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The Effects of Policy Events on Quota Values:
A Time Series Analysis

by

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ABSTRACT

This research examines the relationship between national and international policy events and changes in dairy quota prices. The study focuses on two key elements. The first element is observed quota values over time. The second is a list of national and international policy announcements related to market access events in the dairy sector.

The results of the analysis support the notion that the nature of the relationship between policy events and quota price variation over time is difficult to determine. Events that were thought to have a positive or a negative effect on quota price did so only 50 per cent of the time. In addition, events that were thought to have a weak effect on quota price resulted in greater price variation than those events thought to have a strong effect. The results also indicate that the average change in quota price during the Uruguay Round of GATT negotiations, from September 1986 to December 1993, was in fact lower than the average price change over the entire series (August 1980 to July 1994).

This thesis is dedicated to my family. To my parents, Francis and Margaret Dolphin, for instilling in me the belief that anything is possible and to Kathleen, Berni and my entire family for providing me with the support to have achieved this.
Thank you

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Chapter 1: Introduction

1.1 Problem Setting

Dairy production in Canada has operated under the system of supply management for decades. Fluid milk marketing and production has been supply managed for over 60 years while industrial milk production and marketing has been controlled for 30 years. One of the key policy instruments used in the dairy industry to meet its objectives, is import controls. Without import controls cheaper imports would mean that managing supply and maintaining targeted price levels would not be possible.

Since the mid-1980s, Canada has signed a number of bilateral and multilateral free trade agreements. In addition, Canadian trade negotiators have participated in the Uruguay Round of the General Agreements on Tariffs and Trade. In meeting their commitments under the World Trade Organization Agreements, formerly the GATT, and other trade agreements, the Canadian government has had to make some adjustments in domestic agricultural polices. So far the dairy industry has been able to continue to meet its objectives by changing certain polices, but essentially maintaining the effect of the previous ones. But further changes may occur as pressure to eliminate these policies, particularly on the use of import controls is increasingly being felt from Canada's trading partners (Agriweek 1997).

This uncertainty about the stability of dairy policy in the future is thought to have had an impact on the production decisions of producers. Since milk production quota cannot be rented, producers must buy and sell quota to change their current level of production. It is thought that in an environment where the risk is perceived to be high, dairy producers will sell production quota. When risk is thought to be low, producers are thought to increase production by buying more quota. As a result, quota price variation has been a common area for examining risk in the dairy sector (Ulheim 1996).

1.2 Problem Statement

A number of authors (Veeman 1982; Lermer and Stanbury 1985; Larue and Oxley 1991; Barichello 1993; Larue 1993; Beck et al 1994; Barichello and Chen 1996; Ulheim 1996) have looked into the effect of policy risk on quota price variation. Results of these studies have been mixed. Consistent results across studies on the best way to measure the effect of policy risk and on the nature of the relationship between policy risk and quota prices have been difficult to obtain. Most authors agree however, that policy risk is an important variable in explaining quota price movements.

1.3 Objective

The objective of this research is to examine the movement of quota prices over time in relation to key policy events. Specifically the study compares a quota price index that covers the period from August 1980 to July 1994 to 16 key policy events that occur between July 1987 and April 1994. It is hypothesized that these policy events effect the quota price either positively or negatively at the time of the event.

In order to meet this research objective, three steps are taken. The first step is the compilation of a diary of policy events. In the second step, the quota price index is developed and in the third the effect of these policy events on quota prices is examined.

1.4 Thesis Outline

Chapter 2 provides background on the Canadian dairy industry and the system of supply management. Chapter 3 describes quota transfer in the provinces of Ontario and Quebec. Chapter 4 provides a review of recent literature. Chapter 5 contains the diary of policy events. Chapter 6 contains the data and methodology for the analysis. Chapter 7 provides the analysis and Chapter 8 gives the results, conclusions and suggestions for further research.

CHAPTER 2: OVERVIEW OF THE CANADIAN DAIRY INDUSTRY

The following chapter provides an overview of the Canadian dairy industry and the main elements of Canadian dairy policy.

2.1 BACKGROUND

Dairy is the third largest subsector in the agri-food industry behind grains and red meats. In 1996, farm cash receipts from dairy sales totalled $3.7 billion, accounting for 13% of Canadian farm cash receipts (Canadian Dairy Commission 1998.1. WWW site). The provinces of Quebec (37.0%) and Ontario (33.6%) generated over 70 percent of the annual farm cash receipts for dairy in 1996 (Canadian Dairy Information Centre 1997.2).

In the 1996/97 dairy year (August 1 to July 31), 1.3 million cows produced a total of 77.5 million hectolitres of milk on 23,871 dairy farms across Canada. Close to 79 per cent of Canadian dairy farms are located in Quebec and Ontario with the remaining 21 per cent spread through the Western provinces (15%) and the Atlantic (6%) (Canadian Dairy Commission 1998.1 WWW site).

Over a twenty year period, the number of dairy farms in Canada decreased 67 per cent. In the 1976/77 dairy year, there were 72,500 dairy farms in Canada. In 1996/97 the number of dairy farms had declined to 23,871. However, the level of annual milk production has remained fairly constant. This may be due in part to a trend toward fewer, larger farms, and higher production per cow. The number of dairy cows per farm has risen 37 per cent since the late 1980's, to an average of 49 cows per farm in 1996. Production per cow has also been on the rise, due to better feeding, disease control and advancements in genetics. Between 1987 and 1996, productivity per cow increased from an average of 6,934 kilograms (1987) to 8,424 kilograms (1996) (Canadian Dairy Commission 1998.3 WWW site).

In 1996, dairy processing was the second largest subsector in the Canadian food and beverage processing industry, behind meat processing. Dairy product shipments from 278 dairy processing plants, were valued at $7.5 billion in 1996. Processed dairy products made up about 17 per cent of the total value of shipments in the Canadian food and beverage industry and 13.7 per cent of all food and beverage processing sales in 1996 (Canadian Dairy Commission 1998.1 WWW site).

In 1996, dairy processing employed 23,000 people in Canada. Like dairy production, dairy processing is concentrated in Quebec (106) and Ontario (71) with the remaining plants located throughout the Western provinces (70) and the Atlantic (31) (Canadian Dairy Commission 1998.4 WWW site). In 1996, dairy processing plants produced mainly cheddar cheese (115,543 tonnes); specialty cheeses (157,959 tonnes); butter (93,404 tonnes); ice cream (331 million litres); and yogurt (100 million litres) (Canadian Dairy Commission 1998.1 WWW site).

Canada exported $370.7 million in dairy products in 1997 (up 12.8% from 1996), to over 80 countries. Key export markets include the United States, the European Union, Mexico and Africa. Dairy exports included butter, milk powders, condensed and evaporated milk, and value-added products such as cheese and ice cream (Canadian Dairy Information Centre 1998.1 WWW site).

In 1997, dairy product imports totalled $286.6 million (up 1% from 1996). Imports consisted mainly of speciality cheeses, butter, milk powders, whey and casein products (Canadian Dairy Information Centre 1998.2 WWW site).

A number of factors, including globalization, structural and technological change and fiscal constraint are forcing change at all levels of the Canadian dairy industry. Globalization has influenced domestic dairy polices as countries make changes to meet their obligations under international agreements. In addition, technological and scientific advancements are being adopted by producers. These include computerized feeding and herd management systems which, combined with better genetics and new discoveries in biotechnology, have resulted in improved feeding, better disease control and higher milk production per cow. Government budget constraints have also had an effect on some dairy industry programs. For example, in the 1996 federal budget the federal government announced plans to phase out the subsidy program, which has been in place since the late 1950's (Agriculture and Agri-Food Canada 1998.1 WWW site).

2.2 Milk Markets

There are two markets for raw milk in Canada, the fluid and the industrial milk markets. The fluid market represents about 40 percent (31.1 million hectolitres) of total annual milk production. There are four main types of fluid milk products: homogenized (3.25% butterfat), partly skimmed (2%), 1 per cent and skim milk (less than 0.5% butterfat), and creams including table, fresh and whipping cream with butterfat contents ranging from 10 per cent to 35 per cent (Canadian Dairy Commission 1998.5 WWW site).

The industrial milk market makes up the remaining 60 percent of total annual milk production, or 46.4 million hectolitres. Industrial milk is manufactured into two main groups of products, hard products such as butter, skim milk powder and cheese, and soft products such as cottage cheese, ice cream and yogurt (Canadian Dairy Commission 1998.5 WWW site). In the past, raw milk supplied to the fluid market was generally of a higher quality than that supplied to the industrial market. Today however, the quality of the raw milk supplied to both markets is very similar (Agriculture and Agri-Food Canada 1996).

2.3 Supplying Milk to Processing Plants

Dairy processors are not limited to the amount of raw milk each can purchase for the production of milk classes that obtain a higher price, including fluid and perishable industrial products such as cottage cheese, ice cream and yogurt. Left over or "residual milk" is allocated to the production of cheese, butter and skim milk powder. In Ontario, residual milk is allocated by quotas, which are based on historical production and adjusted for changes in demand. In Quebec, processors are allocated a "minimum commitment" of residual milk (Ewing 1994).

2.4 Supply Management in Canada

Controlled production and marketing of milk and milk products was first introduced in the fluid milk market in the 1930's. The move to controlled marketing was in response to price and supply instability during a period of general economic instability, following World War I and the Great Depression. It was not until the late 1960's that the industrial milk market implemented supply management, following price and supply instability in the 1950's and early 1960's. Although controlled marketing was introduced as a temporary measure in both the fluid and industrial markets, it continues to form the basic framework of Canada's dairy industry (Veeman 1987).

2.4.1 Fluid Milk Marketing

Fluid milk is produced in all provinces across Canada and its marketing falls strictly under provincial jurisdiction. In the 1930's when most fluid milk marketing boards were enacted through provincial legislation, exclusive provincial jurisdiction made sense, as fluid milk was usually sold close to the source of production due to its high cost of transportation and perishable nature (Veeman 1987). Provincial milk marketing boards are responsible to administer provincial acts and regulations that govern licencing, quality control, sanitary standards, and milk production and pricing (Canadian Dairy

Commission 1998.1WWW site).

2.4.2 Industrial Milk Marketing

Controlled marketing of industrial milk was introduced in the late 1960's with the Canadian Dairy Act (1967) that established the Canadian Dairy Commission (Commission). The Commission administers and regulates industrial milk and dairy product marketing in domestic and international markets (Canadian Dairy Commission 1998.4 WWW site).

The National Milk Marketing Plan (National Plan) forms the framework for controlled marketing of industrial milk in Canada. The National Plan is a federal/provincial agreement, which outlines the responsibilities for both levels of government in industrial milk production and marketing. In addition, the National Plan contains the framework for calculating the national production target, or the market sharing quota (MSQ), and its allocation among the provinces. Once MSQ is allocated to the provincial boards, they distribute their share of national MSQ to provincial producers under their own policies (Canadian Dairy Commission 1998.1 WWW site).

The Canadian Milk Supply Management Committee (Committee) oversees the administration of the National Plan. The Committee is chaired by the Commission and includes representatives of provincial marketing boards and each provincial government, except Newfoundland. Newfoundland participates as an observer in the National Plan and on the Committee. The level of industrial milk production in the province does not justify full participation. National consumer groups, producers and processors participate on the Committee with non-voting status (Canadian Dairy Commission 1998.1 WWW site).

Unlike fluid milk production which is spread across the country, industrial milk production is concentrated in the provinces of Quebec (47.9%) and Ontario (30.6%). These provinces combine to make up of close to 80% of total annual production (Canadian Dairy Commission 1998.1 WWW site).

2.5 The Main Elements of Canadian Dairy Policy

Canadian dairy policy strives to manage milk production and marketing, by matching domestic supply with domestic demand, and some exports. The demand for fluid milk is met with provincial supply while at the national level, domestic demand and some planned exports of industrial milk products are met through the national level of MSQ (Canadian Dairy Commission 1997.1 WWW site).

Supply management is based on the three key objectives. They are: 1) to provide domestic consumers with a stable supply of high quality dairy products; 2) to achieve price stability and a fair return for efficient producers; and 3) to meet domestic demand and some planned exports with domestic supply (Canadian Dairy Commission 1997.1 WWW site).

The Canadian dairy industry meets these objectives through the use of key policy instruments. These include limits on domestic production, import controls through tariffs and tariff rate quotas, and through a series of administered prices. In the following section, each instrument and its role in meeting the Canadian dairy industry's objectives is discussed (Canadian Dairy Commission 1997.1 WWW site).

2.5.1 LIMITS ON DOMESTIC PRODUCTION

Each July, just prior to the beginning of the new dairy year (August to July), the Canadian Milk Supply Management Committee (Committee) sets the national level of MSQ. National MSQ is based on the projected domestic requirements for the upcoming dairy year and is set at a level that meets these domestic requirements, and planned exports. The Committee bases its estimation on the actual demand for butterfat and solids non-fat from the previous year. Actual demand from the previous year is calculated by the stock reconciliation method, which takes into account the level of domestic production, inventories for major dairy products at the beginning and the end of the year, and the level of exports. In addition to sales in the previous year, the Committee also considers market trend information (Ewing 1994).

Once the level of MSQ is calculated, provincial shares of MSQ are assigned to the provincial marketing boards or agencies to administer and distribute quota to producers based on their own regulations. The Committee meets each February to review the level of MSQ, and make any necessary adjustments (Ewing 1994).

The formula for calculating MSQ is as follows:

MSQ = butterfat requirements in milk equivalent (based on average composition of milk) + 4% export sleeve - allowable imports

An export sleeve is included in the calculation to ensure a buffer is available. The export sleeve makes up for any shortfall in the amount of MSQ required for the domestic market and acts to ensure a sufficient supply is available to meet planned export sales (Ewing 1994).

Fluid milk production levels are set annually by the provincial marketing boards, depending on provincial demand. In most dairy years, the level of fluid production is set higher than required to ensure there is sufficient production to meet demand. Any excess production is directed into industrial milk products. Fluid production quota is allocated to producers based on regulations which vary by province (Ewing 1994).

While the butterfat content of raw milk has been increasing over time, so to has the demand for milk and dairy products with a lower fat content. The butterfat content in raw milk ranges from 3.6 per cent to 3.7 per cent. Most fluid products have butterfat contents ranging from 3.25 % for standard milk, to 2 per cent, 1 per cent and skim milk. The result is an excess of butterfat some of which is used in the production of table creams, and the remainder allocated to the production of butter (Ewing 1994).

2.5.2 Import Restrictions

Import restrictions are key in maintaining the system of supply management. Without the ability to limit the amount of dairy products entering the country, it would be impossible to control the supply of milk and milk products to retailers and to maintain targeted price levels (Ewing 1994).

Prior to August 1995, dairy product imports were restricted at the Canadian border by tariff and non-tariff measures including quantitative restrictions, discretionary licensing and import permits. Dairy products with a minimum of 50 per cent dairy content were listed on the Import Control List, which provided for quantitative restrictions on imports. Article XI of the General Agreement on Tariffs and Trade (GATT) was the legal basis for the use of quantitative restrictions to meet domestic policy objectives (Ewing 1994).

In 1994, participants of the Uruguay Round of GATT negotiations, including Canada, signed the World Trade Organization (WTO) Agreement on Agriculture (Agreement). A key achievement of the Agreement was the commitment by signatories to convert all non-tariff measures into tariffs of an equivalent effect. In addition to tariffication, members also agreed to bind and reduce all new and existing tariffs by 36 per cent overall and by a minimum of 15 per cent per tariff line. Tariff reductions for dairy products began on August 1, 1995 and occur in equal annual amounts over the six-year implementation period (1995 to 2000) (Josling 1996).

In order to maintain current levels of market access, participants agreed to tariff rate quotas (TRQs). A TRQ is essentially a two-stage tariff. An amount of a product entering below the quota is charged a lower, in-quota tariff. Products entering above the quota are assessed the higher, over-quota tariff. Thirty-six WTO Members agreed to 1300 TRQs on a range of products. Canada has about 11 TRQs for dairy products including those for butter, cheese and fluid milk. Signatories to the Agreement also made a commitment to increase TRQs from 3 per cent of domestic consumption in the base period (1986-88) to 5 per cent (base period 1986-88) over the six year implementation period (Josling 1996).

2.5.3 Administered Prices

Administered prices, for both producers and processors of dairy products is another key instrument used by the Commission to meet its policy objectives. At the beginning of each dairy year, the Canadian Dairy Commission sets the target price, support prices for butter and skim milk powder and the assumed processor margin. The Commission considers current market and other relevant information to set each price. All prices are reviewed each February and adjusted if necessary (Canadian Dairy Commission 1997.1 WWW site).

2.5.3.1 The Target Price

The target price for industrial milk and milk products is set at a level that provides a 'fair' return for efficient producers. A 'fair' return reflects the input of a producer's labour, investment and cash costs related to the production of milk for the industrial market

(Canadian Dairy Commission 1997.1 WWW site). The target price is based on cost of production data, collected from a sample of farms in four provinces: New Brunswick, Quebec, Ontario and Manitoba, and not on the actual return producers receive. The formula for calculating the target price is as follows:

Target price = butter support price x butter yield + skim milk powder price x skim milk powder yield - assumed processor margin + direct subsidy,

where butter and skim milk powder yields are the number of kilograms of butter and skim milk powder that are assumed to be produced from a hectolitre of milk. The assumed processor margin reflects any "non-milk costs associated with the production of both butter and skim milk powder" (Ewing 1994).

2.5.3.2 The Direct Subsidy and Offer-to-Purchase Programs

The Canadian Dairy Commission has two programs that assist producers in reaching the target price, the direct subsidy and the offer-to-purchase program. The direct subsidy program is intended to maintain demand for industrial milk by reducing the price consumers pay for dairy products. The direct subsidy, part of the target price since 1975, is based on the butterfat content of industrial milk and cream produced (Canadian Dairy Commission 1998.1 WWW site). As part of the 1996 budget, subsidy payments were reduced by 15 per cent in the 1996/97 dairy year, and are scheduled to be phased out over a five-year period which began in February 1998 (Canadian Dairy Commission 1997.1 WWW site).

The offer-to-purchase program is the second Commission program that supports the target price. The Commission offers-to-purchase domestically produced butter and skim milk powder at a certain price, the support price. The support price is set where processors receive an assumed margin that covers their costs associated with processing industrial milk products and provides a fair return on their investment (Canadian Dairy Commission 1997.1 WWW site).

