
STATES/PROVINCES DIALOGUE ON AGRICULTURAL TRADE AND POLICY ISSUES¹

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INTRODUCTION

Over the past year, Canadian Provinces, U.S. states and Mexican states have embarked on a number of initiatives and activities designed to encourage communication on cross border agricultural trade and policy issues. These initiatives and activities have involved agricultural producers, politicians and government officials from both sides of the border. Their motivation is the mutual recognition that sub-national jurisdictions could play a useful and substantive role in managing the growing but somewhat fractious agricultural trade relationship within NAFTA.

The purpose of this paper is to describe these initiatives, outline the institutional mechanisms that have been set up, assess the effectiveness of actions taken and provide a road map for future actions. While some mention will be made of U.S./Mexican bilateral initiatives, emphasis will be placed on

¹Editors Note. This paper provides a detailed listing of trade and policy issues, differences and perceptions in the western half of Canada and the United States. The source of this material is several cross-border meetings held since the fall of 1998. Most of this material comes from direct contact with primary producers. It represents a comprehensive definition of an important aspect of trade disputes between the United States and Canada.

the activities of U.S. states and Canadian provinces. Specific details of the major public meetings are summarized in the appendices.

BACKGROUND

During the summer and into the fall of 1998, rising cross border tensions in agriculture culminated in border blockades and a general disruption of trade between Canada and the United States. Among the reasons cited for this sudden deterioration in the bilateral agricultural trading relationship were:

- declining commodity prices and a deteriorating farm income situation, particularly in Northern Tier U.S. states;
- a general perception by farmers in Northern Tier U.S. states of unfair Canadian trade practices;
- a perception by farmers and certain State governments that the U.S. federal government was not paying sufficient attention to the plight of the agricultural industry in the Northern border states;
- a perception by farmers in Northern border states that trade liberalization under the Canada/U.S. Free Trade Agreement (FTA), and subsequently the North American Free Trade Agreement (NAFTA), had disproportionately benefitted Canadian producers; and
- a belief by U.S. producers and some State governments that border blockades were the quickest way to get the attention of both federal governments to eliminate trade barriers and resolve bilateral trade irritants.

(USDA/AAFC, 1999; Waddell, 1999).

The border blockades did raise the political profile of bilateral agricultural trade in both capitals. They also provided an admission that the Canada-U.S. agricultural trade relationship could not be taken for granted, and that it required more careful management. A period of intense political activity at the highest levels of both governments culminated December 2, 1998 in the signing of the *Record of Understanding Between the Governments of Canada and the United States of America Regarding Areas of Agricultural Trade* (ROU). The ROU was designed to address 17 specific bilateral trade irritants as well as set up a broad institutional framework to regularly consult on all pertinent agricultural trade issues. The intent was to establish a comprehensive consulta-

tive mechanism to provide early warning of impending trade problems such that trade irritants could be resolved before they became full blown trade disputes. However, this intent did not prevent the concurrent filing and subsequent trade litigation of Canadian cattle exports (the R-CALF Case).

In accordance with the ROU, a Consultative Committee on Agriculture (CCA), staffed at the senior officials level was created in April, 1999, to facilitate implementation of the specific provisions of the ROU, as well as serve as an ongoing bilateral mechanism for discussion and cooperation on agricultural issues. In recognition of the importance of agricultural trade for states and provinces and a desire by provinces and states to be more fully involved in federal decisions affecting agricultural trade, the CCA mechanism encouraged the establishment of a Provincial-State Advisory Group (PSAG). The PSAG is to act as an advisory body to both federal governments on matters affecting agricultural trade and function as the forum for producers and exporters to bring forward their trade and policy issues either for resolution at the PSAG level or to be forwarded for federal attention.

