

## HARMONIZATION/ CONVERGENCE/COMPATIBILITY IN GRAINS AND OILSEEDS: A COMMENT

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Gray and Smith have provided a comprehensive and useful review of programs in the U.S. and Canadian grains and oilseeds industry. The comments provided here will be more “in relation” to the paper than on the paper per se because there are a number of related issues that deserve comment. As well, they managed to avoid much discussion about one of the significant sources of trade tension between Canada and the United States in grains, the Canadian Wheat Board (CWB). Since this workshop is about disputes, information and H/C/C, that topic deserves comment because it is rampant with incomplete and incorrect information as well as “transparency” problems.

### GENERAL COMMENTS

The first comments are about the workshop generally rather than the grains industry. The Coordinating Committee actually initiated discussions for this topic on “harmonization” of policy and programs. But we were reluctant to use only that term because of its limited connotation and use. We then moved to the H/C/C designation but where one “C” stood for “consistency” instead of “convergence”. Without going to extremes in use of “C” words, it should be noted that there have been several examples provided in papers and discussion so far to indicate the need for “policy consistency”. Bredahl’s dolphins in tuna nets vs. Mexican avocados is a graphic example of inconsistency in policy perspectives. Canadian agricultural policy has its share as well: how do we explain in any rational manner (outside of sheer political expediency) the divergent (inconsistent) policy approaches applied to the grains, livestock and dairy/poultry sectors in Canada over the last three decades? **Policy Consistency** in the context of this workshop would have at least two critical dimensions: within country; and between countries. We have enough experience in Canada with the three sectors identified to know that inconsistency leads to much unproductive policy debate. It is my view that the inconsistency between policy instruments in the grains industry and

supply managed sectors within Canada are a source of trade tensions in grains between the United States and Canada.

The second general comment has to do with the process of H/C/C and the terminology we use in economics. In economics we are quick to use terminology like “efficient resource use”, “minimizing costs”, “optimizing tariffs and taxes”, and so on. This terminology is common in these workshops. Certainly we all know the genesis of this terminology; it is what our limited social science is about. The point that I wish to make is that in policy processes we need to establish more modest goals, perhaps even different terminology, to strive for accomplishments that take us in the right direction. My suggestion is that we pursue goals of “positive incrementalism” rather than optimization. If we present our policy analysis and proposals in this framework we are more likely to be heard, and if our mind set is directed in this manner we are less likely to be disappointed in apparent lack of results. The organizers of these workshops keep reminding themselves of this point; no one method of trade dispute resolution will accomplish that goal. We hope that this small information contribution is helping to take us in the right direction — positive incrementalism.

## GRAINS AND OILSEEDS

Grains disputes have taken on new dimensions in Canada. Three years ago when we initiated the Workshop series with Grains Disputes, the problem was relatively narrowly defined. It referred to the border and other problems ongoing between Canada and the United States. These issues were addressed by U.S./Canada Joint Commission on Grains, and reported on in 1995. Some of those problems are resurfacing again in 1997 and could become another major policy/trade dispute. But as Canadians are often inclined to do, by internal bickering we have expanded the problem substantially internally; not once but twice. The second internal dimension directly involves economists.

Grains disputes have genuinely broken out **within** Canadian prairies since our first workshop three years ago. The issues center on retention of the CWB in its monopolist role or moving to some form of dual marketing. This dispute, among other things, generated a review and reporting process (the Western Grain Marketing Panel), a plebiscite on barley marketing, a proposal for amending the Canadian Wheat Board Act<sup>1</sup>, and a challenge by barley producers under the Canadian Charter of Rights. The prairies, and to some extent the country, are seriously divided on what the appropriate organization is for the grains sector. Our disagreements with the United States, in my view, have been moved too far backwards on the policy agenda because of this internal dispute. In my view, there is an unavoidable

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<sup>1</sup> Bill C-72 was introduced in the House of Commons near the end of the term before Parliament was dissolved for the June 2, 1997 federal election. The Bill “died on the order paper” as often happens to legislative proposals in Canada around election time. That means that a new government would have to decide on the legislative priority this initiative should receive when Parliament reconvenes following the election.