After considering a wide variety of information including market conditions, general economic conditions, industry advice, and the changing dairy environment, the Canadian Dairy Commission uses its judgement to set the support price. The assumed processor margin, is calculated as part of the support price (Ewing 1994).

2.6 Milk Pricing

Processors generally pay a higher price for raw milk for fluid milk products than that for industrial milk products. There tends to be arbitrage in industrial milk prices across Canada as a result of interprovincial trade. However, trade in fluid milk is restricted across some provinces, therefore prices paid to the producers differ. Within the western provinces of British Columbia, Alberta, Saskatchewan Manitoba interprovincial movement of all milk products takes place. The price that processors pay for fluid milk in the provinces of British Columbia, Alberta and Saskatchewan is determined by the Alberta Public Utilities Board. In Manitoba, the fluid milk price is determined by a review committee and is based on provincial cost of production data (Manitoba Milk Producers Association 1998).

In the provinces of Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island, interprovincial trade in fluid milk products is restricted. The price that processors pay producers for fluid milk is determined by cost of production data in each province (Manitoba Milk Producers Association 1998).

2.7 THE SPECIAL CLASS PRICING AND POOLING SYSTEM

On August 1, 1995 the special class pricing and pooling system was implemented to comply with Canada's commitments under the WTO. Under the WTO Agreement on Agriculture, exports can no longer be financed through a levy. In place of the levy, the Commission implemented the special class pricing and pooling system. The revenue generated from the pooling system covers marketing and some administrative costs of the Commission (Canadian Dairy Commission 1997.4 WWW site).

Two pools for fluid and industrial milk were established in the 1996/97 dairy year, one in eastern Canada and the other in the west. The Eastern All Milk Pool was established in August 1996 and includes the provinces of Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island. In March 1997, the Western Milk Pool was established. Participating provinces include British Columbia, Alberta, Saskatchewan and Manitoba. Manitoba participates in both pools, sharing markets and revenue in the

Western Pool and revenue only in the Eastern Milk Pool, in an effort to provide some security to its producers (Manitoba Milk Producers 1998).

The mechanism for transferring milk quota is the subject of the next chapter.

CHAPTER 3: THE QUOTA EXCHANGE

3.1 QUOTA TRANSFER

Quota rental is prohibited in both the industrial and fluid milk markets in Canada. Therefore, producers must transfer quota to increase or decrease production. In each province, the transfer of fluid and industrial milk quota is facilitated by a provincial marketing board or dairy industry association. In Ontario and Quebec, where industrial milk production is concentrated, the main transfer mechanism is the central quota exchange (Barichello and Chen 1996).

Three types of quota are transferred on the exchange. Fluid milk quota and unused and used industrial market sharing quota (MSQ). The level of total MSQ is set at the beginning of the dairy year. During the year, producers can trade industrial quota that has not been used and that which has been used. The difference between used and unused MSQ is that unused MSQ can be delivered to a processing plant within the current dairy year. Used MSQ cannot be delivered within the current year. Producers often buy or sell unused quota in the short term to adjust production within the current year. Used quota is often bought or sold to increase or decrease production in the next dairy year and involves a more long term production decision (Barichello and Chen 1996).

While the exchange is set up to operate monthly, there are exceptions depending on the province and type of quota. During some months the quota exchange may be cancelled due to a lack of available quota. In Ontario and Quebec, fluid and unused MSQ is traded between August and July, while used quota is traded from October to July (Barichello and Chen 1996).

3.2 Participating in the Quota Exchange

In order to participate in the monthly quota exchange, buyers and sellers must have certified premises and have to be registered and licensed by the provincial marketing board. In Ontario and Quebec bids and offers must be received by the board prior to the 7th day of the month in which the exchange is operating (Dairy Farmers of Ontario 1998.3 WWW site).

To enter the exchange, quota sellers submit an offer specifying the volume and minimum price. Those buying quota, submit a bid specifying the volume and the maximum price they are willing to pay. Offers and bids are then entered into the exchange at the expressed price. Quota for sale is entered and collected from the lowest price. The cumulative price and volume are calculated. The total amount of quota offered for sale is the sum of all offers below that price. Bids are entered into the exchange and are calculated from the highest price. The cumulative total is the maximum price buyers are willing to pay and the volume they are willing to buy at that price (Dairy Farmers of Ontario 1998.3 WWW site). All quota sales on the Ontario and Quebec exchange are assessed a transfer fee of 15 per cent (Barichello and Chen 1996).

3.3 The Market Clearing Price

The market clearing price is the price at which the difference between the volume offered for sale and the volume bid for purchase, is equal or very close to equal. At the market clearing price, successful participants in the quota exchange buy and sell quota. Unsuccessful bids result when the market clearing price is higher than that bidders are willing to pay, or when the price is lower than participants are willing to sell at. When a bid or offer is unsuccessful, the price is too low for the offer or the price is too high for the bid, producers can re-enter the exchange the following month to try and achieve a better price. All successful bids and offers must be honoured and are effective on the first day of the month following approval of the transfer (Dairy Farmers of Ontario 1998.3 WWW site).

3.4 THE QUOTA EXCHANGE IN ONTARIO AND QUEBEC

The following table outlines the key features of the quota exchange in Ontario and Quebec.

TABLE 3.1: THE QUOTA EXCHANGE IN ONTARIO AND QUEBEC

	Ontario	Ontario	Quebec	Quebec
quota type	fluid	MSQ	fluid	MSQ
ownership	Board	Board	Board	Board
quota adjustment	equal percentage adjustment applies	equal percentage adjustment applies	equal percentage adjustment applies	equal percentage adjustment applies
trading policy	freely	freely	freely	freely
transfer method	within-family, purchase of an on-going farm, quota exchange	within-family, purchase of an on-going farm, quota exchange	within-family, purchase of an on-going farm, quota exchange	within-family, purchase of an on-going farm, quota exchange
quota exchange	Monthly organized exchange Aug.7 to July 7	Monthly centralized exchange Aug. 7 to July 7 for unused MSQ and Oct. 7 to July 7 for used MSQ	Monthly organized exchange Aug. 17 to July 7	Monthly centralized exchange Aug. 17 to July 7
maximum holding of quota	a. 75% rule b.<5000litres per day of Group I pool quota and MSQ combined	<5000litres per day of Group I pool quota and MSQ combined	no	no
minimum sales	10 litres per day	3000 litres per day	50 kg per day	50 kg per day
transfer assessment	15% excluding within family transfer and purchase of an on-going farm	15% excluding within family transfer and purchase of an on-going farm	15% excluding within family transfer and purchase of an on-going farm	15% excluding within family transfer and purchase of an on-going farm
arbitrage restriction	yes	yes	yes	yes
quota maintenance rule	rules vary among the four pools, but monthly 90% in Southern Ontario	85% annually and 38.25% in the first 6 months of the dairy year	no	no
over-quota penalty	N/A	yes	N/A	yes
regional transfer restriction	yes, four regional pools	yes, four regional pools	no	no
rental	prohibited	prohibited	prohibited	prohibited

Single pool system adopted in Ontario in 1994. Quebec begins pooling industrial milk in 1995. These regulations were in place for period of study (Adapted from Barichello and Chen, 1996).

The quota exchanges in both Ontario and Quebec operate in a similar way, with only minor differences. In Ontario, a maximum is imposed on the amount of quota that can be held and a quota maintenance rule is in place. Neither of these apply in Quebec. The following chapter examines recent literature related to the study of quota values in Canada.

CHAPTER 4: LITERATURE REVIEW

An extensive literature review on past work on quota price variation in the Canadian dairy industry has been conducted by Barichello and Chen (1996) and a summary provided in Ulheim (1996). This chapter provides a summary of the key findings and a review of more recent work.

4.1 THE SIMPLE CAPITALIZATION MODEL AND QUOTA VALUE

Studies to date have attempted to analyse variations in quota value by employing the simple capital asset pricing model (Veeman 1982; Barichello 1981 and 1984; Moschini and Meilke 1988; Veeman and Dong 1995; Ulheim 1996). In this model, quota is treated as a capital asset where the real value of quota is equal to the present value of an expected stream of future returns, discounted by a constant real interest rate (Barichello and Chen 1996).

Most studies to date attempt to estimate the marginal cost of production, unobservable due to the prohibition on quota rental in Canada, but critical in determining the welfare effects of government policy (Barichello and Chen 1996). In most studies, the rental rate is derived from observed quota values and then the marginal cost is derived from the rental rate (Chen and Meilke 1996).

The results of these studies are mixed. Barichello and Chen (1996) question whether the rental rate can be derived from observed quota values, using the simple capitalization model. They refer to the fact that the model is based on strong assumptions associated with a competitive market, including that buyers and sellers of quota are risk neutral, that quota markets are competitive, and that future returns are discounted at a constant rate. These assumptions are not consistent with the heavily regulated system of supply management (Barichello and Chen 1996).

Zhao and Chen (1996) test the validity of the simple capitalization model using used and unused marketing sharing quota values for Ontario. The authors use Campbell and Shiller's time series procedure to evaluate the effectiveness of the standard capitalization model in valuing agricultural assets. The measure of net return they use is the difference between milk prices. Following Larue and Oxley (1991) the authors use Moschini and Meilke's (1988) estimate for marginal cost, that marginal cost for Ontario milk producers is equal to 85 per cent of the industrial milk price over the period 1978-1983.

Using the Augmented Dicky Fuller unit root test, Zhao and Chen (1996) find that quota value and net return do not have the same time series properties. The authors raise the question of whether the simple capitalization model is appropriate in obtaining the rental rate of quota (Zhao and Chen 1996).

To examine the relationship between the discount rate, net return and quota value, Zhao and Chen (1996) construct a multivariate VAR model with "time-varying discount rates." They found that the "time-varying discount rate does not explain the variation in quota value well and that quota values are, for the most part, determined by their own past values" (Zhao and Chen 1996).

Barichello and Chen (1996) develop the simple quota pricing model to explain quota price variations and the simultaneous determination of quota prices for unused and used MSQ and fluid milk. The model includes variables for net return, policy risk, a substitute for quota assets, and regulations that effect net return to quota. They use two measures for net return. The first is the difference between quota values for used and unused MSQ and the second is the price of milk for the particular quota price being examined (Barichello and Chen 1996).

Barichello and Chen (1996) find the model performs very well, "explaining 70 per cent of all variation in unused MSQ prices in all regions (except for one run in Alberta) and 70 per cent of all variation in used MSQ in Ontario and all but one run in Quebec. For fluid quota more that 60 percent of its price variation is explained in all runs (with the exception of two runs in Alberta)" (Barichello and Chen 1996). The data strongly supports the model's ability to explain changes in quota values and most of the variables are statistically significant (Barichello and Chen 1996).

Barichello and Chen (1996) conclude that "quota price movements are not inexplicable, random or irrational" and that the model explains "a large part of quota price movements even on a monthly basis and including the high price variability found in the latter part of the dairy year" (Barichello and Chen 1996). In addition, they find that the net present value component of the model provides good results. Their results indicate that expected net returns and gross returns (milk prices) are "important variables in terms of their significance and the size of the elasticities (for milk prices)"(Barichello and Chen 1996).

Based on Barichello's (1984) work on the differential of used and unused MSQ values, Meilke and Chen (1996) use a competitive dynamic optimization model to determine the rental rate of quota. From this they attempt to derive the marginal cost of milk production. Meilke and Chen (1996) look at the effects of a tax on the transfer assessment on the sale of quota and find it increases the value of quota. When there is a tax, the elasticities of supply and demand are required in order to find the rental value. In addition, they found that prices are higher in the presence of the transfer assessment. They conclude that just taking the difference between used and unused price gives biased results for rental value. The authors estimate the rental value using prior determined elasticities and observed quota values for used and unused milk. They give estimates of the rental value, the discount rate and the marginal cost for Ontario 1980/81 to 1994/95.

They find that the estimates for marginal cost are insufficient and that the monthly rental rates are "unstable across the time series and within the dairy year." They find that using the difference between unused and used prices gives unrealistic results even though the concept is correct. They conclude that "rules and lack of arbitrage in bidding between the two quota markets may be partly responsible for high variability in price between the used and unused markets" (Chen and Meilke 1996).

4.2 Production Cost

The cost of production is thought to have an effect on the value of milk quota. Veeman and Dong (1995) attempt to measure the impact of quota rents on fluid milk quota values using a modified standard capitalization model. They hypothesize that "tradeable marketing quota can be analysed as a economic input into the production process of a regulated firm," in examining fluid milk quota values in Ontario (Veeman and Dong 1995).

Veeman and Dong (1995) propose three proxies for technological change, herd size, time trend and milk production per cow. Of these, herd size, expressed as the "average number of cows per production unit," is considered the best proxy for technological change as new technologies are often dependent on herd size. The technological change variable is expressed as the "average number of cows per production unit" (Veeman and Dong 1995).

Their findings indicate that for a one percent increase in average herd size, quota values would rise by 0.66 percent in the short run and 11 percent in the long run. They found a positive relationship between improvements in milk production technology and the value of quota and that this result is "consistent with economic theory for a profit motivated firm." (Veeman and Dong 1995).

4.3 Quota Regulations

Regulations are likely to have an effect on quota prices, given the highly regulated nature of the Canadian dairy industry (Barichello and Chen 1996). A number of regulations exist in both the fluid and industrial milk market. Examples of industrial regulations include the over-quota levy, in place to discourage production over the allocated quota, a maintenance clause, which ensures producers maintain production at the level of the quota, and a transfer assessment of 15% charged to the seller of quota. There are a number of fluid milk regulations including the pay out percentage and the inclusion factor (Barichello and Chen 1996).

In their (1996) work, Barichello and Chen include a variable for the over quota levy in their estimation for unused MSQ. They find the over quota levy variable to be insignificant for unused quota in Ontario, however it has a positive sign as hypothesized with a small elasticity of 0.04 to 0.05. For Quebec the over quota levy was found to be strongly positive (elasticity of 0.1 to 0.2) and for Alberta strongly negative, which the authors suggest is difficult to interpret. They conclude that while paying the levy is an alternative to buying unused MSQ in Quebec, it is a less attractive an alternative in Ontario (Barichello and Chen 1996).

Chen and Meilke (1996) examine the effect of a transfer assessment on the sale of quota. They find that in the presence of a transfer assessment, quota prices tend to be higher and that supply and demand elasticities are required in order to calculate the rental rate. The effect of the transfer assessment on the calculation of the rental rate depends on the elasticities and the level of the transfer assessment (Chen and Meilke 1996).

4.4 Seasonal Movements in Quota Values

Veeman (1989) and Barichello and Chen (1996) find a seasonal pattern in the demand for quota values and suggest this pattern may result from differing marginal costs of production through the dairy year. Assuming that all other factors remain constant, the cost of producing milk should be lower from April to September due to lower feed and heating costs during the spring and summer months. Therefore, production should be higher in the spring and summer (April to September) than in the fall and winter (October to March). Given this, the demand for quota and quota price, should be higher in the spring and summer when costs are lower than in the fall in winter (Barichello and Chen 1996).

Barichello and Chen (1996) examine quota price data to determine whether seasonality is present and if so, whether it is a major factor. They consider that if the quota stock is discounted over a number of years, the effects of seasonality may not be evident. However, if the discount rate is sufficiently high, the quota stock may be effected by seasonal factors (Barichello and Chen 1996).

Barichello and Chen (1996) look at the seasonal trend using the monthly average for Ontario milk quota values between 1980 and 1995. Their findings indicate that for used and unused MSQ, monthly quota values are lower in the winter months than in the summer months. While the seasonal patterns holds for used and unused MSQ, fluid milk quota values do not exhibit the same pattern, which is difficult to explain (Barichello and Chen 1996).

Barichello and Chen (1996) further examine the data by looking into whether the seasonal pattern exists across dairy years. To do this, the dairy years 1982/83, 1987/88, 1992/93 are randomly selected. They find that the seasonal pattern is not consistent with the seasonal trend over the period 1980 to 1995. Based on their findings, Barichello and Chen (1996) conclude that the Ontario quota price data does not strongly support the seasonality argument. While seasonality may important in quota price variation, is likely not a major factor in determining the level of quota (Barichello and Chen 1996).

4.5 Policy Risk

Policy risk is defined as the risk of a loss or elimination of future income resulting from a change in government policy (Barichello and Chen 1996). The notion of policy risk is particularly interesting due to increased trade liberalization over the last decade in both agricultural and non-agricultural sectors. Trade liberalization through trade agreements, is thought to increase the risk of a change in domestic policy that may negatively impact dairy producers (Ulheim 1996). Since 1986, Canada has negotiated free trade agreements with the United States, Mexico, Israel and Chile. At the multilateral level, negotiations under the Uruguay Round of General Agreement on Tariffs and Trade (GATT) (1987-

1994), resulted in a number of agreements, including the Agreement on Agriculture. A new round of multilateral trade negotiations in agriculture is scheduled to begin in late 1999.

Policy risk has been examined by a number of authors (Veeman 1982; Lermer and Stanbury 1985; Larue and Oxley 1991; Larue 1993; Barichello 1993; Beck et al 1994; Barichello and Chen 1996; Ulheim 1996). Measuring the effect of policy risk over time has posed some problems. It is difficult to know to what degree an event effected quota value, for how long the effect lasted and to separate the factors that influence a producers decision to enter the quota exchange (Barichello and Chen 1996).

The policy risk variable has been handled in a number of ways, with the majority of studies using a dummy variable for the period when policy risk is thought to be high. Veeman and Dong (1995) use a dummy variable for the period from January 1990 to May 1990, the five months following the adoption of the GATT panel ruling against Canada's import controls for ice cream and yogurt. Quota prices where relatively low in early 1990 and the authors hypothesize that this may be due to the producer pessimism toward the increased trade liberalization and an associated relaxation of import controls. Producers are assumed to be risk adverse, so the sign of the policy risk variable is expected to be negative (Veeman and Dong 1995).

Veeman and Dong (1995) find the dummy variable is significant and negative as expected. They conclude that the GATT panel ruling increased producer pessimism about future income under supply management, although the pessimism was short lived.

Another approach to the policy risk variable is tested by Barichello and Chen (1996) and Ulheim (1996). In these studies, the policy risk variable is measured as the success rate of bidders in the quota exchange. The number of successful quota bids is closely related to the degree of policy risk. As the risk of a change or elimination of the current policy increases, fewer bidders enter the exchange. Sellers lower their reservation price and the number of successful bids increases. If the degree of political risk is high, the success rate for bidders is also high (Ulheim 1996).