STATES/PROVINCES INITIATIVES

States and provinces directly affected by the border blockades of 1998 made a commitment to intensify ongoing bilateral activity and work to strengthen existing mechanisms, in order to prevent further disruptions to trade. Premiers and Governors increased the frequency of visits to each others' jurisdictions. In December 1998, Premier Klein of Alberta and Governor Racicot of Montana committed to sponsoring a producer conference, which was subsequently held in Great Falls, Montana on June 1, 1999. Present were approximately 200 participating producers, representing all commodity sectors. The conference was an opportunity for direct producer-to-producer contact and discussion regarding cross border trade issues and business opportunities. The Alberta and Montana governments conducted comprehensive surveys of producer groups to help identify primary issues of concern, prior to the conference. The results of the survey provided focus to the discussions by producers. With process facilitation services provided by both governments, producers were able to engage in meaningful dialogue on trade irritants. Fact sheets on Canada/U.S. trade, addressing various commodity and value adding sectors, assisted in the discus-

sions and helped to dispel some misconceptions. The presence and active participation by the Alberta Premier and the Montana Governor added to the political significance of the event and seemed to satisfy the majority of producers that governments were indeed concerned about their issues. The objectives, issues and results of that conference are reported in Appendix 2.

A parallel meeting on June 2, 1999 of State Directors/Commissioners of Agriculture from North Dakota, South Dakota and Minnesota with Ministers of Agriculture from Alberta, Saskatchewan and Manitoba along with officials from British Columbia and Idaho provided a unique opportunity for spirited and frank discussions at the political level on cross border issues. It quickly became apparent at that meeting that there was less than full information on contentious issues such as government subsidy practices and sanitary and phytosanitary regulations. There was agreement that more information would be sought from federal authorities to enable a more informed discussion at the July meeting of the States-Provinces Agricultural Accord (ACCORD). Nonetheless, there was agreement that European Union export subsidy practices were a mutual concern and that Canada and the U.S. should make this issue their highest priority at the World Trade Organization (WTO) meetings in Seattle in December, 1999.

The issue of better managing bilateral agricultural trade was also on the agenda of the Western Premiers/Western Governors Annual Meeting held June 15, 1999. The need for formalizing closer working relationships between Provinces and States was well recognized. Premiers and Governors agreed on much closer communication on agriculture and the need to engage informally to diffuse potential trade disputes. They have followed up on this commitment with more frequent discussions on agricultural issues and will reinforce the need to continue this process at the upcoming Western Premiers/Western Governors Conference in May, 2000.

The heightened level of activity at the producer, political and officials level and the desire to engage constructively on cross border and international trade issues was carried forward to the Annual ACCORD meeting in Salt Lake City on July 15, 1999. The ACCORD is a trilateral consultative body made up of the Board of Directors of the United States National Association of State

Departments of Agriculture (NASDA), the Canadian provincial Ministers of Agriculture and the Mexican Association of Secretaries of Agricultural Development (AMSDA). The Accord mechanism between Canada and the United States predates the FTA. Meeting for the first time in 1986, the parties recognized that specific bilateral agricultural trade irritants are often regional in nature. The ACCORD was to facilitate provincial and state dialogue on specific trade issues to amicably resolve emerging trade irritants before they escalate into larger, more difficult bilateral trade disputes. Mexican states joined the ACCORD process in 1995.

The July 15, 1999 meeting of the ACCORD was an opportunity to review the effectiveness of the organization in managing the trilateral trade relationship and to propose new structures to revitalize its role. At Alberta's suggestion, a new structure was adopted. Three working groups were created to address U.S./Canada, U.S./Mexico and Canada/Mexico trade issues and irritants. Specific goals and approaches were adopted and co-chairs selected to lead the efforts. It was agreed that the U.S./Canada Working Group would also serve as the PSAG. Co-chairs of the PSAG are the Director of the Montana Department of Agriculture and Saskatchewan's Minister of Agriculture. This proposed structure for input into the federal process was subsequently accepted by both federal governments.