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connection between the two because the CWB remains a source of controversy (and misinformation) between Canada and the United States

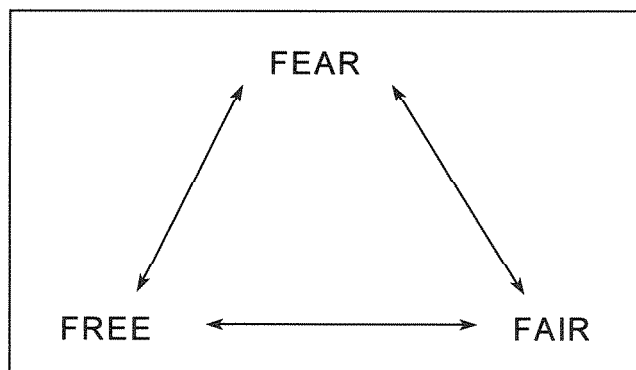
The third layer of dispute is among economists on the relative merits of the CWB. This is not the venue to detail this dispute but it another component of the information/debate process within Canada. Basically there is one set of analysts who purport to have demonstrated substantial producer benefits from SDS of wheat and barley, based on access to confidential CWB data. There is another set, smaller in number but more diverse in their funding sources and approach, that dispute the positive findings. This dispute may be less colossal in its scope but it is real no less, and many decision makers are watching. Perhaps Canada has managed to produce its own 1990s version of the coloured margarine scandal that rocked the U.S. profession over forty years ago. I refer to this dimension of grains disputes as “duel marketing”.

#### THE LOYNS GRAINS DISPUTES MODEL

In a submission to the Joint Commission on Grain Marketing<sup>2</sup>, we provided an expanded version of the simple disputes model below (see Figure 1). Freer trade (my positive incrementalist tendencies cause me to want to avoid the term “free”) has to be seen to be fair trade. If freer trade is successful, and product flows in significant volume in competition with domestic product, there is a high probability that some producers will begin to express “fear” that the new trade is not “fair”. If the afflicted groups are large enough and strong enough, they will attract political attention, and a genuine trade dispute can break out. This is not exactly the pattern of the original dispute between Canada and the United States, but it is close enough to be prescriptive, and it is close to where we are as the bickering resurfaces in 1997. Many Canadians wonder if there could seriously be genuinely free trade in wheat and barley with the United States. Their questions are raised partly because they see open trade in fruits and vegetables, corn, soybeans, flax, canola and many other agricultural products but serious reaction by producer groups and politicians to wheat and barley. They also see totally invalid arguments raised about the cause of these exports, including the level of subsidization of prairie grains. They hear Senator Conrad and other U.S. politicians making major threats about how Canada will be treated, including his infamous missile reference in 1995. Trade agreements exist to resolve these differences, they have been used, and Canada has emerged from that form of dispute settlement relatively well.

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<sup>2</sup> Loyns and Kraut. *Pricing To Value in the Canadian Grains Industry*. Canada/U.S. Joint Commission on Grains. “Final Report” Volume II. 1995.



**Figure 1. Loyns' Model of Free Trade**

But this is a two sided coin. On the prairies we perpetuate the operation of a secretive marketing agency that tells the world it is a fair trader, but justifies its existence domestically by demonstrating that it is a perfect discriminating monopolist. This behaviour is objectionable to Americans and more than a few Canadians. I could go on but will conclude this argument with the observation that much of what is involved in the availability of hard information and the conveyance of that information to industry participants and decision makers. When the facts are on the table, it will be difficult for U.S. producers to argue that there are massive levels of subsidization on Canadian prairie grains in 1997. If all the facts had been on the table when Canada had its grain transportation subsidy, the relativity of public support to grain transportation would have looked very different than the Product Subsidy Equivalent (PSEs) measured, but now that the Canadian subsidy is gone it should be U.S. public support that is challenged. If we had reasonable, public information available on the Canadian Wheat Board and the agency met a reasonable measure of the term transparency, it is unclear what we would see. But I am certain that many people, including some Americans would have a different view of that agency as well. If Canadians really understood the potential as a state trade agency of the Commodity Credit Corporation (CCC), perhaps that issue would be raised higher on the discussion list.

Attempting to place hard information on the public table is what this series of workshops is about. About five years ago when the idea for these workshops was being developed, my perception of the need for economists to become involved in this way was heavily influenced by serious misinformation on Canadian agricultural programs and on the CWB, presented by a particular "research" unit in the United States to a dispute settlement body. The first organization that I contacted for support for what was to become this Workshop series was the CWB.