Ulheim (1996) examines the buyers trend line from 1981-1994 for Ontario fluid, used and unused quota and notes an inverse relationship between buyer success rates and observed quota values. He identifies two periods of high rates of bidder success. The first between 1987 and 1988, the beginning of the GATT negotiations and a period of very intense negotiations in the FTA. The second is in 1990, just after the adverse GATT panel ruling against Canadian import controls on ice cream and yogurt and another period of intense negotiations in the GATT (Ulheim 1996).

Ulheim (1996) then examines each of these periods for fluid, used and unused quota values from Ontario, Quebec and Alberta. He uses the bidder success rate variable for the

Ontario data. For Quebec and Alberta a time dummy variable is used for each period (July 1986 to June 1987 and January 1989 to December 1990).

Ulheim (1996) finds that the bidders success rate is only significant, and with the expected negative sign, for unused MSQ in Ontario. In addition, the results for the time dummy variable are not as expected. The FTA (1986 to 1987) variable is significant in the restricted model for used MSQ in Quebec, however it has a positive sign, not the negative sign as expected. The dummy variable is not significant in either Quebec or Alberta. Based on these results, Ulheim (1996) concludes that relationship for risk may be more complicated than predicted.

Another method for looking at policy risk is that used by Beck et al. (1994). This study considers the cost of bearing risk as the difference between two annuities. The authors assign a discount rate that includes a risk premium to one annuity. The other annuity is assigned a risk free premium. Although quota risk is thought to be comparable with the investment in a broad portfolio on the Toronto Stock Exchange (TSE), it is suggested that policy risk may have different effects on quota risk. On one hand, it might increase the degree of risk from a policy change resulting from increased trade liberalization. On the other hand, risk might be reduced as long as production quotas remain in place. Political ties and knowledge by farmers might give them some insight into the possible length of quota life. For example, producers know that under the current WTO Agreement on Agriculture, production quotas will remain in place until 2001. Risk may be reduced even further if farmers hold non-quota investments (Beck et al. 1994).

In their analysis, Beck et al (1994) use a 4 percent risk premium and a 3 percent real risk less rate, citing Ross et al. (1993). Their findings indicate that the annual social welfare loss is in the range of US$98 million to US$126 million for 1991. About one-half of the social welfare loss (US$51-US$53 million) is due to the cost of bearing risk. Beck et al. (1994) conclude that the welfare loss from the cost of bearing risk could be eliminated by converting quota from an unspecified to a fixed term. They caution that the results should be interpreted as "merely indicative of the relative importance of the cost of risk bearing and the fact that expected quota life is far short of perpetuity" (Beck et al. 1994).

4.6 SUMMARY

The simple capital asset pricing model has been used extensively to analyse variation in quota value. Since the rental rate is not observed explicitly, but is critical in determining the implications of dairy policy, most studies try to determine the rental rate from observed quota price and then retrieve the marginal cost. Recently, studies have examined the appropriateness of the simple capitalization model in deriving the rental rate. There is concern that policies based on estimates of the marginal cost of production, derived from biased results, may be misleading.

While seasonality in the demand for quota has been identified, it is not clear to what extent seasonal factors effect the level of quota and its price. Production costs and quota regulations were found to have an effect on the value of quota. Policy risk has been identified as a factor influencing quota price variation, but the results are mixed. Veeman and Dong (1995) found that, consistent with their hypothesis, quota values are lower in the presence of policy risk. On the other hand, Ulheim (1996) obtained mixed results from using the bidders success rate. He concluded that the relationship between quota values and policy events may be more complex than anticipated (Ulheim 1996).

CHAPTER 5: DIARY OF POLICY EVENTS

5.1 POLICY RISK AND INTERNATIONAL PRESSURE

In a highly regulated industry such as the Canadian dairy industry, the role of government policy in maintaining the industry's structure is critical. In the absence of government involvement, the Canadian dairy industry would look very different. As with any government policy, there is always a risk that the policy could change, becoming more or less restrictive, or even be eliminated (Barichello and Chen 1996).

Policy risk is the uncertainty associated with a policy change, specifically it is the risk of a loss or elimination of future income, resulting from a policy change. For example, dairy producers know with some certainty that dairy policy is not likely to change in the current period. However, there is less certainty about the stability of policy in the future. The further from the current period producers consider when making production decisions, the more difficult it is to predict any policy change (Barichello and Chen 1996).

Numerous studies have examined the effects of policy risk on the Canadian dairy industry (Beck et al. 1994; Barichello 1993; Veeman and Dong 1995; Barichello and Chen 1996; Ulheim 1996). These studies have attempted to determine the relationship between policy risk and quota price variation, with mixed results. It is difficult to determine how and to what extent this risk effects decision making at the producer level.

While there are many sources of uncertainty about future policy changes, a key source is international pressure from Canada's trading partners. Trading partners often focus on market access as it is one of the key areas in which they can influence domestic policy (Agriculture and Agri-Food Canada 1996). In recent years, international pressure for policy change in the Canadian dairy industry has been intensifying, particularly from the United States. The U.S. government and the U.S. dairy lobby are clearly in favour of dismantling supply management and gaining better access to the Canadian market. Examples include the recent challenges by the United States to Canadian tariffs on dairy imports and export pricing (Agriweek 1997).

This study examines the relationship between international pressure for change in the dairy industry and quota price variation. The first element in the analysis is a time line of policy events. The time line covers a period (1987-1994) when a number of key international events related to market access in the Canadian dairy industry took place. The following is a summary of these events from which the time line is derived.

5.2 Summary of Canadian Agricultural Market Access Negotiations 1986-1994

5.2.1 Canada-U.S. Free Trade Agreement

Formal discussions in the Canada-U.S. Free Trade Agreement (FTA) began in early 1986. An agreement was reached in December 1987, and the FTA was implemented in January 1989. No major changes to the existing rules on market access in the dairy sector were agreed to under the FTA. Products on the Import Control List (ICL) would not be subject to tariff reduction or elimination. Products not included on the ICL, subject to GATT rules, were to be eliminated over a ten year period ending in January 1998. Discussions on quantitative restrictions, legal under GATT Article XI, were deferred to the Uruguay Round of GATT negotiations (1986-1994) (Agriculture and Agri-Food Canada 1998.3 WWW site).

5.2.2 North American Free Trade Agreement

The North American Free Trade Agreement (NAFTA) was signed by Canada in 1992. It is a combination of three bilateral agreements between Canada, the United States and Mexico. The FTA serves as the Canada-U.S. bilateral agreement in the NAFTA with the agricultural provisions unchanged from the FTA. Quantitative restrictions are maintained under GATT Article XI. Canada and Mexico negotiated a separate bilateral agreement which includes the elimination of tariffs on most agricultural products by 2003, excluding those for dairy, poultry and egg products (Department of Foreign Affairs and International Trade 1998 WWW site).

5.2.3 General Agreement on Tariffs and Trade

The Uruguay Round of GATT negotiations began in 1986 and concluded in 1994 with the signing of a number of agreements, including the Agreement on Agriculture (Agreement). The Agreement was significant because Article XI, which had formed the legal basis for the use of quantitative restrictions, was excluded. Member countries, including Canada, agreed to eliminate all non-tariff barriers for agricultural products and replace them with ordinary tariffs. In 1995, the year the Agreement came into effect, non-tariff barriers were eliminated and replaced by tariff equivalents and tariff rate quotas (TRQs) (Josling 1996).

WTO Member countries including Canada, agreed to bind and reduce all new and existing tariffs by an average of 36 per cent, with a minimum reduction of 15 per cent per tariff line. Developing countries agreed to tariffs reductions by an average of 24 per cent and a minimum of 10 per cent over 10 years (Josling 1996).

Current and minimum access opportunities were guaranteed through tariff rate quotas (TRQs). Where minimum access was less than three per cent of domestic consumption, countries agreed to increase access to five per cent in the year 2000. Canada agreed to about 11 TRQs on dairy products ranging from fluid milk to ice cream.

Tariffication was a major policy shift for the dairy sector. While equivalent tariff levels ensured that the framework of the dairy industry would not change significantly in the short term, the conversion to tariffs caused some concern about its long term implications. Tariff barriers, which are subject to reductions, was interpreted by some as the first step toward free trade in dairy products (Calgary Herald December 1993).

5.2.4 U.S. Challenge Under The General Agreement on Tariffs and Trade

In December 1988, the United States launched a formal complaint before the GATT objecting to the addition of ice cream and yogurt to Canada's Import Control List earlier that year. The U.S. argued that adding these products to the list, circumvented Canada's commitments under the FTA. In September 1989, the GATT panel ruled against the Canadian action. The federal government accepted the panel ruling. However, at the same time Canadian negotiators were seeking a clarification of GATT Article XI in the Uruguay Round. The Canadian government took the position that no action would be taken to implement the panel's findings until the Uruguay Round was complete, then expected by the fall of 1990 (Globe and Mail December 1989).

5.2.5 Continued Pressure

International pressure for policy changes in Canadian dairy industry continues. In 1995, the United States filed a challenge under the NAFTA against the Canadian application of tariffs on certain agricultural products of U.S. origin. The NAFTA panel ruled against the U.S. in December 1996, which was a victory for Canadian supporters of supply management. Recently, the United States and New Zealand filed a complaint before the WTO against Canada's special class pricing policy for milk intended for export and domestic markets. The outcome of this challenge is yet to be determined. These examples serve to illustrate the ongoing pressure being exerted on the Canadian dairy industry by its trading partners (Agriweek 1997).

5.3 Diary of Policy Events

The diary of policy events used in the analysis includes 16 policy events that occurred between 1987 and 1994, covering the major international events summarized above. The diary includes two main types of events. Those that resulted in a policy change and those that included a proposal for policy change.

The diary is chronological and was developed from four key sources. The events covering the FTA, the NAFTA and the GATT are drawn from the public versions of the Canadian and American submissions to the NAFTA panel in April 1996. The submissions include a detailed chronology of market access negotiations in agriculture covering the FTA (1986-1988), the GATT (1986-1994) and the NAFTA negotiations (1991-1992).

The source for the events that occurred around the U.S. challenge under the GATT (1988-1989) to the addition of ice cream and yogurt to the Import Control List are Veeman and Dong (1995) and Ulheim (1996). A full list of the policy events is attached as Appendix A.

Once the chronological list of events was established, the next step was to ensure that the events that formed the diary were in fact publicly observable events and that these events might effect contemporary producers decisions about buying or selling quota. Events were included in the diary if the event was reported in a major Canadian daily and/or weekly newspaper at the time. In some cases, an event, particularly a major event, may have been reported over a number of days. The article selected for the diary is the first related article published following the policy announcement. Articles to support the list were obtained from a number of sources, including the Canadian Business and Current Affairs Database, the Calgary Herald, the Financial Post, the Globe and Mail, the Montreal Gazette and the Winnipeg Free Press. The articles are attached as appendix B. The following is the diary of key market access events in brief over the period 1987 to 1994.

Diary of Policy Events

1. July 7, 1987	UR	U.S. proposal for Uruguay Round Negotiations in Agriculture: includes proposal for complete elimination of all tariffs and quotas.
2. December 10, 1987	FTA	Final Text of FTA released: quantitative restrictions allowed under GATT Article XI are maintained.
3. January 20, 1988	GATT	Canada adds yogurt and ice cream to import control list.
4. December 17, 1988	GATT	U.S. asks for a GATT panel to investigate the ice cream and yogurt dispute.
5. September 15, 1989	GATT	The GATT panel rules that Canadian ice cream and yogurt import controls violate Canada's obligations under the GATT.
6. October 26, 1989	UR	U.S. tables detailed proposal on market access. The proposal includes the conversion of all non-tariff barriers to tariffs, their reduction over 10 years, and an elimination of Article XI.
7. December 4, 1989	GATT	The GATT council accepts the panel report on Canadian ice cream and yogurt quotas.
8. March 14, 1990	UR	Canada tables a detailed proposal on market access with the intention to preserve and strengthen the protection of supply managed sectors against imports.
9. October 5, 1990	UR	Submission of baseline schedules, as called for in the *Framework Agreement on Agriculture Reform Program*.

10. December 7, 1990	UR	Brussels Ministerial Meeting: GATT talks breakdown.
11. December 20, 1991	UR	Release of the *Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations* (Dunkel Text). Comprehensive tariffication is a central element of Part B of the Text on Agriculture *(Agreement on Modalities for the Establishment of Specific Binding Commitments Under the Reform Program).*
12. April 6, 1992	NAFTA	NAFTA Ministerial Meeting: Montreal draft text leaked just prior does not contain language specifically safeguarding import quotas.
13. November 20, 1992	UR	Blair House Accord: The U.S. and the EU reach an agreement on agricultural subsidies.
14. December 15, 1993	UR	Conclusion of Uruguay Round Negotiations: includes a commitment to replace non-tariff border measures with tariffs and tariff rate quotas and to reduce all new and existing tariffs.
15. March 21, 1994	Bilateral	Meeting between Canadian Minister of Agriculture and U.S. Secretary of Agriculture.
16. April 13/14, 1994	Bilateral	Meeting between Canadian Ministers' of International Trade and Agriculture, and the United States Trade Representative and Secretary of Agriculture.

Legend
Canada-United States Bilateral (Bilateral)
Canada-United States Free Trade Agreement (FTA)
General Agreement on Tariffs and Trade (GATT)
North American Free Trade Agreement Negotiations (NAFTA)
Uruguay Round of GATT negotiations (UR)
Source: Government of Canada 1996; Government of United States 1996; Veeman and Dong 1995; Ulheim 1996.

CHAPTER 6: DATA AND METHODOLOGY

6.1 THE DATA

Time series data for observed monthly quota prices in Quebec and Ontario is used in this analysis. The series includes fluid, unused and used market sharing quota (MSQ) prices from both Ontario and Quebec. The data was obtained from a number of sources including the Dairy Farmers of Ontario, Agriculture and Agri-Food Canada's Dairy Market Review, the Canadian Dairy Information Centre and Statistics Canada.

Milk quota prices are available in both Ontario and Quebec from August 1980 to the present. Within this range, there are missing data points. Although the exchange is set up to operate monthly, it does not operate in all months for all quota types. For example, used MSQ is generally not traded during the first 2 months of the dairy year. In addition, the exchange is cancelled in some months due to a lack of available quota (Barichello and Chen 1996).

Fluid and industrial milk quota began trading in Ontario in the 1980/81 dairy year and the exchange has operated almost every month since then. Fluid quota prices are available from 1980/81 to 1993/94. In August of 1994, fluid quota was pooled and separate prices are no longer available. Industrial milk quota values for Ontario range from 1980/81 to 1996/97 (Barichello and Chen 1996).

The Quebec data, including quota prices for fluid, and used and unused MSQ, ranges from the 1980/81 dairy year to the 1995/96 dairy year. In August 1996, Quebec began pooling industrial and fluid milk quota and separate quota prices are no longer available. For both Ontario and Quebec, fluid quota trades year round, unused quota trades in all months except August and used MSQ trades in all month except August and September (Barichello and Chen 1996).

The data used in this analysis is a portion of the available data for observed quota values and covers the period from August 1980 to July 1994. The rationale behind using this range of data is that this is the longest period of time for which this data is available for Ontario and Quebec for all quota types.

6.2 Merging the Data

The data used in the analysis includes six separate series, one for each quota type from both provinces: fluid, unused and used industrial milk quota for Ontario and Quebec. In order to compare the data to the time line of policy events, fluid quota, used and unused MSQ are merged into one price series. This is possible under the assumption that if policy events are national or international in nature, each event should effect quota prices in the same way across provinces. Each of the events in the diary is either a national or an international event. The steps taken to merge the six series are outlined below.

[1] Prior to merging the data, each individual data series was examined to ensure it followed the same general pattern as the others over time. All six series followed the same general pattern within an upward trend over time although the magnitude of movement within the upward trend differed across series.

1) All quota prices had to be converted into the same unit of measurement. This was carried out in two steps, the first involving the conversion of MSQ. Prior to the 1990/91 dairy year, used and unused MSQ prices in Ontario were recorded in dollars per hectolitre. After 1990, both were recorded in dollars per kilogram of butterfat. In Quebec, prices were recorded in dollars per kilogram of butterfat over the entire series. The Ontario data recorded before 1990/91 was converted to dollars per kilogram of butterfat using the Dairy Farmers of Ontario 12 month weighted average butterfat test (Barichello and Chen 1996).

2) The second step was to convert fluid milk quota from litres per day to dollars per kilogram of butterfat (annual quota) by the following formula:

$$\underset{\text{(\$ per kilogram of butterfat)}}{\text{Annual Fluid Quota Price}} = \frac{100 * \underset{\text{(\$ per litre per day)}}{\text{Daily Fluid Quota Price}}}{365 \text{ days} * 12 \text{ month average butterfat}}$$

3) Relative weights were then determined for each quota type in Ontario and Quebec. The weights were constructed using the percentage of total provincial milk production for fluid and industrial quota over the five dairy years, from 1991/92 to 1995/96. Total production was recorded in litres on an annual basis. To be consistent with the use of kilograms of butterfat as the unit of measurement, litres were converted by the following formula:

kilograms of butterfat = (# litres x 0.036), where 3.6 kilograms of butterfat per hectolitre of milk is the standard butterfat content (Alberta Milk Producers 1998).

Fluid milk quota was assigned its relative weight of total production, but the procedure for MSQ was less straightforward. Statistics Canada records the total amount of industrial milk production, but does not breakdown used and unused production. When the annual level of MSQ is determined at the beginning of the dairy year, all MSQ is unused. In January, at the midpoint of the dairy year, MSQ is about 50 per cent used and 50 per cent unused. At the end of the dairy year, all MSQ is used. While the relative amounts of used and unused MSQ change within the dairy year, the total annual amount of MSQ does not change (Dairy Farmers of Ontario 1998).

The relative weight for used and unused MSQ was determined by taking a simple average of the share MSQ, both used and unused, in total production. The weights assigned to each quota type in Ontario and Quebec are as follows: Ontario fluid (19.8%), unused MSQ (13.4%), used MSQ (13.4%), and Quebec fluid (14.0%), unused MSQ (19.6%), and used MSQ (19.6%).

4) The issue of missing data points had to be addressed to ensure a complete time series. One option was to eliminate the months in which the exchange was cancelled by the board and then estimate any other missing data points (Barichello and Chen 1996).

While this method is valid, it reduces the number of data points. In order to complete the time series, a different method was employed. The missing data points were treated as a continuation from the previous month and the empty cell was fit with the value from the previous month. In the case where there was more than one data point missing in a row, the most recently observed price was fit in that cell. For example, if the last observed price was November and the exchange was cancelled in December and January, the November price was fit into the time series for December and January. The following table shows the percentage of data points filled in for each quota type.