Agricultural representatives of 44 states and provinces from the NAFTA countries also took the opportunity to develop common positions for the WTO negotiations and detailed these in letters to the three federal governments. Among the recommendations was a call to all three governments to focus on eliminating export subsidies and work toward progressive reduction of trade and production distorting domestic subsidies worldwide. A more complete report on the ACCORD meeting is provided in Appendix 3.

On November 15, 1999, the States of Minnesota, North and South Dakota along with Manitoba and Saskatchewan sponsored the Northern Plains Producer Conference in Fargo, North Dakota. More than 200 farmers and ranchers from these jurisdictions engaged in discussions on trade and policy issues, similar to the dialogue followed at the Montana/Alberta Agricultural Opportunities Conference. The issues identified by producers included the need to

harmonize Canada/U.S. regulations pertaining to pesticide registration and use, the need to explore joint cross border marketing mechanisms and joint efforts to educate consumers on the benefits and safety of genetically modified foods. Recommendations arising from this conference have been forwarded to both federal governments, and a second meeting has been scheduled for late 2000. A more detailed discussion of this conference is provided in Appendix 4.

On January 19, 2000, the State Legislature of Idaho teamed up with the Pacific NorthWest Economic Region organization and the Canadian Consul General's Office in Seattle to host the Idaho/Canada Agricultural Summit, in Boise, Idaho. More than 100 producers, legislators, businesses and government officials engaged in a discussion of agricultural trade issues with particular emphasis on cattle/beef and potatoes. Recommendations arising from this conference are being channeled through to the Consultative Committee on Agriculture. A more detailed report of this meeting can be found in Appendix 5.

In preparation for the July, 2000 ACCORD meeting, the PSAG expects to meet in Washington D.C. on March 2, 2000. It is anticipated that PSAG will prioritize the many trade issues identified at producer conferences, agree on which priority areas provinces and states can work on (many of the issues identified are already on the work plan of the CCA and will simply require progress reports) and set specific time lines for completion. Meanwhile, both provinces and states have asked the CCA to include a number of additional items for discussion at the scheduled CCA meeting in February. These include an assessment of both nations anti-dumping legislation and use with respect to agricultural trade, and a review of the activities of the NAFTA Working Group on Subsidies. The purpose is to find an effective NAFTA strategy to discourage third countries from selling export subsidized product within the NAFTA territory.

ASSESSMENT

The many efforts of sub-national jurisdictions to facilitate increased communication and dialogue among producers and agri-businesses on cross border trade issues over the past year have been acknowledged as being useful in promoting better understanding of the bilateral agricultural dynamic (Peck,

2000). This view is being communicated by producer groups to both state and provincial governments. Nevertheless, there continue to be misconceptions in particular areas of trade and policy including, but not limited to, grains and potatoes. Political attention at the highest levels to a better management process for a growing trilateral relationship in agriculture has galvanized national and sub-national bureaucracies to dedicate resources to this effort.

Market upturns in cattle and beef coupled with Canadian imports of more than 140,000 head of feeder cattle under the Restricted Feeder Cattle Entry Program so far this season have greatly reduced the temperature in cross border trade tension in this commodity. New and mutually profitable business relationships between Canadian feedlots and U.S. cattle producers have been key factors. This is despite the complications and strained relationships precipitated by the U.S. anti-dumping and countervail investigations on Canadian cattle and potentially troublesome issues such as proposed country of origin labelling requirements.

The various producer conferences and exchanges at the political and officials levels, initiated at the sub-national level, have been invaluable in promoting candid discussions, issue identification and prioritization, but it is too early to assess the effects of actions taken. Federal agencies responsible for plant and animal health regulations, and trade policy issues in general, must not only be cooperating more fully but must be seen to be cooperating by interested stakeholders on both sides of the border. This emphasizes the need for a greater level of information dissemination.

The various mechanisms that have been set up to address Canada/U.S. trade issues and their roles need to be communicated more effectively to producer groups and agri-businesses on both sides of the border. In addition, the number and significance of trade irritants that have been successfully resolved through the CCA process need to be publicized more effectively. In particular, changes to Canadian import regulations for slaughter swine, expansion of the Restricted Feeder Cattle Entry Program, transshipment of U.S. grains through Canada and closer cooperation in pesticide review (and joint registration) are all accomplishments that would not have been possible even a year ago.

