

Agriculture and Agri-Food Canada

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The paper of Knutson, Loyns and Ochoa provides a very good side-by-side comparison of each of the NAFTA partners programming, and how differences could (or do) lead to trade disputes. As demonstrated in their Table 1, most of the programs are targeted at production agriculture establishing the regulatory and support framework within which production has to operate. Our understanding of how this framework functions, plus an understanding of the internal drivers that each country must deal with and the external drivers resulting from either within NAFTA or outside it, provide the context which allows us to assess the probability that trade disputes could arise (or why current ones exist) between NAFTA partners. This is a subjective exercise and I have no reason to dispute the conclusions drawn by Knutson et al.

In some traditional areas (those in Table 1) a degree of comparability exists among the three partners which should greatly reduce the potential for conflict to arise as a direct result of government programming. Areas of potential problems have been highlighted, areas where the three countries have been less successful in moving toward common programming or policies. It is important to understand why this may be the case, and also that a much broader view of potential problems must be developed.

First, it is important to remember that the NAFTA (and other trade agreements) move countries forward on the path toward trade liberalization. But they have not achieved this goal, in part because agreements tend to address only the instruments used by governments that can disrupt the flow of goods, services and people between countries; they do not address the causes that have given rise to protectionist demands. It is also important to remember that often the formal trade agreement only codifies what has already changed (or will change); they don't often break new ground. Agreements do not necessarily move the system toward the eventual objective, but may prevent back-

sliding. This is why it is often very difficult to quantify the impact of a trade agreement as more often it is reactive in nature, not proactive.

The NAFTA is not much different when it comes to the agricultural sector. Border measures that were really minor irritants were phased out, paths leading to greater harmonization already were reinforced, and difficult and sensitive areas were ignored. One may ask, ... why this result? One explanation may be that the NAFTA partners are responding to different internal and external forces and thus are at different distances along the path to "freer trade". The extent to which some level of "freer" trade is an actual national policy goal, compared to the position where trade policy is simply another tool of domestic policy, may still fundamentally separate the NAFTA partners at this time. As long as the second view dominates, i.e., trade policy including the trade agreement is only a component of domestic policy, especially in the United States, then the objective of free trade will remain beyond reach and trade disputes should be expected. Truly free trade demands more fundamental change than simply trying to harmonize border measures.

The United States is central to this assessment. Due to its size in NAFTA and its degree of exposure to world agricultural markets, it can better insulate itself from the forces that might otherwise cause it to adjust its use of protectionist or distorting policies. Compared to Canada, the United States is much less dependent on trade for most commodities, and given the fact that for the agriculture and agri-food sector over 80 percent of Canada's exports head south, Canada often has to react to U.S. policy changes that could have a dramatic impact on trade and the economy. The converse is not true.

"Free trade" will not arrive until such time that all member countries have to equally consider the implications of their actions for their trading partners as for themselves. Until that situation is obtained, one can expect trade disputes to continue as producers on one side of a border will see differences between policies that apply to them vs. those that apply on the other side of the border, and will from time to time demand protection from what is perceived to be a playing field that is not level. To achieve "Free Trade" implies a level of harmonization and policy convergence that does not exist at this time. In certain commodities where the export market is critical, Canada must now take

this type of view. In the short to medium term, I do not foresee the United States adopting this type of behaviour where it would place the trade interests of other countries at the same level of its domestic policy agenda. Therefore I am not sure how much additional progress toward reducing the potential for trade disputes can be made.

There are non-traditional areas of policy emerging in all countries that could make the progress toward reducing frictions at the borders much more difficult. In fact some emerging issues may prove to be more disruptive than we have experienced to date as the issues often affect those far beyond the farm gate or processing plant. Varel Bailey earlier put together a useful list of emerging factors and many of them have been raised more than once during this meeting. They are:

- the environment (climate change, biodiversity, water, biotechnology);
- rural-urban issues and concerns about labour mobility;
- food safety issues (risk, precautionary principle, loss in faith of scientific domain, GMO's);
- social and cultural issues (multifunctionality, animal welfare);
- science policy and relationship between regulatory bodies and industry; and
- expansion of trade issues beyond current confines (production and process methods, labour, intellectual property, north-south issues)

The list is meant to be illustrative and many more factors could be added. However, one thing is certain: there is no certainty that governments today have the capacity, knowledge, institutions or frameworks to deal with these issues, nationally or globally. They have enough problems dealing with the issues at hand. For example all signatories to the Kyoto Protocol are trying to determine how they might individually and collectively meet the commitments made in 1997 to achieve targets set for 2008-12. If countries choose differing paths that fit their specific situations related to GHG emissions, a whole new host of different policies and programs may be created affecting the agricultural sector of all countries in direct and indirect ways that vary considerably from their trading partners. For example, how countries deal with emissions trading and the role of soil sinks may be just one example where producers on one side of a border feel they are being treated differently than those on

the other side, which may give rise to a new round of protectionism as stakeholders try to use trade barriers to offset policy differences.

It is critical how countries will co-operate over the coming years to find global solutions and mechanisms that will not change relative comparative advantage through policies, therefore triggering an increase in trade related actions and a possible movement away from free trade. Many of these would be in the form of non-tariff barriers and the world's success in dealing with these types of barriers has been much more limited than dealing with tariffs. For example, in moving to consumer orientated marketing chains it may prove difficult to determine exactly what consumers want and to what degree policy should be used to ensure they receive what they are demanding.

CONCLUSION

My principle concern is not that we cannot figure out better ways to obtain greater harmonization and convergence for the areas of concern laid out in Table 1 in the Knutson et al paper. We largely understand these issues and the possible mechanisms that could be used. For the most part the trade disputes that they give rise to represent relatively small irritants between the NAFTA partners given the overall size of agricultural trade.

The 'emerging issues' are of greater concern. Lacking any real formal combined policy making process or institution within NAFTA, it is unlikely that policy convergence across the three countries would occur on these emerging issues. Given the potential for structural change that could arise due to these internal and external pressures, and the tendency that governments have shown to try and reduce the costs of change and transition within the agricultural sector, new policies and programming have the real potential to vastly increase tensions giving rise to the greater use of protectionist trade measures. Whereas today the trade disputes tend to be minor, they could become much more pervasive in responding to these emerging issues. Governments, hopefully lead by academics and other researchers, need to get out in front of this phenomenon and seek ways to obtain greater domestic policy convergence within NAFTA to avoid the possible spillover impacts that could arise.

REFERENCE

- Knutson, R.D., R.M.A. Loyns and Rene F. Ochoa. 2001. "Policy Options for Facilitating Change and Maintaining Competition Under Conditions of Free Trade Within NAFTA." In Loyns, Meilke, Knutson, Yunez-Naude Proceedings of the Seventh Agricultural and Food Policy Information Workshop.