TABLE 6.1 MISSING DATA POINTS AS PERCENT OF TOTAL

Quota type	Fluid milk	Unused MSQ	Used MSQ
Ontario	0.6%	2.4%	16.7%
Quebec	26.7%	19.0%	29.7%

The Ontario data set is more complete than the Quebec data set. For both provinces, used MSQ has the highest number of missing data points. This is mainly due to the fact that used quota does not trade in August and September.

5) The final step was to merge to the data into one price series and index it. The six lines of data were merged into one series by adding the weighted average for each quota type across both provinces. The series was then indexed to remove the effects of inflation, by the last observation in the series, August 1994.

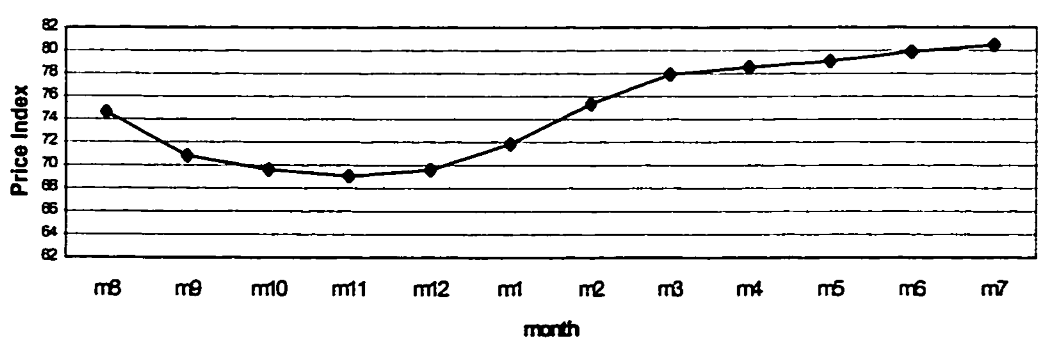
6.3 Time Series Data and its Components

A time series is made up of daily, weekly, monthly, quarterly or annual observations of a variable over time. In this analysis, the time series is the quota price index (August 1980 to July 1994). Two common components of time series data, seasonal variation and long-term trend are discussed in the following section (Kvanli, Guynes, Pavur 1992).

6.3.1 Seasonality

Seasonal variation, or seasonality, is defined as the "periodic upward or downward movement in a time series during a calendar year" (Kvanli, Guynes, Pavur 1992). Seasonal patterns are evident in daily, weekly, monthly and quarterly data, but not in annual data (Mendenhall, Reinmuth, Beaver, 1989). Seasonality differs from longer term trends in that it is an observation of short term influences on the data, separate from longer-term influences (Kvanli, Gvynes, Pavur 1992). A seasonal pattern is evident in **Figure 6.1**, which shows average monthly values for the quota price index.

Figure 6.1 Quota Price Index 1980/81 to 1993/94 Monthly Average



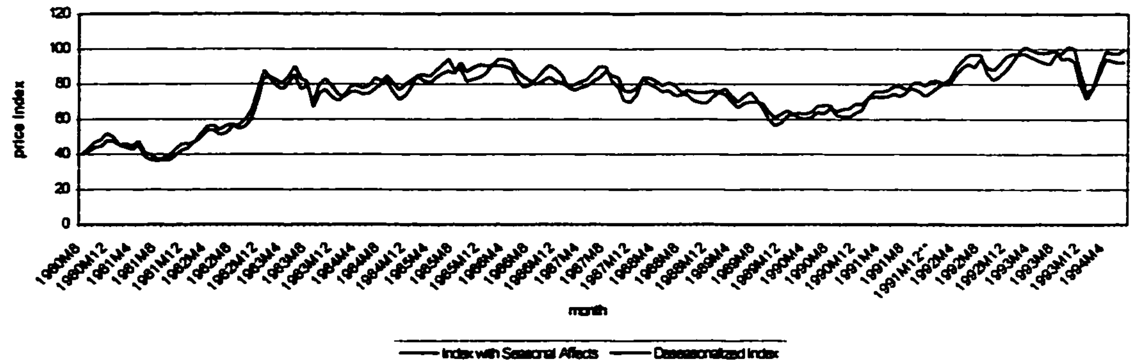
Values are above the annual average (74.7 per cent), during the spring and summer months (February to July), and below the annual average during the fall and winter months (August to January).

6.3.2 REMOVING SEASONALITY

A seasonal index was constructed to remove seasonal influences in the data. A seasonal index represents the effect on an observation during a particular time of year, in this case, monthly. It does not reflect long term effects on the observation. An additive seasonal index was constructed under the assumption that the seasonal effects are similar for each month in the year over the entire time series (Kvanli, Guynes, Pavur 1992).

The seasonal index was constructed by the centred moving average method. Once constructed, the each observation is divided by the index to remove seasonality. The resulting price series contains no seasonal effects (Kvanli, Guynes, Pavur 1992). **Figure 6.2** (following page) shows how the quota price index before and after seasonality has been removed.

Figure 6.2 Quota Price Index 1980/81-1993/94 Seasonal and Deseasonalized Index



6.3.3 TREND

Another important component of time series data is long term trend. Long term trend is the steady increase or decrease in the series over time. Factors that influence long term trend are inflation, population growth, technological change, personal income growth, and market growth or decline (Kvanli, Guynes, Pavur 1992). As indicated, the effects of inflation have been removed by indexing the original series.

Figure 6.3 Quota Price Index 1980/81 to 1993/94 Long-Term Trend

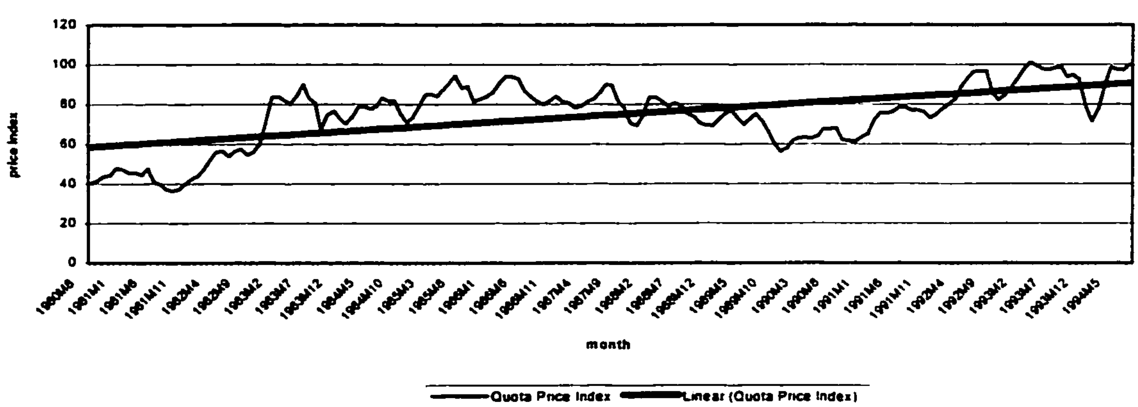


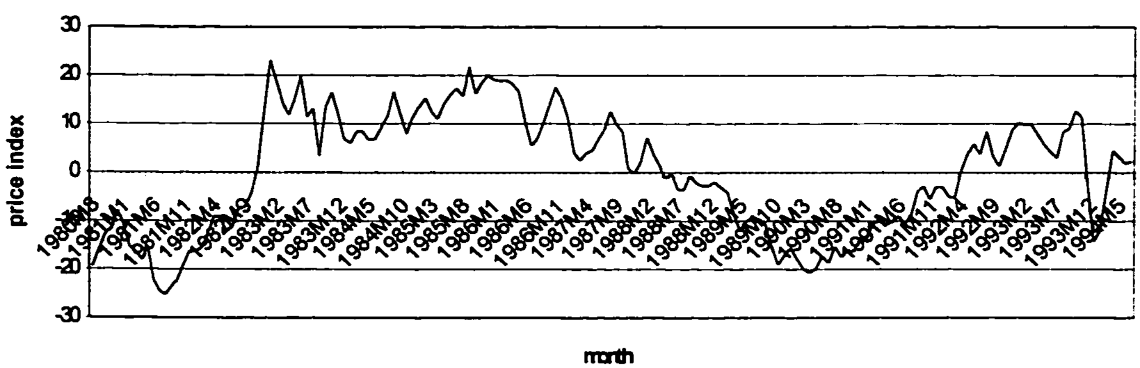
Figure 6.3 shows the quota price index over the period August 1980 to July 1994.

The long term trend is evident, and is increasing at a steady rate over the period, as displayed by the trend line.

6.3.4 Removing Trend

Long-term trend was removed from the price series by the simple linear regression method. The price series was the dependant variable and a time from beginning variable served as the independent variable. The residuals from the regression make up the final version of the quota price index to be compared to the time line of policy events. **Figure 6.4** shows the final form of the quota price index.

Figure 6.4 Quota Price Index 1980/81 to 1993/94 - Final Form



The final form is a price series that has been adjusted for inflation, seasonal variation, and trend to isolate the influence these factors may have on quota values. In the following chapter the quota price index will be compared to the time line of policy events.

Chapter 7: Analysis

This chapter provides the comparison of the time line of policy events to the quota price index. The index covers the period from August 1980 to July 1994. The time line covers 16 events over the period from July 1987 to April 1994. The analysis will focus on, but is not limited to, the period from July 1987 to April 1994. This is the time period in common for both elements in the analysis, the time line and the quota price index.

7.1 Determining the Effect of Policy Events on the Quota Price Index

Policy events and their effect on quota price variation are the main focus of this research. Prior to examining the data for any price changes, each of the events was classified according to a set of established criteria. The events were first split into two main categories, either positive or negative. An event was considered positive if it strengthened, or led to the strengthening of the structure of the Canadian dairy industry at the time of the event. An event was considered negative if it weakened, or led to the weakening of the structure of the Canadian dairy industry at the time of the event.

Events were sorted further into two categories, strong and weak, within the positive and negative classification. The event was classified as strong if it resulted in a policy change. An event was considered weak if it was related to a proposal for change, but did not result in a policy change. For example, the addition of ice cream and yogurt to the import control list in early 1988 was classified as a strongly positive event. It was a change in policy that led to increased protection for a broader range of dairy products.

An example of a weakly negative event is the United States' proposal for agricultural reform, tabled in July 1987 at the Uruguay Round of the GATT. While the proposal included some strong language, calling for the complete elimination of all tariff and non-tariff barriers, it was simply a proposal and did not result in a policy change at the time of the event.

For the purpose of the analysis, positive events are expected to have a positive effect on price. Negative events are expected to have a negative effect on price. Strong events are expected to result in larger price changes than weak events. **Table 7.1** provides the list policy events and the expected effect on quota price for each event.

TABLE 7.1 TIME LINE OF POLICY EVENTS AND EXPECTED EFFECT ON QUOTA PRICE

1. July 7, 1987	UR	Weakly negative
2. December 10, 1987	FTA	Strongly positive
3. January 20, 1988	GATT	Strongly positive
4. December 17, 1988	GATT	Weakly negative
5. September 15, 1989	GATT	Strongly negative
6. October 26, 1989	UR	Weakly negative
7. December 4, 1989	GATT	Strongly negative
8. March 14, 1990	UR	Weakly positive
9. October 5, 1990	UR	Strongly negative
10. December 7, 1990	UR	Strongly positive
11. December 20, 1991	UR	Strongly negative
12. April 6, 1992	NAFTA	Strongly negative
13. November 20, 1992	UR	Strongly negative
14. December 15, 1993	UR	Weakiy positive
15. March 21, 1994	Bilateral	Weakly negative
16. April 13/14, 1994	Bilateral	Weakly negative

Event 14, the conclusion of the Uruguay Round of General Agreement on Tariffs and Trade (GATT) negotiations on 15 December 1993, was difficult to classify. On one hand, the event could be considered positive as the Agreement on Agriculture reached in the Uruguay Round maintained equivalent import controls through tariffs. On the other hand, some considered the Agreement to be the first step in the elimination of border controls and therefore a negative event for the dairy industry (Calgary Herald December 1993).

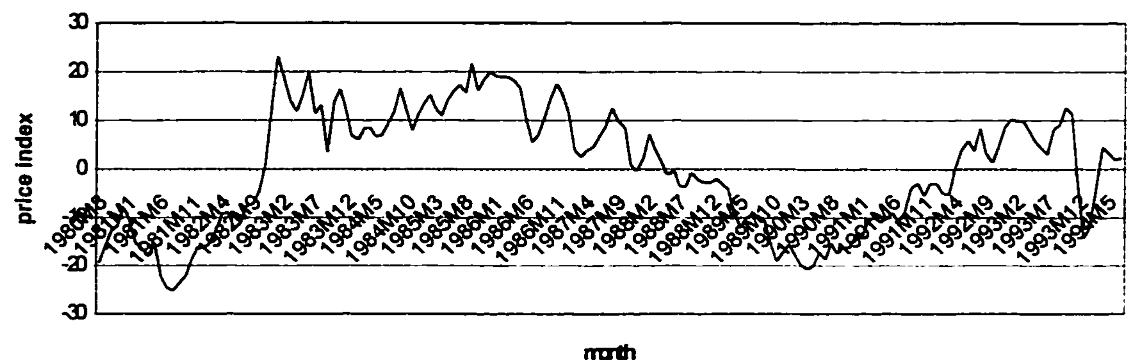
In this analysis, event 14 is considered positive. While the conversion of non-tariff barriers to tariffs was not the preferred outcome, dairy product import controls remained similar to those in place prior to the Agreement. These import controls are expected to remain, at least until the next round of agricultural trade negotiations concludes some time after 1999 and possibly beyond (Larue 1994).

7.2 The Time Line and the Quota Price Index

The next step in the analysis was to compare the time line of policy events to the quota price index. The intention is to determine if a relationship exists between the policy events and quota prices and if so, what the nature of this relationship is.

Figure 7.1 displays the movement in the quota price index between August 1980 and July 1994.

Figure 7.1 Quota Price Index 1980/81 to 1993/94



There is considerable variation in the index over the period. From mid-1980 to October 1981, the price index follows a downward trend. After October 1981, the index rises sharply to reach its highest point in March 1983. It remains on a positive trend until the beginning of 1986. In 1986, the index begins a downward trend and continues to fall, reaching its lowest point in June 1990. It starts to move in a positive direction in July 1990 and continues on this trend until December 1993. Between December 1993 and January 1994, the index falls by 25 per cent, the largest price change over the entire period. This is the same month in which the Uruguay Round of GATT negotiations was concluded. The dramatic downturn in the price index appears to be short lived however, and it rebounds in February 1994. The index continues on an upward trend until July, the end of the 1993/94 dairy year.

Figure 7.2 Quota Price Index September 1986 to April 1994
Policy Events and Expected Affect

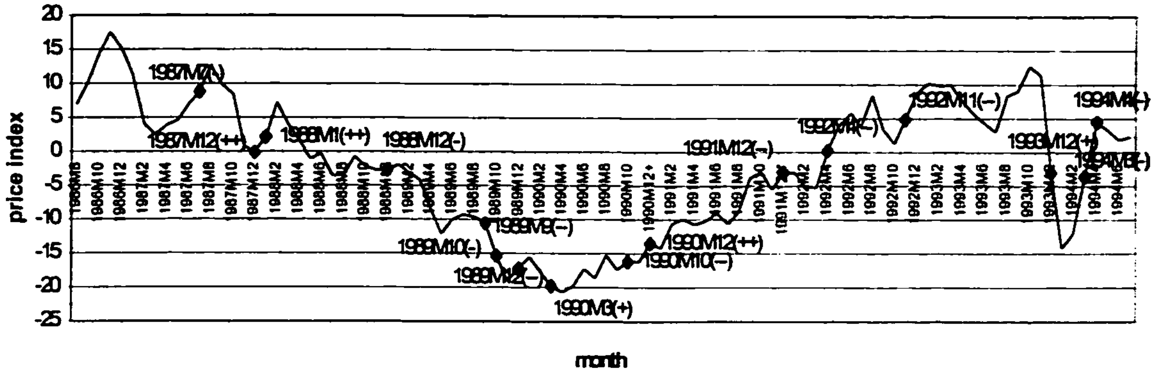


Figure 7.2 provides a closer look at the behavior of the quota price index during the time line of policy events between July 1987 and April 1994. In **Figure 7.2** strongly positive events are indicated by (++), strongly negative events are indicated by (--), weakly positive events are indicated by (-) and weakly positive events are indicated by (+).

The price index is falling during the first half of the period from July 1987 to June 1990. During the second half of the period, from July 1990 to April 1994, the index is on an upward trend, except for the dramatic drop in December 1993.

Figures 7.3 to 7.18 (following pages) isolate each of the policy events and show the price change over a five month period around the event. Within the five months, the price changes are analyzed in two periods. The first examines the change in price one month prior to the event and one month following the event (plus/minus one month). The second examines the price change two months prior to the event and two months following the event (plus/minus two months). **Figures 7.3 to 7.8** (page 61) show the positive policy events and **Figures 7.9 and 7.18** (page 62, 63) display all of the negative events.