The dialogue that has begun has created an increased level of expectation by producer groups for faster delivery of results. National and sub-national jurisdictions will be under increasing pressure to continue the momentum and pace of resolving remaining trade irritants, particularly in this election year in the United States. It is acknowledged that some groups in both countries will be reluctant to avail themselves of the mechanisms created for informal dispute resolution but will continue to rely on seeking redress through the use of contingency protection legislation.

THE ROAD AHEAD

National jurisdictions in both countries will need to sustain the spirit of “inclusion” displayed so far in encouraging sub-national jurisdictions to play a greater role in management of the bilateral agricultural trading relationship. This is particularly relevant in the case of U.S. states which do not have the joint constitutional responsibility for agriculture as in Canada. The spirit of cooperation and the level of transparency pursued so far in national/sub-national relations in matters of agricultural trade will need constant attention.²

The failure in Seattle to launch a broad, comprehensive round of World Trade negotiations and the uncertainty surrounding new agricultural negotiations will put pressure on both countries to address the “tough” issues left over from the FTA. These include access issues related to dairy, poultry and eggs for Canada, and sugar, peanuts, cotton and dairy for the United States. Obviously, “state trading”, grain marketing, differences in domestic agricultural policies and programs, and the relevance of contingency protection legislation will also be featured. The CCA and PSAG processes may lend themselves to an expansion of the bilateral agenda to include discussion and potential negotiation of a comprehensive free trade agreement in agriculture.

²Editors Note: On March 24, 2000 the North Dakota Wheat Commission announced that it is proceeding with legal action against unfair Canadian trading practices in relation to wheat by the Canadian Wheat Board. See the Gray, Alston and Sumner paper for other U.S. actions against the CWB.

It seems reasonable to hypothesize that with tariff elimination for most products and efforts to harmonize plant and animal health standards and regulations, the pace of greater integration of both countries' agricultural sectors will accelerate. There will be increasing pressure to move toward full policy harmonization.

CONCLUDING COMMENTS

The summer of discontent (1998) in Northern Tier U.S. states raised the political profile of Canada/U.S. agricultural trade relations. In response, national and sub-national governments organized and facilitated bilateral producer meetings and set up various consultative mechanisms to deal with trade and policy issues on an ongoing basis. These efforts have contributed to a reduction in cross-border trade tensions, promoted healthy dialogue, and in some cases new business ventures, resolved some irritants and ensured an open border with no recent disruptions in trade.

Coordinated and sustained work is required to maintain this momentum and satisfy increasing expectations from both sides of the border. There is a recognition that the work begun under the FTA will need to be completed. Remaining "difficult" issues in bilateral agricultural trade will test the resilience and effectiveness of these institutional mechanisms. It is too early to assess whether these institutional mechanisms are sufficiently developed to deal with the most difficult issues.

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APPENDICES

APPENDIX 1

States-Provinces Initiatives (June, 1999 - March, 2000)

- Montana-Alberta Agricultural Opportunities Conference, June 1-2, 1999, Great Falls, Montana.
- States/Provinces Agricultural ACCORD, July 15-17, 1999, Salt Lake City, Utah.
- Northern Plains Producer Conference, November 15-17, 1999, Fargo, North Dakota.
- Idaho-Canada Agriculture Summit, January 19-20, 2000, Boise, Idaho.
- Canada-U.S. Consultative Committee on Agriculture meeting, and Grains Consultations, February 1, 2000.
- Provinces/States Advisory Committee meeting, March 2, 2000, Washington, D.C.
- National Association of States Departments of Agriculture's Mid-year Conference, March 2-6, 2000, Washington D.C.

