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

Reducing Border Costs

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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

- 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

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

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

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?