Figure 7.3 Quota Price Index
Event 2: December 1987 +-2 months
strongly positive

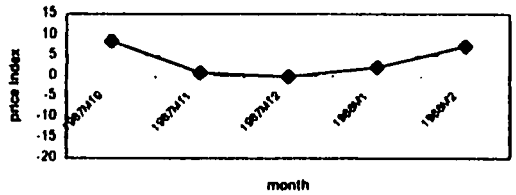


Figure 7.4 Quota Price Index
Event 3: January 1988 +-2 months
strongly positive

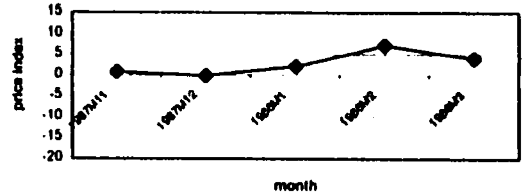


Figure 7.5 Quota Price Index
Event 8: March 1990 +-2 months
weakly positive

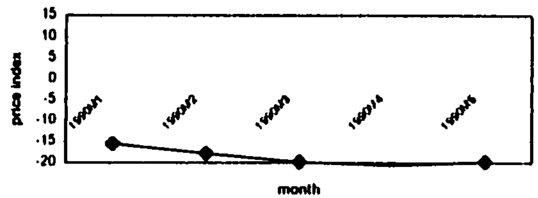


Figure 7.6 Quota Price Index
Event 10: December 1990 +-2 months
weakly positive

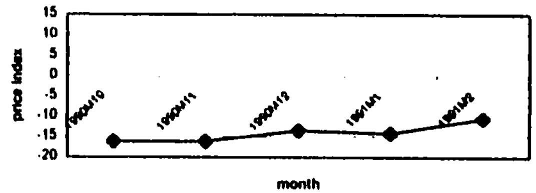


Figure 7.7 Quota Price Index
Event 12: April 1992 +-2 months
weakly positive

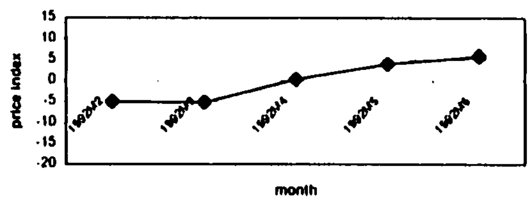
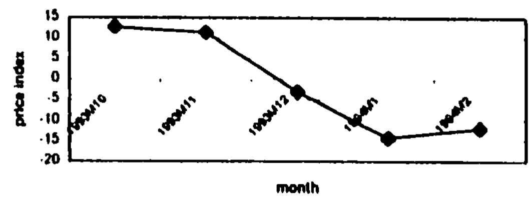


Figure 7.8 Quota Price Index
Event 14: December 1993 +-2 months
weakly positive



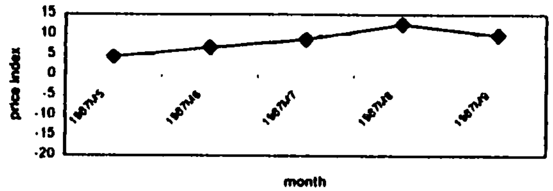


Figure 7.9 Quota Price Index
Event 1: July 1987 +-2 months
weakly negative

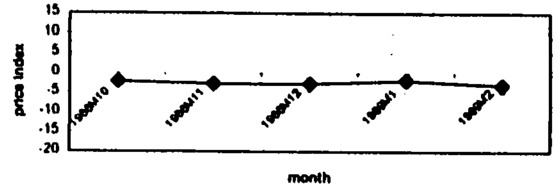


Figure 7.10 Quota Price Index
Event 4: December 1988 +-2 months
weakly negative

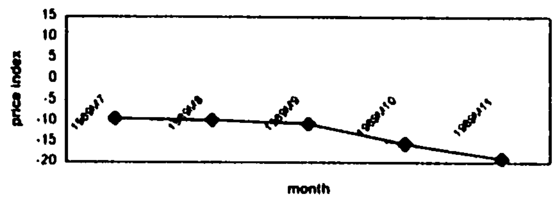


Figure 7.11 Quota Price Index
Event 5: September 1989 +-2 months
strongly negative

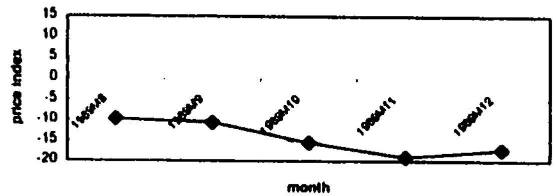


Figure 7.12 Quota Price Index
Event 6: October 1989 +-2 months
weakly negative

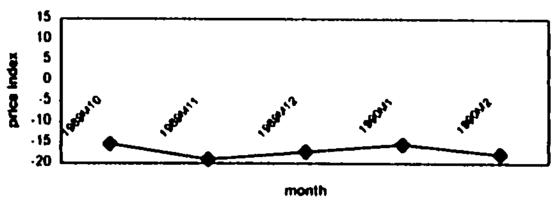


Figure 7.13 Quota Price Index
Event 7: December 1989 +-2 months
strongly negative

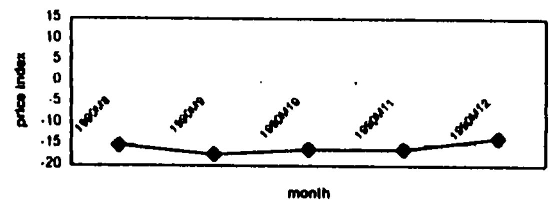


Figure 7.14 Quota Price Index
Event 9: October 1990 +-2 months
weakly negative

Figure 7.15 Quota Price Index
Event 11: December 1991 +-2 months
strongly negative

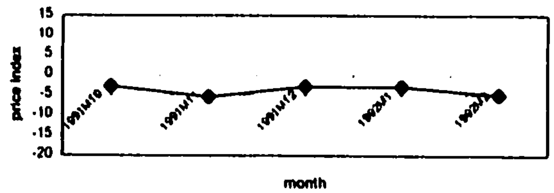


Figure 7.16 Quota Price Index
Event 13: November 1992 +-2 months
weakly negative

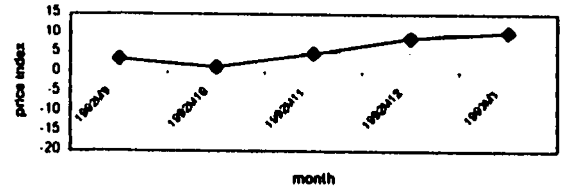


Figure 7.17 Quota Price Index
Event 15: March 1994 +-2 months
weakly negative

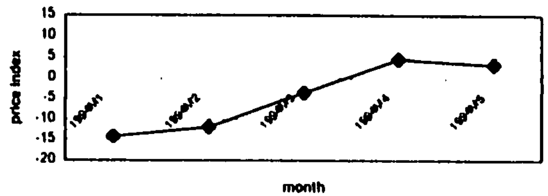
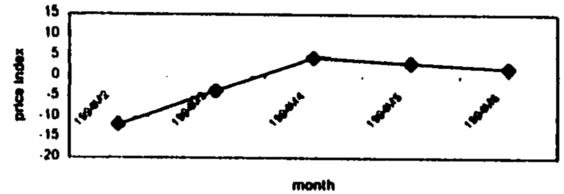


Figure 7.18 Quota Price Index
Event 16: April 1994 +-2 months
weakly negative



7.3 ANALYSIS

1. On average, the weakly positive events showed greater price variation than the strongly positive events over the plus/minus one month period and the plus/minus two month period. For the weakly positive events the plus/minus one month average price change is 9.88 per cent. For the strongly positive events, the plus/minus one month average price change is 4.37 per cent. The plus/minus two month average price change for the weakly positive events is 11.49 per cent. The plus/minus two month average price change is 2.24 per cent for the strongly positive events. This result is not as expected. The events classified as strong were expected to result in higher price variations than weak events.

2. The average price change for all of the positive events is slightly higher over the plus/minus two month period, 8.4 per cent, than over the plus/minus one month period, 8.0 per cent. Events 8 (-2.84%) and 14 (-25.55%) had negative price changes, over the plus/minus one month period. Events 2 (-1.20%), 8 (-4.29%) and 14 (-24.635) had negative price changes over the plus/minus two month period. All other events had a positive price change over both periods. This result is not as expected. Positive price changes were expected for all of the positive events.

3. The results for the negative events were similar to those for the positive events. The price variation for the weakly negative events was higher than the change for the strongly negative events. The price change for the weakly negative events was 6.7

per cent for plus/minus one month period and 3.9 percent for the strongly negative events over the period. The price change for the weakly negative events was 7.7 per cent for plus/minus two month period and it was 4.8 per cent for the strongly negative events. Again, this result is not as expected.

4. Event 14, was difficult to interpret and considered positive in this analysis, provides an interesting result. In November 1993, the quota price index for the event is at 11.34. In December, the price index falls to –3.03 and falls further in January to -14.21. The index begins to recover in February 1994, to –11.94 and continues on an upward trend through to July 1994. The price changes for this event indicate that the event was perceived as a strongly negative result for the dairy industry. However, the pessimism appears have been short lived.

5. The average price change for all of the negative events was higher over the plus/minus two month period, 6.8 per cent, than over the plus/minus one month period, 5.9 per cent. This result is consistent with the average price change for the positive events.

6. Of the negative events, only events 5 (-5.74%) and 6 (-8.47%) had negative price changes over the plus/minus one month period. For the plus/minus two month period, events 4 (-0.87%), 5 (-9.79%), 6 (-7.59%), 7 (-2.45%), and 11 (-2.14%) had negative price changes. All other events classified as negative, had positive price

changes over the two periods. This result is not as expected. All negative events were expected to result in a negative price change.

7. In order to see if the period of the GATT negotiations had a significant effect on the variation in the quota price index, price changes before, during and after the negotiations were examined. The average absolute price change over the entire period of study, August 1980 to July 1994, is 2.81 per cent. The average absolute price change prior to the beginning of the GATT negotiations, August 1980 to August 1986, is 0.37 per cent. The average absolute price change during the GATT negotiations, September 1986 to December 1993 is 2.39 per cent. Following the GATT negotiations, from January 1994 to July 1994, the average absolute price change is 4.72 per cent. The highest average absolute price change is in the months following the conclusion of the GATT negotiations, at 4.72 per cent. In addition, the average absolute price change over the entire period was higher than that during the GATT negotiations.

8. Price comparisons over the entire period of study and around the policy events indicate that there is greater price variation in the short term than in the long term. The average absolute price change over the plus/minus one month period is 6.67 per cent, and over the plus/minus two month period it is 7.36 per cent. The absolute price change over the entire period from August 1980 to July 1994 is 2.81 per cent.

CHAPTER 8: RESULTS AND CONCLUSIONS

1) Not all of the events classified as negative resulted in a negative price change, particularly over the shorter time period (plus/minus one month). Twenty percent of the negative events showed negative price changes within a month before and after the event. Fifty per cent of the negative events showed negative price changes within two months before and after the event.

2) Consistent with the findings for the negative events, not all of the positive events resulted in positive price changes. One third of the events showed a positive price change in the plus/minus one month period, while fifty per cent of the events showed a positive price change over the longer period. These findings could indicate that there is a lag between the time of the policy event and the market's response.

3) The results for the classification of events as weak and positive events were not as expected. Events classified as weak showed greater price variation than those classified as strong. Strong events were expected to result in greater price variation than weak events.

4) The overall findings for the positive events and negative events were not as expected. All of the positive events were expected to result in a positive price change and negative events were expected to result in a negative price change. As indicated above this may be the result of a lag in the market's response.

5) The findings of the study, not consistent with the expected results, could also indicate that the criteria for classifying events, was not sufficient. Information from producers on how they classify events may have made the classification more accurate. A researcher's perception of the event may be quite different than a producer's.

6) The average absolute price change over the entire series, August 1980 to July 1994, was 2.81 per cent. This is much lower that the average absolute variation in the events over the plus/minus two month period, at 7.36 per cent, and the plus/minus one month period at 6.67 per cent. This indicates that prices vary more in the short term than over the entire length of the index.

7) The average absolute price change during the GATT negotiations (September 1986 to December 1993) at 2.39 per cent, was less than the average absolute price change over the entire period (August 1980 to July 1994) at 2.81 per cent. The average absolute price change prior to the beginning of the GATT (August 1980 to August 1986), was relatively low at 0.37 per cent. The highest absolute price change of the periods examined, at 4.72 per cent, occurred following the conclusion of the Uruguay Round (January 1994 to July 1994). These results indicate that the average absolute price change, during the GATT negotiations was lower than the average absolute price change for the entire period and that uncertainty may not have been as high during this period as anticipated. Following the conclusion of the Uruguay Round, however, there may have been more uncertainty as is registered by the variation in price.

8) The results of this analysis may indicate that variations in quota price are the result of some randomness in the market that is not captured in this analysis. It is difficult to separate the influence of policy events from other random events that may occur in the market.

9) Given that the results of the analysis are not as expected, the conclusion may be drawn that the market may in fact not respond to news or policy events.

10) The effect of a policy announcement on quota value may be negative for one event, but positive for another. Therefore it may be concluded that the effects of a number of policy announcements over a time series may not be distinctive enough to get a clear indication of each individual event's effect on quota values. This is unlike event studies in other disciplines, such as finance.

11) This research provides an examination of key market access policy events over the seven year period from 1987 to 1994. While these events have had an impact on the Canadian dairy industry, determining the impact has been a challenge. This analysis has shown that the nature of the relationship between policy events and time series data is difficult to determine. Isolating the factors that influence a producer's decision to buy and sell quota is difficult. However, policy risk and its impact on quota price variation is an important area for further research particularly given the direction toward increased trade liberalization by Canada and its trading partners.

APPENDIX A

Canada-US Agricultural Market Access Policy Events 1986-1994

Date	Context	Issue	Canada	United States
1. July 7, 1987	UR	US proposal for UR Negotiations on Agriculture		Proposal includes complete elimination of all tariffs and quotas.
2. December 10, 1987	FTA	Conclusion of FTA negotiations: Existing GATT rules on market access rules are maintained.		
3. January 20, 1988	GATT	Canada adds yogurt and ice cream to import control list		
4. December 17, 1988	GATT	Ice cream dispute goes to GATT		
5. September 15 1989	GATT	The GATT dispute settlement panel rules that Canadian ice cream and yogurt quotas violate Canada's GATT obligations ie. they are inconsistent with GATT Article X1:2(c).		
6. October 26, 1989	UR	U.S. tables detailed proposal on market access.		The proposal includes the conversion of all non-tariff barriers to tariffs, their reduction over 10 years, and an elimination of Article XI.
7. December 4, 1989	GATT	GATT council accepts the panel report on Canadian ice cream and yogurt import controls.		
8. March 14, 1990	UR	Canada tables detailed proposal on market access.	Canada tables proposal to strengthen and clarify Article X1.	

9. October 5, 1990	UR	Submission of baseline schedules, as called for in the *Framework Agreement on Agriculture Reform Program*. The chair of the Negotiating Group on Agriculture (deZeeuw) indicated that the submission of country lists was *"without prejudice to the negotiating position of participants or to the outcome of the negotiations"*.	Canada submits tariff equivalent calculations for dairy, poultry, eggs, margarine, wheat, and barley. The submission notes that: "*Canada has provided tariff equivalent calculations for those non-tariff barriers which would be subject to a clarified Article XI:2(c). It remains Canada's position that these measures should not be converted to tariff equivalents.*"	The U.S. submits a complete border protection draft schedule including tariff equivalents for beef, dairy, peanuts, sugar and sugar-containing products, and cotton.
10. December 7, 1990	UR	Brussels Ministerial Meeting: GATT talks breakdown.	During ministerial Canada works with like-minded countries to develop coalition in support of Article XI - Japan, Korea, Israel, Switzerland, Nordics.	
11. December 20, 1991	UR	Release of the *Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations* (Dunkel Text). Comprehensive tariffication a central element of Part B of the Text on Agriculture *(Agreement on Modalities for the Establishment of Specific Binding Commitments Under the Reform Program)*. Dunkel text calls for submission of lists of commitments (formal offers) and related supporting tables by March 1, 1992.		

12. April 6, 1992	NAFTA	NAFTA Ministerial Meeting: Canada and United States agreed that agriculture market access negotiations should seek to secure maximum trade liberalization possible - if not possible on trilateral basis then bilateral negotiations would be pursued (Canada/Mexico and U.S./Mexico to conduct separate bilateral market access negotiations). Further understanding is that Canada-U.S. FTA would continue to govern Canada-U.S. market access issues for agricultural trade. As a result, Canada and U.S. do not engage on agri-food market access issues.	Canadian draft text leaked just prior does not contain language specifically safeguarding import quotas.	
13. November 20, 1992	UR	Blair House Accord: The US and the EU reach an agreement on agricultural subsidies.		
14. December 15, 1993	UR	Conclusion of Uruguay Round Negotiations	Canada indicates its intention to tariffy, along with its basic tariff equivalents for dairy, poultry, eggs and other products in a letter to the GATT Secretariat on December 15, 1993.	The U.S. submits a complete schedule on December 15, 1993, including all tariffs and tariff equivalents. Canada-specific allocations for evaporated milk in air-tight containers and three categories of cheeses remain in place. No indication that U.S. tariff equivalents would not apply to Canada.

15. March 21, 1994	Bilateral	Meeting between Canadian Minister of Agriculture and U.S. Secretary of Agriculture	Canada and the United States: Discussion of possible agreement including access for wheat, dairy, poultry, eggs, refined sugar, sugar-containing products, and peanut butter. Focus of disagreement is over level and duration for new restrictions on Canadian exports of wheat to U.S.	
16. April 13/14, 1994	Bilateral	Meeting between Canadian Ministers of International Trade and Agriculture and United States Trade Representative and U.S. Secretary of Agriculture - Marrakech	Canada and the United States: Discussion of possible agreement including access for wheat, dairy, poultry, eggs, refined sugar, sugar-containing products, and peanut butter. Negotiations break down, primarily over Canadian refusal to agree to level and duration for new restrictions on Canadian exports of wheat to U.S.	

Source: Government of Canada 1996; Government of United States 1996; Veeman and Dong 1995; Ulheim 1996.

APPENDIX B

Globe and Mail July 7, 1987 page A1 Policy Event #1

Reagan proposes global elimination of farm subsidies

BY JENNIFER LEWINGTON
Globe and Mail Correspondent

WASHINGTON

The Reagan Administration has appealed for collective global disarmament on all farm subsidies over the next 10 years.

The ambitious reform proposal, a key component of the Administration's broader trade strategy, was tabled yesterday in Geneva at the General Agreement on Tariffs and Trade multilateral negotiations.

A champion of agricultural subsidy reform even as it shells out more aid to U.S. farmers, the Administration wants global trading partners to agree to:

- Complete elimination of all domestic and export subsidies and market barriers, including tariffs and quotas by the year 2000.
- Uniform food health regulations by all countries to prevent non-tariff barriers to agricultural trade.

"If we are successful, agriculture around the world, once out from under the yoke of government policies, will flourish, benefiting farmers and consumers in all nations," President Ronald Reagan said in a statement. But, he conceded, "this proposal is ambitious, the negotiations will not be easy and any agreement will not be painless."

The President's proposal also includes bringing forestry products, fish and fish products under the agriculture negotiations.

In Ottawa, Prime Minister Brian Mulroney said he "welcomed" the U.S. proposals.

Last month in Venice, the United States, Canada and five other leading industrial democracies endorsed the need for a major reform of global agricultural trade, heavily subsidized through expensive direct and indirect support programs, but did not commit themselves to a timetable. While most countries agree there is a problem, no one is ready to take the first step.

In a briefing for reporters, U.S. Trade Representative Clayton Yeutter said flatly "we have no intention of unilaterally disarming on agriculture. We clearly won't reduce our level of government involvement unless other people are prepared to move with us."