APPENDIX 2

Montana-Alberta Agricultural Opportunities Conference (Great Falls, Montana, June 1-2, 1999)

Objectives:

- to foster greater communication and build personal relationships among producers on both sides of the border;
- to, jointly, explore cross border and global business opportunities;
- to discuss outstanding trade irritants and suggest policy changes to both levels of government; and
- to dispel trade myths and foster a better understanding of the bilateral agricultural dynamic.

Issues Identified and Discussed

• **Cattle**

- harmonization of grading, inspection, production inputs, health protocols, and financial services;
- need for unlimited access to U.S. feeder cattle year round;
- country-of-origin labelling on meats;
- lack of harmonization on pesticide and veterinary drug usage;
- harmonization of regulations to facilitate grading equivalency; and
- reciprocity of grading/meat inspection.

• **Grain:**

- access to cross border infrastructure;
- grading standards;
- the Canadian Wheat Board;
- exchange rate issues; and
- European Union subsidies.

• **Finance:**

- lack of education and information on mechanics of finance and hedging, federal/state/provincial programs and subsidization, marketing, transportation; and
- jurisdictional and regulatory obstacles preventing banks from participating in cross border business.

• **Other Crops:**

- non-uniform transportation requirements and grading standards between Canada and the United States; and
- standardized labelling and pricing standards for crop protection chemicals used in the United States and Canada.

• **Other Livestock:**

- need for auditing procedures for WTO member countries committed to reducing internal support systems over time;

- trade restrictions and technical barriers regarding animal health regulations (CFIA, APHIS, State), food safety issues, veterinary drug use (FDA, Health Canada) and delays of trade remedies regarding these problems; and
- recognition and removal of trade distorting programs.

Results/Resolutions:

- agreement to continue to develop informal mechanisms to address trade irritants;
- agreement to provide feedback on suggested changes to animal health regulations to respective national governments;
- agreement to pursue joint agri-industry development opportunities;
- agreement to encourage national governments to pursue regional approaches to animal and plant diseases;
- agreement to expand the North West Cattle Project (NWCP, renamed the Canadian Restricted Feeder Cattle Import Program), and extend similar projects in other sectors;
- agreement to work toward harmonization in respective potato sectors;
- agreement to explore opportunities for enhanced inter-modal transportation;
- agreement to regularize conferences and include other western provinces and states;
- establish cross-border working groups to develop plans of action; and
- conference organizers will prepare a detailed final report for public release on both sides of the border.

A future conference will be held in Alberta where action plans will be presented.

APPENDIX 3

States/Provinces Agricultural ACCORD

(July 15-17, Salt Lake City, Utah)

Objectives:

- to use the States/Provinces agricultural ACCORD to reduce impediments to the free flow of agricultural products, and resolve trade disputes by reasoned input of states and provinces;
- to develop unified positions on issues important to agriculture through North America;
- to provide federal officials with provincial/state/regional perspectives and proposals; and
- to support increased trade of food and agricultural products among the United States, Canada and Mexico.

Issues Identified and Discussed:

- fruit fly control and eradication;
- trade in beef products;
- spread of medfly into Mexico;
- U.S./Canada dispute settlement process;
- U.S./Canada crop and livestock harmonization;
- biotechnology; and
- harmonizing North American Inspection rules.

Results/Resolutions:

- agreed on common objectives covering a number of important issues which will arise during the Seattle Ministerial for the next WTO round;

- organized (by country pairs) three trade issues and irritants working groups;
- urged federal officials to support an intensified effort to control Mediterranean fruit fly in the state of Chiapas and to support the role of state-level resources in fruit fly control programs;
- continued ongoing working group efforts in areas such as red meat trade, crop and livestock harmonization (the United States and Canada), and fruit pre-clearance programs would be continued under the new bilateral working group structure; and
- recognized the need for increased education and information with respect to biotechnology.

