achieve it, the industry will benefit in the long run by having dairy trade fully included in each of these trade liberalization negotiations, however long it may take for them to produce results.

The challenge for the dairy policy economic research community is to expand its horizons beyond its traditional focus on domestic dairy policy analysis to include within its scope of work the ramifications of international trade policy on the economic performance of the U.S. and other dairy industries. This symposium is positive evidence that this process may be under way.