By its admission, the United States is one of the worst offenders, with $25-billion (U.S.) tagged for price supports and export subsidies this year, compared with $26-billion

Globe and Mail July 7, 1987 (continued) page A2 Policy Event #1

Proposal would end farm subsidies

From Page One

by the European Community, $10.5-billion by Japan and about $3.4-billion (Canadian) by Canada.

The Reagan Administration, which views global farm subsidies as a major source of its trade problems, has domestic and foreign policy reasons to push for reform. First, the Administration sees a rollback in global subsidies as helping U.S. farmers regain export market share lost this decade to the EC and others. And a sharp cut in domestic farm price supports would also reduce the $170-billion (U.S.) budget deficit.

Second, Washington signals its foreign trading partners that, unless they co-operate on agricultural reform, Congress will enact protectionist trade legislation this year.

Despite skepticism about how far any country will go to drop its export subsidies, Washington trade lawyer Gary Horlick said there is one major incentive to take action. "Everyone's running out of money, even the European Community."

The U.S. proposal covers all commodities and all domestic policies that affect production and trade, but allows for some safety net for farmers and exempts bona fide food aid programs.

Mr. Yeutter said the United States wants the agricultural subsidy issue settled by the end of 1988, before the broader multilateral trade negotiations are concluded in Geneva.

The Administration's broad goals on agricultural subsidies are "consistent" with its objectives in negotiating a free trade deal with Canada, a senior U.S. Department of Agriculture official said yesterday.

In the bilateral talks, the two countries want to eliminate all tariff and nontariff barriers at the border. But they also agree that some major agricultural issues, like global subsidies, can only be settled on a multilateral basis.

Nevertheless, U.S. officials hope they can make some headway on agriculture with Canada, to build support for the U.S. position in the multilateral talks.

In the discussions with Canada, negotiators are looking at each other's programs and policies that hinder trade at the border, including tariffs, quotas and standards. When asked whether the United States wants changes in Canada's system of marketing boards, the U.S. Agriculture Department official replied: "The question is whether they subsidize or not. If they do not, it won't be."

U.S. farm spokesmen reacted cautiously to yesterday's announcement by the Administration.

Paul Drazel, international trade specialist with the American Farm Bureau Federation, the largest U.S. farm lobby, said: "It's a step in the right direction."

But he pointed out that, in past global trade negotiations, countries have made little headway to open markets and remove subsidies.

"The Administration could be hoping for more than is possible," he said.

Canadian Government officials welcomed the U.S. proposal as a major step forward in the search for an end to the international agricultural subsidies war.

"This is the first substantial proposal that has been made" since agriculture was included last year for the first time in negotiations of the 40-year-old General Agreement on Tariffs and Trade, a senior Canadian trade official said. "We welcome this commitment, because the United States is a big player," he said.

The official, who asked not to be named, said however that Canada was surprised the United States had decided to include forest products, fish and fish products in the negotiations.

Canada is scheduled to present its proposals on agricultural trade in Geneva in September.

Globe and Mail December 11, 1987 page A1 Policy Event #2

Free-trade terms now final: 'It's done'

PM receives voluminous text of deal being released today

BY JENNIFER LEWINGTON and CHRISTOPHER WADDELL
The Globe and Mail

Canadian and U.S. negotiators finished a final round of dealing on the free-trade agreement yesterday afternoon, clearing the way for the release of the voluminous text today.

"Believe it or not we have a deal," a relieved Peter Murphy, the chief U.S. negotiator, said in an interview in his Washington office yesterday. "It's done."

In Ottawa, the chief Canadian negotiator, Simon Reisman, handed three thick, green loose-leaf binders containing the proposed agreement to Prime Minister Brian Mulroney and Minister of International Trade Patricia Carney in a brief ceremony in Mr. Mulroney's office.

"It's going to be hard to tear up," Mr. Reisman joked to the television cameras. He was referring to pledges from Liberal Leader John Turner and New Democratic Party Leader Edward Broadbent to tear up the deal if either formed a government after the next election.

With the legal text complete, the stage is set for the political sales job in both countries.

Sometime next year, Parliament and Congress will vote on the terms of the proposal. There are still political hurdles ahead for the deal in both countries, given the divisive debate in Canada and an uncertain political climate in Congress.

The negotiators supposedly concluded "final" talks on the pact in a marathon session in Ottawa last weekend but, in fact, they were haggling until yesterday.

One issue that was resolved only yesterday was the retransmission of U.S. cable signals in Canada.

In the Oct. 3 agreement, Canada promised to revise its copyright laws to protect U.S. programming retransmitted by Canadian cable companies — a pledge first made when Prime Minister Brian Mulroney met President Ronald Reagan in Quebec City in 1985.

This week's wrangling apparently involved who will design and supervise the system under which Canadian cable companies will pay copyright fees to U.S. stations for the privilege of rebroadcasting their signals.

Sources suggest the United States

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Hurdles

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proposed that it negotiate an arrangement directly with Canadian cable companies, under which fees would be paid into a pool and then split among U.S. border television stations whose signals are being retransmitted across Canada.

That was unacceptable to the Canadians, who were determined not to let the United States dictate the payment system.

A further problem involved the question of whether cable companies retransmitting U.S. signals to their subscribers in the same community in which the U.S. station could be received on normal household aerials — such as Toronto and Buffalo — should pay the copyright fee.

Other sources indicated the final text of the agreement has also changed the way tariffs will be reduced for telecommunications equipment in response to complaints from the U.S. telecommunications industry.

The tentative text specified that tariffs would be eliminated over five years, but that was opposed by U.S. telecommunications equipment producers AT&T, GTE and Rockwell International. The companies apparently told the U.S. Administration they would not support the agreement if the tariff were not wiped out immediately.

The U.S. industry, however, really wanted to break down the close supplier relationship between Bell Canada and its former subsidiary Northern Telecom Ltd., so that U.S. manufacturers could bid to supply Bell with telephone exchanges, switches and other equipment.

They were not successful.

The final deal will say only that telecommunications tariffs will end when the trade deal comes into force on Jan. 1, 1989, not five years later. Northern Telecom is apparently satisfied with the immediate end of Canadian protective tariffs, but the concession may cause adjustment problems for smaller telecommunications equipment manufacturers in Canada, who will have to compete against U.S. giants, with limited time to adjust.

While Canada modified its telecommunications tariffs, the U.S. agreed to change the tentative deal's rules that will govern duty-free entry to the United States of clothing made in Canada.

The tentative agreement required a very high level of North American content for clothing to be shipped duty-free into the United States, thereby denying Canadian apparel producers the use of foreign fabrics in products shipped over the border.

The final text will apparently allow an annual quota of approximately $500-million to $600-million of Canadian clothing with 50-per-cent foreign content to be shipped duty-free to the United States. Once that quota is shipped, all other Canadian-made apparel must meet the original high North American content provisions or be charged import duties.

This week, in comments that surprised some Canadian and U.S. officials in Washington, Mr. Murphy warned that the free-trade deal will be harder to sell in the United States than in Canada.

Yesterday, he acknowledged that the telecommunications-related changes will enhance chances of the agreement's acceptance in the United States. Mr. Murphy declined to discuss other issues that could be politically difficult in Congress next year.

At this stage, the Administration faces two possible risks in selling the agreement to Congress. First, Congress may be dissatisfied with the consultations with Mr. Murphy and his colleagues. The Administration did not give Congress the required period of consultation in the three months leading up to Jan. 2, when Mr. Reagan must sign the accord.

The second big risk is that Congress may link the fate of the free-trade agreement to the omnibus trade bill.

If Mr. Reagan vetoes the omnibus bill, a threat directed at the current proposals, Congress will be in no mood to approve the free-trade deal. However, Congress has shown signs of backing off from the most extreme proposals in the trade bill.

Globe and Mail December 12, 1987 page A1 Policy Event #2

Passage of trade deal predicted

2,500-page final text tabled

BY JENNIFER LEWINGTON
and CHRISTOPHER WADDELL
The Globe and Mail

More coverage — Page A5
Excerpts from final text — Pages A8 and 9
Anger, relief greet pact — Page B1

After releasing a final legal text yesterday, trade ministers from Canada and the United States cautiously predicted their free-trade agreement would overcome opposition in both countries and be ratified in 1988.

"I am very confident that we will be able to deliver the agreement but I can give you no guarantees," Minister of International Trade Patricia Carney told an Ottawa news conference after Prime Minister Brian Mulroney tabled the 2,500-page final text of the deal in the House of Commons at noon yesterday.

U.S. Trade Representative Clayton Yeutter said in a statement: "We have before us the opportunity to approve an agreement in the economic sphere that is of comparable historic significance to the arms-control agreement reached earlier this week. I believe Congress will share the President's view that this agreement also warrants congressional approval."

Later, in a Washington briefing for reporters, a se-

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Canadian Press

Brian Mulroney celebrates with thumbs-up sign in House.

Globe and Mail December 12, 1987 (continued) page A10 Policy Event #2

Premiers and PM to review deal next week

• From Page One

nior Administration trade official added: "I don't see any reason (it) won't go through." But he cautioned: "Congress is not an easy beast to work with."

If approved by Congress and Parliament after it is signed separately on Jan. 2 by Mr. Mulroney and President Ronald Reagan, the deal will take effect on Jan. 1, 1989.

Under the terms of the agreement, all tariffs on goods traveling between the two countries will be eliminated by 1998.

The deal also enshrines the principle of "national treatment" in the trade and economic relations between Canada and the United States, ensuring that in each country, goods, services, businesses and investment from the other will be treated identically with their domestic equivalents.

The deal will also create a continental market for Canadian energy, establish a new binational process for settling trade disputes between Canada and the United States, establish a code for trade in services, reduce significantly Canada's power to screen foreign investment, ease business travel across the border, alter the terms of automotive trade between the two countries, and partly open federal government procurement in each country to bidders from the other nation.

The final agreement was reached after months of frequently acrimonious bargaining. Not even the initialling by senior cabinet ministers from the two governments of a tentative deal in a frantic 48-hour bargaining session in Washington in early October reduced the animosity. Negotiators then engaged in 10 weeks of wrangling over the final wording of the agreement.

That acrimony was apparent even yesterday as chief Canadian negotiator Simon Reisman described his bargaining with the United States.

"We were well organized. We had a strong team. We took the negotiations to them. We did a tremendous amount of legal work, the preparatory work, the analytical work," Mr. Reisman told reporters outside the Commons.

"They, alongside us, were almost like an underdeveloped country," he added.

On the other side, U.S. officials in Washington joked in private yesterday about Mr. Reisman's assertion during final bargaining over the legal wording that he would get a dime for every nickel he surrendered in bargaining.

Completion of the legal text is no guarantee of an end to trade conflicts between the two countries.

In general, the final text mirrors and amplifies the Oct. 3 tentative agreement. But there are some significant changes that reduce the scope of the deal from the pact initialled two months ago.

They include:

- Removal of the transportation section of the deal in response to pressure from the U.S. maritime industry;
- Addition of a three-person binational panel of former judges to consider complaints of misconduct in the handling of any dispute under the panel process;
- Assurance that fish caught off Canada's East Coast will continue to be processed in the country before being exported;
- Cancellation of plans to force Canada to end its postal subsidies that favored domestic publications;
- Assistance for grape farmers who convert their acreage to the production of other fruits;
- Immediate removal of tariffs on telephones and some telephone switching products;
- A termination clause under which either government can end the deal on six months notice.

[illegible] deal is already being criticized by the State of Michigan and U.S. auto parts producers, who threaten trade actions against Canada before the free-trade pact takes effect.

In theory, standstill provisions of the deal call a halt to such actions.

In letters accompanying the final text, Ms Carney and Mr. Yeutter commit their governments to exercising discretion until the agreement comes into force "so as not to jeopardize the approval process or undermine the spirit and mutual benefits of the free-trade agreement."

But a senior U.S. trade official said yesterday: "I don't think we obligated ourselves 100 per cent to stand still." Noting the threats from Michigan, he added: "Let's just hope that's a false rumor."

The Canadian Government, however, is relying on the standstill clause to protect itself from any provisions of the planned U.S. omnibus trade bill, should it be approved by Congress next year. As currently proposed, the trade bill would give U.S. industry more tools to challenge imports from Canada and other countries as unfair competition.

Deputy chief Canadian negotiator Gordon Ritchie has already told a parliamentary committee he considered that new restrictions on Canadian imports in the omnibus trade bill could be grounds for Canada to reconsider proceeding with the free-trade pact.

Other hurdles must be surmounted as well before the deal is implemented.

In Canada, both Liberal Leader John Turner and New Democratic Party Leader Edward Broadbent categorically condemned the final text of the deal yesterday. Each said they would tear up the agreement if they formed a government, and both leaders challenged Mr. Mulroney to call an election on free trade.

In the U.S. capital, congressional officials noted that such threats to tear up the deal trigger unease in Congress about approving the pact. Some questioned the wisdom of voting for an agreement that could unravel within months, since an election must be called in Canada by September of 1989.

"It gives people here serious pause," the aide to one Republican senator said yesterday. "It hasn't gone unnoticed."

At least three premiers — David Peterson of Ontario, Howard Pawley of Manitoba and Joseph Ghiz of Prince Edward Island — have also rejected the deal, with Mr. Peterson indicating that Ontario will not implement provisions that require it to end price and listing discrimination against U.S. wines in its liquor stores.

Mr. Mulroney will review the final text of the deal with the premiers at a luncheon meeting next Thursday. But Ms Carney said yesterday this meeting will be a briefing session only, with no intention of pressing the premiers to make commitments that they will implement provisions of the deal that fall under their jurisdiction.

However, Congress is expected to demand strong assurances that the provinces are "on board."

The senior U.S. trade official, noting provincial opposition, said "I see it as a significant problem and I expect we're going to hear from Congress."

He further warned that "if you want something passed by Congress, the provinces would have to be on board."

So far it is not clear what assurances are required to satisfy Congress. But Mr. Ritchie said yesterday Canada has made no commitment to notify the United States which provinces will comply with the pact's terms.

Yesterday, U.S. trade officials said they expect the two federal governments to sign the accord without the need for additional signatures from the 10 provinces and 50 states.

Despite the potential conflict over provincial implementation, in reality very few provisions of the deal fall within provincial jurisdiction. The main areas involve changes to wine policies and a commitment that future legislation covering service industries will comply with the terms of the agreement.

This week, chief U.S. negotiator Peter Murphy warned that the agreement could be harder to sell in the United States than in Canada. His pessimistic assessment, though not widely shared at the moment, may be designed to spark U.S. business groups to lobby harder for congressional approval of the deal next year.

Calgary Herald January 20, 1988 page F2 Policy Event #3

Dairy products join import control list

VANCOUVER (CP) — The federal government has added a number of dairy products to its import control list in an effort to support Canadian milk management programs, Agriculture Minister John Wise said Tuesday.

The products, including ice cream, ice cream novelties, ice milk, yogurt and liquid forms of skim milk, buttermilk or blends of those products, now will be subject to quotas.

"These changes to the import control list ensure that our supply-managed dairy sector continues to operate effectively," Wise said in a speech to the annual meeting of the Dairy Farmers of Canada.

Imports of these products now are worth less than $1 million a year, but the industry was worried that without quotas that could increase under free trade.

Imports of dry skim milk, dry buttermilk and blends of those products are already subject to quotas.

The additions follow persistent lobbying by the dairy organization, but fall short of a more comprehensive list recommended by the farmers. It would have placed virtually all milk products, either in bulk or consumer packaging, on the import list.

Organization president Jim Waardenburg of Abbotsford, B.C., said the farmers would have preferred that Ottawa adopt the clause his group recommended, but "the list (announced by Wise) is a big step to attaining full control over imports."

Wise said Canada might have encountered problems under the General Agreement on Tariffs and Trade if it had accepted the farmers list.

"I cautioned against it," said Wise, a dairy farmer from St. Thomas, Ont. "I don't want to provoke a GATT challenge."

GATT rules allow countries to restrict certain agricultural product imports in support of domestic supply management programs.

The free-trade agreement with the United States allows Canada to retain its rights under those regulations.

Globe and Mail December 17, 1988 page B5 Policy Event #4

Ice cream dispute goes to GATT

[illegible]

OTTAWA

Ottawa and Washington, having failed to resolve a trade dispute over ice cream and yogurt on their own, are seeking action against each other from the General Agreement on Tariffs and Trade in Geneva.

Washington, under pressure from its dairy industry, will go to the GATT next Tuesday to request that a panel be set up to examine its complaint against Canadian import controls on ice cream and yogurt.

International Trade Minister John Crosbie announced yesterday that Ottawa will ask GATT to investigate Canada's complaint that the United States has prohibited Canadian ice cream imports since 1970.

Montreal Gazette September 16, 1989, page A7 Policy Event #5

GATT freezes out Canada in ice cream dispute

OTTAWA (CP) — An international trade panel has ruled against Canada in a trade dispute with the United States over ice cream and yogurt imports, and two Canadian ministers are not happy about it.

Trade Minister John Crosbie and Agriculture Minister Don Mazankowski issued a statement last night condemning the decision by a panel set up under the General Agreement on Tariffs and Trade.

The decision, to be final, must be approved by the full GATT council, which next meets Oct. 11.

The panel, which held hearings into the dispute in July, found Canada violated its obligations under GATT when it put import quotas on ice cream and yogurt in January 1988.

"The United States has had an exemption from the GATT for its import quota since 1955," said Mazankowski in the statement. "That is most unfair and must be addressed in the current round of GATT negotiations."

In 1988, Canada added ice cream and ice cream novelties, yogurt, skim milk, ice milk, buttermilk and blends of those products to its import control list.

The action was taken to satisfy dairy farmers, who feared the free-trade agreement with the United States.

Globe and Mail October 26, 1989, page B10 Policy Event #6

Feathers fly over U.S. plan on world farm trade

BY JOHN ZAROCASTAS
Special to The Globe and Mail

GENEVA

A U.S. proposal on agricultural trade reform, tabled at the GATT international trade talks, triggered a violent reaction yesterday from the European Community and Japan.

The United States risks stopping the clock in the General Agreement on Tariffs and Trade negotiations on agriculture, said Rolf Moehler, EC deputy director-general of agriculture.

The Japanese delegates said that, while the U.S. proposal is a comprehensive document, they were apprehensive and had doubts on how it would work. They viewed it as too drastic an attempt to reform agriculture.