APPENDIX 4

Northern Plains Producer Conference (November 15-17, 1999, Fargo, North Dakota)

Objectives:

- a meeting of producers from Manitoba, Saskatchewan, North Dakota, South Dakota and Minnesota to discuss cross-border trade and policy issues and opportunities, develop a mutual understanding of the Canadian and U.S. agriculture industries, establish a regional producer network to formulate solutions to issues, problems and concerns, and to dispel agricultural trade misconceptions.

Issues/Resolutions:

Cattle:

- need to harmonize health regulations and food safety protocols;
- need to harmonize transportation regulations;
- eliminate all subsidies through WTO;
- increase joint trade in U.S. and Canada products with rest of the world;
- equalize input costs between provinces, states and nations; and
- improve access to and exchange of genetic material.

Dairy:

- create a communications strategy based on facts, statistics, and trends that achieves "sharing of markets versus stealing of markets"; and
- identify various communication vehicles (e.g. Ag Extension Service).

Grains:

- end export subsidies and dumping that lower prices;
- harmonize chemical use between Canada and the United States;
- create grower owned/controlled Canadian/U.S. market alliances ;
- investigate feasibility of a cross border durum and barley cartel;
- reduce the influence of currency fluctuations in U.S./Canada trade; and
- facilitate common competitive transportation systems.

Oilseeds:

- achieve GMO (and non-GMO) access to other countries;
- develop new products for all commodities through research and development;

- facilitate tariff reduction/access to markets (eg. China and the WTO);
- harmonize regulatory conditions (eg. hemp, NAFTA labelling); and
- encourage promotion and market development activities.

Other Crops:

- standardize crop input availability and price;
- cooperate to promote and market GMO, non-GMO products, agricultural-based fuels; and
- facilitate formation of joint value-added ventures.

Other Livestock:

- encourage cross-border processing ownership to support New Generation Co-op's;
- facilitate movement of breeding stock for genetic enhancement subject to maintenance of health standards; and
- provide public support for producer initiatives to develop international marketing.

Pork:

- regionalize health protocols;
- facilitate matching slaughter plant capacity/shackle space expansion with producers' needs;
- encourage value-added by further processing; and
- reduce incidence of state/federal government trade sanctions which impact producers.

Poultry:

- producer profitability/margins must be improved;
- encourage added value at producer level;
- develop poultry trade positions regarding humane and environmental concerns; and
- establish niche markets for chickens related to religious (kosher) and size (Cornish game hens) segmentation.

APPENDIX 5

Idaho-Canada Agriculture Summit (January 19-20, 2000, Boise, Idaho)

Objectives:

- to engage in a dialogue on Canada/U. S. agricultural issues with particular reference to trade in cattle and potatoes.

Issues:

- the need to work together on agricultural issues;
- U.S. opposition to ministerial exemptions for potatoes and Canadian opposition to U.S. marketing orders for potatoes;
- year round access for U.S. feeder cattle to Canada without testing;
- U.S. claims of subsidies for potato production in Canada;
- support for animal health re-certification requirements by CFIA and USDA;
- an overview of free trade and globalization impact on U.S. industry and jobs;

- the need for greater regional cooperation and trust;
- the need to include business communities, lawyers, accountants and the investment community in bilateral discussions; and
- use of European Union agriculture subsidies/impact on North American trade.

Results/Resolutions:***Cattle:***

- each federal government needs to review and reconcile production and trade statistics in cattle and beef;
- states and provinces involved in the Restricted Feeder Cattle Entry Program need to develop more rigorous statistics;
- the Restricted Feeder Cattle Entry Program should be expanded for year round access;
- cattle producers need to visit and learn more about each others' systems; and
- federal endorsement requirements on cattle trade should be replaced by state and provincial certification.

Potatoes:

- Canadian ministerial exemptions and Marketing orders in the United States remain a problem in bilateral trade, despite the Ad Hoc Potato Committee's recommendation to keep the status quo;
- both federal governments must move quickly to harmonize seed certification requirements or seek recognition of equivalency; and
- a bilateral working group consisting of industry and legislators will be formed to identify and prioritize other issues, and to implement the recommendations above.