The U.S. proposal calls for changes in four major areas of agricultural trade:

- Countries would convert all non-tariff barriers to tariffs and then gradually reduce them over 10 years.
- Export subsidies would be phased out over five years.
- The most trade-distorting of internal support measures would be phased out and less harmful supports would come under GATT regulation.
- Sanitary and other regulations that are currently acting as barriers to trade would be harmonized and come under GATT discipline.

U.S. Deputy Trade Representative Julius Katz said agriculture is the key to the current Uruguay Round of trade negotiations and that unless there is a substantial agreement in this area there might be no Uruguay Round agreement at all.

In Washington, U.S. Trade Representative Carla Hills said the proposals are designed "to eliminate the hundreds of ways governments distort trade and restrict fair competition."

But the EC's Mr. Moehler said the U.S. position has become more rigid and stressed that "the double price system as practiced in the Community could not be abandoned, although this appeared to be the U.S. objective."

The double-price system is the cornerstone of the EC common agricultural policy and includes controversial policies such as the variable import levy that discriminates against foreign suppliers to the Community.

Mr. Moehler argued that the United States is trying to upset the whole agricultural support system. He said the EC is "in favor of gradual reform, but not of reform overnight."

The U.S. submission, however, was well-received by many food-exporting countries, including Canada, Australia, Argentina, Brazil, Hungary, New Zealand and Thailand, which viewed the proposal as a major contribution to the negotiations.

Michael Gifford, Canada's chief farm trade negotiator, said Canada is pleased that the U.S. proposal is comprehensive and covers all the major areas of the negotiating mandate on agriculture agreed for the Uruguay Round.

However, he stressed that Canada is not happy with the U.S. call for elimination of a GATT article that permits the use of quantitative import restrictions for enforcement of government measures. Canadian controls are based on that statute.

A group of five food-importing countries (Egypt, Jamaica, Peru, Mexico and Morocco) told the GATT committee that negotiators should take into account the fact that removing food export subsidies would have costly implications for importing countries.

Globe and Mail December 5, 1989, pages B1, B4 Policy Event #7

Yogurt, ice cream rules to stay despite GATT report's adoption

BY JOHN ZAROCOSTAS
Special to The Globe and Mail

GENEVA

Canada has agreed to the adoption of a GATT report that labels its restrictions on the import of ice cream and yogurt as contrary to international trade rules.

But Canadian representative John Weekes underlined that Canada still had reservations about the report's interpretation.

Speaking yesterday to delegates at the 45th session of the General Agreement on Tariffs and Trade, Mr. Weekes said Canada's implementation of the report would depend on the outcome of the Uruguay Round of multilateral trade negotiations scheduled to finish at the end of 1990.

"Until then, the restrictions would continue," he said.

While the GATT report refers only to quotas on the import of U.S. ice cream and yogurt, Canada's agricultural industry is worried that it could threaten the country's use of marketing boards and supply management to control a whole range of products.

In Ottawa yesterday, International Trade Minister John Crosbie said that since the panel findings concern the interpretation of GATT rules currently under negotiation, "it would be premature to act on the panel recommendations before the conclusion of these negotiations."

Agriculture Minister Donald Mazankowski added that the GATT panel decision on ice cream and yogurt demonstrates weaknesses in the GATT article that establishes conditions under which a country may operate import controls in support of domestic supply-management programs.

"We will continue to consult closely with the dairy industry on this issue as we did throughout the panel process," Mr. Mazankowski said. "We remain firmly committed to maintaining a strong supply-management system in Canada."

Concerns that border protections for the Canadian dairy industry will be reduced or lost in the GATT negotiations now under way led thousands of Quebec

TRADE — Page B4

Trade restrictions remain

• From Page B1

farmers to rally on Parliament Hill two weeks ago. At the same time, Canadian representatives were making clear their continued support for such programs at international trade meetings in Thailand.

In other developments at yesterday's GATT meeting in Geneva, the United States agreed to a Canadian request that a dispute settlement panel examine a complaint that U.S. countervailing duties on Canadian pork are contrary to GATT rules.

U.S. trade authorities in September imposed a countervailing duty on Canadian pork in response to U.S. producers' complaints that they were threatened by the imports from Canada.

And in the wake of the Malta summit of U.S. President George Bush and Soviet President Mikhail Gorbachev, GATT sources said the Soviet Union could be granted observer status to GATT as early as February.

At the Malta summit on the weekend, the United States dropped its long-standing opposition to Soviet entry to GATT and agreed to support the granting of observer status.

However, it appears that securing Japanese approval could be critical in obtaining the necessary consensus.

According to Soviet diplomatic sources in Geneva, Japan is believed to be the only country that still objects to the Soviets being granted observer status. Japanese diplomats in Geneva refused to comment.

Japan and the Soviet Union have yet to sign a treaty officially ending the Second World War. Tokyo continues to demand the return of four former Japanese islands that have been under Soviet control since the end of the war.

Globe and Mail March 15, 1990, pages B1, B4 Policy Event #8

Canada's farm policies an odd couple

BY MADELAINE DROHAN
The Globe and Mail

OTTAWA.

The second shoe of Canada's farm trade policy dropped yesterday but when it's put together with the first, the result is a decidedly unmatched pair.

Canada has told international trade negotiators in Geneva that it wants to preserve and strengthen the protection it affords dairy, poultry and egg farmers against foreign imports.

But this follows on a call by Canada for other countries to open up their markets and drop barriers to Canadian exports of farm products such as beef and grain.

"Some will argue it's inconsistent," International Trade Minister John Crosbie

Quebec's textile worries
Page B20

acknowledged. "But we have to represent our agricultural industry as a whole and there are two real separate groups."

Those two seperate groups basically break down along regional lines with the exporting farm sector in Western Canada and the supply-managed sector concentrated in Quebec, Ontario and the east.

In an effort to placate both, the government is pushing what seem to be irreconcilable aims at talks in Geneva under the General Agreement on Tariffs and Trade.

Ottawa's refusal to side with either one or the other sector and adopt a more consistent agricultural trade policy is causing it problems both domestically and internationally.

Here at home, both farmer groups are fearful that as negotiations draw near to the wire later this year, their interests will be traded off in favor of the other sector at the last minute.

"The Canadian Cattlemen's Association does not want to be traded off," said Jim Caldwell, association spokesman in Ottawa. He said that as long as Canadian support for supply management does not undermine its equal support for liberalized trade in beef, the Canadian Cattlemen will go along with the negotiating proposal.

Trade Minister John Crosbie: 'Some will argue that it's inconsistent.'

Brigid Pyke, president of Ontario Federation of Agriculture, is skeptical that the government really means it when it says that it intends to preserve the system of supply-management in Canada.

"It's one thing to put what we want on paper, but it depends on who is pounding their fist on the table over there in Geneva," said Ms Pyke, whose membership includes a large number of dairy and poultry farmers.

Several thousand dairy and poultry farmers marched on Parliament Hill late last year to manifest their fears that supply management would be dismantled.

Abroad, Canada has lost the support of other members of the Cairns Group of agricultural exporters, which is pushing for liberalized trade in agricultural products. Members of the group include Australia, New Zealand and Argentina among others.

Under Canada's supply management programs, production of dairy, poultry and eggs is controlled so that it roughly matches domestic consumption. Import quotas are in effect for all these goods so that foreign producers will not swamp the Canadian market with cheaper priced goods and upset the supply-demand balance.

Canada's trading partners, including members of the Cairns Group, have argued that while supply management does not subsidize Canadian exports of these goods, it severely restricts imports and thus disrupts trade.

"The Cairns Group have known about (Canada's stance on supply management) from the beginning," Mr. Crosbie said. "They are not going to support our position. We've explained to them the problem we have with respect to supply management. So we agree to disagree in this particular area."

Dick Ryan, economic counsellor at the Australian High Commission in Ottawa, was not surprised that Canada is continuing to champion supply management.

"We would have preferred that this course wasn't taken," he said. "Canada's ability to negotiate would certainly be a little more difficult if it seeks market access but wants to restrict access to its own markets."

Mr. Ryan said that while Canada's overall position at the GATT talks is close to

FARM — Page B4

Farm trade policy stated

• From Page B1

those of Australia and the United States — both of which want much freer trade across the board — this does not hold true on supply management, which is governed by Article 11 of the GATT.

"Article 11 is their Achilles' heel," he said.

On the question of supply management, Canada is without all its traditional allies and has attracted some rather unusual support.

Asked for countries that felt the same about Article 11, Mr. Crosbie named the Nordic countries and the members of the European Community. Ironically, Canada has consistently castigated the EC for its protectionist position on farm trade.

"In this negotiation, with 100 countries involved, we'll be allied with certain countries in one area and in another area we'll be deadly opposed," Mr. Crosbie said when asked about the unlikely alliance of Canada and the EC on farm issues. "That's the nature of the exercise. There's so many different interests."

Canada is not alone in being inconsistent on agricultural trade. The United States is advocating that all farm subsidies be eliminated, yet it continues to sell subsidized wheat in international markets.

By the same token, Canada continues to call for the elimination of export subsidies, yet recently made a large sale of subsidized pork to the Soviet Union.

Agricultural issues have proved to be among the most contentious at the GATT talks, which began in the fall of 1986 and are scheduled to wind up by the end of this year. A major meeting of GATT ministers is planned for Brussels in November.

Winnipeg Free Press October 4, 1990 pages 1, 4 Policy Event #9

Canada proposes 50% farm support cut

By Bill Redekop

Canada will propose cutting all support to farmers by 50 per cent and erasing agriculture export subsidies entirely by the year 2000 when it tables its position in GATT talks in Geneva next week.

Canada will also propose cutting all tariffs on agricultural imports by 30 per cent, to a level no greater than 20 per cent of a farm product's value, after 10 years.

Farmers fear cuts to hurt/B

The *Free Press* has obtained a summary of the Canadian position that was presented to a federal cabinet meeting Sept. 26.

Canada must formally table its offer by Oct. 15 in Geneva, where the four-year negotiations of the General Agreement on Tariffs and Trade are entering their final 70 days.

"I think what they're doing is very pragmatic," Clay Gilson, University of Manitoba economist and trade expert, said.

"They're trying to drive up the middle between the United States and European Community."

Canada's offer of a 50-per-cent cut in farm support falls between the EC's offer of a 30-per-cent cut, and the 70-per-cent reduction the U.S. is expected to propose, Earl Geddes, Keystone Agricultural Producers president, said.

The United States and EC are the two main combatants in the farm subsidy war.

Geddes, who is also chairman of the Canadian Federation of Agriculture's trade committee, maintained Canada's position has a good chance of being adopted as a compromise.

"We're assuming that that's going to happen," Geddes said. He said federal trade negotiators believe the EC could make such a counter offer as early as this week.

See SUBSIDY page 4

Subsidy cuts deemed key

continued from page 1

Geddes said a 50-per-cent cut in domestic farm programs would leave most Canadian support programs unscathed.

The reason is that GATT members are tabling farm spending dating back as far as 1986, which will include 1986 when Canada's farm spending peaked with Ottawa providing more than $2 billion in direct payments to farmers.

The programs have since been disbanded and could now count as part of Canada's subsidy reduction, Geddes said.

An agreement on subsidies paid to farmers would still leave countries far apart on the farm subsidy issue. The far trickier matter will be getting the EC to agree to cut its export subsidies by 100 per cent, Geddes said.

"Without that, an agreement wouldn't do anything for us," he maintained.

Gilson was even more emphatic.

"We must have that. We have to have that. There will be furious negotiations on the export subsidy front in the final two months," Gilson said.

So far, the EC has said it would only cut its export subsidies by 30 per cent. The EC discounts its prices on exports of wheat and barley with subsidies anywhere from $80 to $150 a tonne.

The EC and the United States have intensified their trade war in recent months, as GATT trade talks approach their Dec. 2-8 deadline. U.S. wheat export subsidies have shot up from $8 a tonne in June to a record $54 a tonne last month.

As a result, world wheat prices have plummeted to almost half what they were a year ago.

The United States may propose cutting export subsidies by as much as 90 per cent by the year 2000, Germain Denis, assistant deputy minister for multi-lateral trade negotiations, said in a telephone interview from Ottawa.

Denis would neither confirm or deny details of Canada's GATT proposal.

"Until we have tabled our offer, it is difficult for me to talk about specifics," he said.

Geddes said there are two areas where Canada's position could cause farmers discomfort.

One is the proposal to reduce import tariffs by 30 per cent, or down to no more than 20 per cent of the agricultural product's value.

The proposal includes placing a tariff value on barriers to imports like border quotas.

For instance, Agriculture Canada has calculated that border restrictions on skim milk powder would equal a tariff of 82.8 per cent on top of the powder's value.

Geddes said dairy farmers already expect certain border controls to be lifted because some measures were never approved by GATT trade rules in the first place. Those products include fluid milk, skim milk, and butter.

At the same time, the United States has import barriers on dairy products that are as large or larger and Canada does not intend to unilaterally open its borders, Geddes said.

Supply-managed products like eggs and poultry that are now protected by Article 11 of GATT would keep their special status under Canada's proposal, Geddes said.

The other key area is Western Canada's $700-million grain transportation subsidy.

Geddes said federal negotiators assured him Canada will not list the transportation subsidy as an export subsidy, but as a domestic support program.

Farmers fear subsidy cuts to hurt Canada

By Bud Robertson

Farmers will suffer even more if GATT negotiators in Geneva adopt a proposal to cut domestic support programs in half and remove all export subsidies over the next 10 years, farm spokesmen say.

"If we think it's bad now, it'll be a hell of a lot worse then," said Basswood farmer Keith Proven, a district director with the National Farmers Union.

The federal government must face the reality that if Canada is to stay in the export market it is going to cost money, said Proven.

"If we lower the subsidies and back off, nobody is going to survive. That's all there is to it."

If subsidies are removed, grain prices could rise as much as 40 per cent, which would be somewhat closer to the cost of production, he said.

At the same time, if farmers lose the protections they have now for fruits and vegetables "it would throw our borders open," leaving no sector of the agricultural community unscathed, Proven said.

And, he said, supply management programs — which limit production to domestic needs — will cease to exist.

"That kind of tradeoff is not what farmers are looking for. We're not trying to trade one farmer for another."

But, if Canada does live up to its proposal to cut tariffs on imported farm products by 30 per cent over the next 10 years, it will have to eliminate its supply management programs, said Louis Balcaen, chairman of the Manitoba Milk Producers' Marketing Board.

Tarification as a method of import controls cannot be used where supply management systems exist, he said, "because over time they will undermine one of the fundamental elements."

Proven said he fears the federal government will, at the last minute in the trade talks, negotiate away all protection for farmers.

"They have a history of giving things up and not getting a hell of a lot in return.

"I'm scared they will give up everything to get an agreement on grain."

Instead, the European Community should be allowed to continue subsidizing farmers, said Proven, but with supply management programs in place.

If they continue to produce more than their domestic needs then they wouldn't be subsidized, he said, adding wheat producing countries should get together to determine historical trade proportions on the world market before export enhancement programs came into existence.

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Farm subsidy cuts proposed

Canada willing to drop 50 per cent of domestic programs

BY MADELAINE DROHAN and DAVID ROBERTS
The Globe and Mail

Canada is proposing a cut of 50 per cent in domestic farm subsidy programs with complete elimination of farm export subsidies, according to a senior government official.

The official confirmed a report published in the Winnipeg Free Press yesterday and added that the cuts would leave Canada's system of supply management unscathed.

Agriculture Minister Donald Mazankowski told reporters that Canada's negotiating position, which will be tabled at multilateral trade talks in Geneva in the next 10 days, will call for "a substantial reduction in the level of subsidies and complete elimination of export subsidies by all nations."

The minister refused to quantify the cuts, but said that Canada's offer would be contingent on the other participants in the negotiations agreeing to similar reductions.

"Naturally, we would not be out there reducing our levels of support while the others retain theirs."

Countries support their farmers in three ways: through domestic farm programs, through border protection such as tariffs and import restrictions and through export subsidies that help their farmers compete on the world market.

There are reports out of Washington that the United States will be calling for cuts of 75 per cent to domestic farm programs, with a cut of 90 per cent in export subsidies. The European Community, which is the other big player in the farm trade talks, has hinted it will consider reductions to export subsidies and a cut of 30 per cent

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European proposal — B5

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Farm aid cuts proposed

From Page B1

to domestic farm programs.

Like Canada, the United States and the EC have had to bridge the divergent interests of their farm groups, some of which produce for export markets while others rely solely on the domestic market.

Mr. Mazankowski stressed that the Canadian position had broad support.

"We have developed a balanced position that reflects both the export-oriented industry and the domestically oriented industry. I'm happy to say that the position that we're taking has been endorsed and [illegible] producers and the provinces."

To have found a position that such different groups as the grain producers and dairy farmers were willing to endorse would be an accomplishment in itself, given that the former have been calling for free trade in agriculture while the latter want import barriers maintained.

The senior government official said that Canada's proposal would allow the system of supply management for dairy, poultry and eggs to continue, but import restrictions on these products would be relaxed and production rules would be toughened up.

Under supply management, production is matched to consumption. In order to maintain the balance, imports are restricted.

The degree to which countries support their farmers through both internal programs, like supply management, and export-oriented programs such as subsidies has become the key issue of the current round of trade talks going on in Geneva under the General Agreement on Tariffs and Trade.

Throughout most of the four-year round, which is scheduled to conclude this December, the United States and the European Community have waged a transatlantic war over farm subsidies.

Meanwhile, in the west, Manitoba's agriculture critic, New Democrat John Plohman, wondered why high-level delegations from the three Prairie provinces bothered travelling to Geneva recently if Canada already had a firm position on GATT on Sept. 26. Canada's position, as outlined in summary papers obtained by the Winnipeg Free Press yesterday, indicated Canadian negotiators in Geneva put forward their proposals to the federal Cabinet in Ottawa on Sept. 26.

Manitoba Premier Gary Filmon led a delegation to Geneva last week. [illegible] delegation from Alberta. A Saskatchewan delegation was in Europe the week before.

"Gary Filmon was in Geneva to raise his political profile and perhaps have a little holiday after the election," Mr. Plohman suggested. He added Western Canada's farm problems are not linked exlusively to the success or failure of the GATT negotiations. There is much Ottawa and the provincial governments can do immediately to help farmers out of their current cash crunch caused by low commodity prices, he said.

Mr. Mazankowski said he didn't know for certain what the western delegations hoped to achieve in Geneva. "I'm not sure. I suppose it's a good signal of unity and strength in numbers."

Ted Turner, former president of the Saskatchewan Wheat Pool and an international trade consultant, said Canada's position at GATT as outlined in the summary paper is "moving in the right direction."

"What we've been pushing hard for is a total elimination of export subsidies and a significant reduction in internal support programs," Mr. Turner said from Regina. "I don't find this proposal strange at all."

Globe and Mail October 5, 1990, pages B2, B5 Policy Event #9

U.S. to table sweeping agriculture proposals

Deal requires EC to cut subsidies

BY JOHN ZARACOSTAS
Special to The Globe and Mail

WASHINGTON — The United States is set to table a sweeping proposal on agriculture at an upcoming trade meeting of the General Agreement on Tariffs and Trade.

The U.S. proposals will call for:

- A reduction of roughly 90 per cent on export subsidies.
- A reduction of at least 75 per cent for internal support measures.
- A similar 75 per cent reduction in existing tariff barriers or any tariffs created in the conversion process.
- The inclusion of all agricultural products without any exceptions.
- The implementation of these measures over a 10-year period.

A U.S. trade official said a successful conclusion of the current GATT round of talks will require that the European Community, the other big player in the farm trade talks, agree to cut its export subsidies, which totalled about $11-billion (U.S.) in 1989.

If the EC fails to move on the export subsidies issue, "I don't think we can have a successful round on agriculture," the U.S. official said.

The EC has hinted it will consider reductions to export subsidies and a 30 per cent cut to domestic farm programs.

This month's quadrilateral trade meeting will be important in clearing some of the roadblocks to a successful conclusion to the GATT negotiations, the U.S. official said. Representatives of the United States, the EC, Japan and Canada will meet Oct. 11-13 in St. John's.

EC ready to slash farm aid

BY GREG McCUNE
Reuter News Agency

BRUSSELS — The European Commission, striving to keep world trade talks alive, proposed a 30 per cent cut in its farm support yesterday and signalled it could negotiate on a key U.S. demand for cuts in controversial export subsidies.

But Washington has already said it wants the global trade negotiations to slash internal support by up to 70 per cent and even more from subsidies the European Community provides to export its surpluses to the world.

Agriculture is the key to the success of the tortuous four-year Uruguay Round of the General Agreement on Tariffs and Trade, which is trying to free world trade in everything from banking to bananas.

How far the world's two biggest farm exporters, the United States and the EC, will cut export subsidies has emerged as the main stumbling block to the success of the negotiations, scheduled to end in Brussels in December.

The United States and a group of exporters led by Australia, Canada and Brazil demand that the export subsidies — which are paid to traders to dispose of EC surpluses of cereals, meat, butter and sugar — be slashed more than other forms of farm support.

The EC commission closed ranks Wednesday night in rejecting the extreme U.S. demands.

But in an olive branch to Washington, it offered to spell out exactly how it proposes to reduce export subsidies over the next five years and said it might be prepared to discuss the matter further.

If approved by EC ministers, the proposal will be submitted to the GATT by the Oct. 15 deadline for all Uruguay Round participants to spell out their farm-trade bargaining positions.

The commission plan includes a 30 per cent reduction in EC farm support over the 10 years (1986-96) calculated on an index covering cereals, rice, sugar, oilseeds and other protein crops and livestock. For some other products — including fruits, vegetables and tobacco, the plan offers to cut support by 10 per cent over the same period.

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Farm-subsidy row scuttles GATT talks

Participants promise to try again

BY MADELAINE DROHAN and EDWARD GREENSPON
The Globe and Mail

BRUSSELS — A four-year effort to write a new rulebook for international trade dissolved in rancor and recrimination yesterday with the United States and the European Community blaming each other for the failure.

But the participants, fearing delay could precipitate a trade war and damage the already-fragile world economy, pledged to try to pick up the pieces as quickly as possible in the new year.

"We are disappointed but not completely disheartened," said Trade Minister John Crosbie, who attended the week-long meeting with five other Canadian cabinet ministers. "We don't intend to give up. There is too much at stake here."

While the hope remained that after a cooling-off period something could still be salvaged from the ambitious exercise to rewrite the General Agreement on Tariffs and Trade, participants agreed that the liberalization targets set at the start of the talks in Punte del Este, Uruguay, will not be met.

"Some people had too high expectations, perhaps, of what the EC could deliver," Mr. Crosbie said.

Ministers from the United States and the EC barely concealed their animosity on the final day. EC farm commissioner Ray MacSharry characterized the Americans as lacking

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Roller-coaster ride — B1

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GATT talks break down over farm subsidies

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[illegible] in political will, while U.S. Trade Representative Carla Hills accused the EC of waging economic warfare.

Exchanges like that over the course of the week had made it clear to most parties that little progress was possible.

Although great strides were made in many areas, the talks floundered over long-standing differences between the United States and the EC on farm-subsidy payments.

GATT spokesman David Woods suggested that given the atmosphere "it might be counterproductive to carry on," although "there is still sufficient will to make it work at some point."

Australian Trade Minister Neal Blewett tried to put the best face on the situation. The Uruguay Round, which had been scheduled to end in Brussels, had just been extended, he noted. "The Brussels meeting is dead," he declared, "but long live the round."

Canada, whose grain farmers have been caught in the crossfire, had been hoping that the United States and the EC would use the Brussels meeting to declare a truce in the subsidy war that costs the industrialized countries $250-billion (U.S.) a year.

But after a week of name-calling and back-room brawling, the two were as divided as ever on the question of how and when farm subsidies could be reduced. Japan, which as the world's other economic superpower might have been able to mediate the dispute, kept its head low so as not to attract attention to the billions of dollars in subsidies it pays rice farmers.

"It's sadly apparent that the deadlock on agriculture cannot be resolved here in Brussels," Mrs. Hills said. "I see no useful purpose in prolonging the meeting."

The United States had come into the talks demanding that the EC make a commitment to substantially reduce export subsidies, import barriers and internal farm programs.

The EC, whose 10 million farmers wield disproportionate political clout, was never inclined to make major cuts and called U.S. demands unrealistic. "Unless and until they (the United States) reduce the expectations they've had for some time now, then there won't be progress on agriculture," Mr. MacSharry said.

An attempt to salvage an agricultural accord begins today in Brussels when Canadian Agriculture Minister Donald Mazankowski meets his U.S. counterpart, Clayton Yeutter. The two are considering calling a meeting of the so-called Quint group (Canada, the United States, the EC, Japan and Australia) so that these key players can map out a new strategy.

Unfortunately, agriculture was not the only area where new rules have been delayed. The ministers say they were close to a number of other deals covering textiles, financial services, subsidies, intellectual property and investment.

Part of the reason the Brussels meeting was suspended rather than cancelled was to preserve the progress made in these areas; even if no one would formally agree until the impasse over agriculture was resolved. As well, participants are not ready to face up to the prospect of a total failure, one they fear will return the world to 1930s-style protectionism.

A similar attempt to buy time was used at a 1988 GATT meeting in Montreal, where the farm-subsidy debate threatened to scuttle other deals. Four months later, a pact was cobbled together.

"All this effort is not wasted," said Mexican Trade Minister Jaime Serra, who was chairman of a group looking at new rules for trade in services. "Brussels is over, but the Uruguay Round is not."

Mr. Crosbie said that, for the round to conclude in an agreement, those calling for major cuts in farm subsidies, including Canada, will have to reduce their expectations and the EC will also have to make concessions.

The EC's trading partners believe a deal will be impossible unless the 12-nation community can resolve internal divisions on agricultural-trade policy.

Malaysian International Trade Minister Rafidah Aziz criticized the EC for sending out mixed signals at the meeting on how far it was prepared to go on farm-trade reform. The message often differed depending on who was speaking.

"If they want to call themselves a European Community, and single market ... they had better start thinking as one," she said.

That process might begin next week when the leaders of the 12 EC member states meet in Rome for their semi-annual summit. The Brussels fiasco is sure to figure high on the agenda, as will the pledge given at last summer's economic summit in Houston for major industrial leaders to lend their political weight to a successful GATT outcome.

There were calls yesterday for them to re-involve themselves and deliver on their promise.

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URUGUAY ROUND / *Like mushrooms, 'we were kept in the dark and fed horse manure,' said a Canadian delegate about the treatment by the EC during the GATT talks that ended in failure yesterday.*

A roller-coaster ride in the dark

BY EDWARD GREENSPON
European Bureau
Brussels

GATT spokesman David Woods tells reporters that the Uruguay Round of world trade talks has been suspended after delegates failed to come to an agreement on farm subsidies.

WHEN the official history is finally written of the Uruguay Round of world trade talks, its time of death may well be recorded as 10 p.m. on a gloomy Thursday night in December.

The patient, it will be noted, was conscious but in a state of deep confusion.

So say trade and farm ministers who participated in a week-long event that tested the limits of both their endurance and patience.

"I understand the confusion," Australian Trade Minister Neal Blewett told dazed reporters yesterday, "because it confused us."

The key drama of the week occurred between 11 a.m. and 10 p.m. Thursday. During that 11-hour period, ministers went from despair to hopefulness to bewilderment without ever fully knowing whether any of the emotions was justified.

On Wednesday, the EC, isolated and under siege, had pursued a double-tracked strategy with little evident success.

On the one hand, it had worked diligently to shake members loose from the coalition huddled around the United States, which was demanding deep cuts in farm subsidies. It attempted unsuccessfully to pick off Brazil and Argentina by saying it would redesign its tariffs in such a way as to favor their soybean products. Colombia was offered a special waiver of the EC's duty on coffee.

At the same time, the EC was informally floating ideas for possible concessions on access to its markets and export subsidies. It was all done by a nod and wink.

The first Canadian Grain Minister Charles Mayer heard about the possible export subsidy reductions was from one of his officials assigned to eavesdrop on comments U.S. Secretary of Agriculture Clayton Yeutter was making to reporters.

But by late Wednesday night, it was clear the EC was not prepared to translate its whisperings into a real offer. The talks were near collapse, but the chairman of the main negotiating group decided to give everybody till noon the next day to reconsider their positions.

On Thursday morning, farm ministers were summoned to an 11 a.m. meeting by Swedish Trade Minister Mats Hellstrom, who as chairman of the agricultural negotiating group was in charge of seeking out the common ground upon which a deal could be erected.

When they arrived, the EC was not yet present. Expectantly, they waited around 30 minutes while EC agriculture commissioner Ray MacSharry completed a meeting

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Trade talks test limits of patience

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with the community's 12 member-states. It was presumed he was finally being given the authority to show new flexibility, four days into the talks.

When Mr. MacSharry did show up, Mr. Hellstrom asked the EC and others to answer a questionnaire by 3 p.m. outlining how far they would be prepared to go in a number of areas. It seemed he was trying to get the EC's commitments down on paper.

Several ministers were still under the impression that the talks were to be called off at noon and were a bit confounded. In fact, the general meeting had been postponed to 5 p.m.

From there, the frustration of several days gave way to a wave of optimism. The United States, caught up in the new mood of conciliation, gave ground on a key point in the services negotiations.

The talks finally appeared untracked, especially when Mr. Hellstrom circulated a compromise text on farm subsidies later in the day that looked like it might serve as the basis for real negotiations.

At five o'clock, the key participating countries got together to listen to the assessments of the chairmen of the six remaining negotiating groups. They were all decidedly upbeat. Agriculture looked to be on the move and, partly in response, many of the others were steaming ahead.

A Malaysian minister suggested they get back into their negotiating groups and put together a final package. The room broke into applause.

At 8 p.m., the farm ministers reconvened around four felt-green tables formed into a cube in room G. All eyes were on Mr. MacSharry, a short powerful looking man seated at one of the corners.

His first comments gave rise to hope. The text provided a platform, he said. Some planks were missing and there were a few too many. But the complaints he expressed hardly seemed insurmountable.

Others also had some problems, including the United States. But the majority of participants endorsed the text as the basis for negotiation. Only Japan and South Korea appeared dead-set against it.

Then something went wrong. Mr. MacSharry's turn came again. Seated in a grey and chrome hard-back chair, he spoke more forcefully.

He blamed other ministers for having unduly raised expectations and for failing for so long to understand the political constraints he was operating under. They wanted him to cut back production, open his market to more imports and curtail exports, he complained. It just wasn't on.

The meeting broke up in considerable acrimony. Reporters waiting outside were as devastated as the ministers. Many had already filed stories detailing the day's breakthrough. Word of the breakdown in agriculture quickly filtered to the other negotiating groups and their sessions ground to a halt. The Uruguay Round was on its deathbed.

Looking back on it all, Mr. Mayer thinks it was all a murky game and that he never got out of the shadows.

"In the end you can't help feel that they treated us like mushrooms," he said of the EC. "We were kept in the dark and they fed us horse manure."

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GATT participants try to contain damage

BY EDWARD GREENSPON
European Bureau

BRUSSELS — A senior European official leaned across a cafeteria table this week and said that if U.S. President George Bush wants more money for the Persian Gulf crisis, "we should tell him to stop killing our farmers."

That is precisely the kind of rhetoric that politicians were doing their best to suppress yesterday as a week of world trade talks banged up against an unyielding pair of participants.

At a time when Western nations are trying to stand united against aggression in the Persian Gulf, nobody relished catapulting the unresolved farm trade war between the United States and European Community into a higher realm of disagreement.

But there was no masking that the wreckage from this week's failed meeting of the General Agreement on Tariffs and Trade has poisoned the well of goodwill between the world's greatest military power and its largest economic bloc.

One official walked out of the conference centre yesterday noting how the EC is seeking more money for aid efforts to Eastern Europe. It would be a lot easier to find the cash if it wasn't being spent on farm subsidies, he exhaled.

In the aftermath of a week of late nights and stinging rhetoric, each of the major two protagonists in this long-standing dispute pointed the finger of blame at the other for blocking the 107-nation effort to rewrite the GATT's dated rulebook.

The EC's policies on farm ex-

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GATT damage control

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ports amount to economic warfare," U.S. Trade Representative Carla Hills charged. "You are exporting your problems to the rest of the world and expecting them to pay for them."

Meanwhile, EC officials continued to snipe at the United States for coming to Brussels with an inflexible and unrealistic attitude. "Basically, the negotiations broke down before [illegible] Minister Renato Ruggiero, chairman of the EC's council of ministers.

Now the job will be to contain the damage and prevent it from seeping into other aspects of political relations. As a starter, all parties depart Brussels pledging to keep their guns holstered for the time being on a host of outstanding trade disputes.

But with the world economy poised on the brink of recession and the possibility of war still looming in the Persian Gulf, the happy days of the past two years — particularly the defeat of communism — are clearly drawing to a close for the transatlantic alliance.

U.S. Trade Representative Carla Hills says the EC's policies on farm exports amount to 'economic warfare.' (Associated Press)

As Mrs. Hills herself asserted in the weeks leading up to the Brussels meeting, history offers few examples of economic combatants sustaining a military and political alliance for long.

After a week in which the world looked to them for political leadership, both powers walk away from this meeting looking bruised and diminished.

The European Community once again demonstrated that it lacks the political coherence to match its emerging economic might. The community hopes to address the deficiency at a constitutional conference in Rome next week.

"Coming from a federal state, I'm not prepared to cast stones," Canadian Trade Minister John Crosbie said.

"They have pressures from the inside pushing out and pressures from outside pushing in."

Even as the world's nations battled openly over how deeply and in what manner to slash farm subsidies, the community's 12 member-governments clashed in private about what sorts of concessions they might be prepared to make.

EC ministers were again debating the question yesterday morning when the plug finally was pulled on the round.

"The EC is an economic behemoth that has no capability of making political decisions," a senior U.S. official said yesterday. "I think that's the phenomenon we've seen this week."

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Canada falls back on free-trade safety net

BY MADELAINE DROHAN
and EDWARD GREENSPON
The Globe and Mail

BRUSSELS — As world trade talks appeared headed for a fall this week, Canadian ministers were congratulating themselves for stringing a free-trade safety net.

"The trade agreement with the United States is looking better all the time," said Agriculture Minister Donald Mazankowski.

"At least you have some rules and a dispute-resolving mechanism in place and you know what sort of ground rules are there to conduct the trade between two countries."

The safety net has a few holes in it, however, that will have to be filled in if Canada is to become more dependent on the U.S. market for its economic survival.

When the Canada-U.S. deal was worked out, negotiators left several blanks that they hoped would be plugged by the global trade talks conducted by the General Agreement on Tariffs and Trade. Rules covering agriculture, procurement, intellectual property and subsidies were left largely undone.

Now, with the U.S. Congress in a protectionist mood and concentrating more on Mexico than on Canada, negotiators will have to go back to two-way, or perhaps three-way talks to work out these sticky issues.

"There will be immense pressure to deal with agriculture," said William Merkin, a U.S. trade consultant who was one of the U.S. negotiators for the deal with Canada.

This could cause difficulties for Canada, which is already facing in-

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Canada heads for safety net

• From Page B1

creased demands for financial support from Canadian farmers who fear a failure of global trade talks will mean a further drop in commodity prices.

Already in Brussels yesterday, producers and processors were talking about the need for more money from Ottawa to cushion them in the event of increased hostilities in the farm subsidy war between the United States and the EC.

Alex Graham, president of Prairie Pools Inc., said about $1.1-billion in immediate support is needed.

The talk of trade wars has already started, he noted. "This will definitely increase the apprehension among farmers."

But such payments will anger U.S. farm groups, which firmly believe Canadian agriculture is heavily subsidized and have launched a series of trade actions to back this belief.

The lack of a global trade deal will also increase U.S. scrutiny of the new farm safety net program Mr. Mazankowski and his provincial counterparts worked on between negotiating sessions in Brussels.

The ministers are scheduled to meet again in Regina next month, where a final package could be unveiled.

Finance Minister Michael Wilson, also in Brussels for the trade talks, said the Canadian government has already made allowances for continued payments to farmers.

"I don't think the response of the government will be any different," Mr. Wilson said.

He said that even if the trade talks were a success, "we still have a very depressed price of wheat today that would be affected only marginally by an agreement."

On the other blanks left in the bilateral accord — procurement, subsidies and intellectual property — some of the groundwork already done by negotiators in the lead-up to GATT could be used for a smaller agreement.

On procurement, there is some hope that the beginnings of a GATT agreement, sketched out in negotiations, will be salvaged by interested countries. Canada is particularly interested in gaining access to the $1.7-trillion European market.

While difficult to negotiate, bilateral or trilateral deals in these areas will protect Canada from the worst of U.S. protectionism, which ministers fear will increase in the wake of a trade talks failure.

"I have no doubt that in the U.S., the present protectionist impulses will proliferate and unilateralism will reign supreme," said Trade Minister John Crosbie.

Yesterday, the U.S. delegation at the talks was already taking a more protectionist line. U.S. Trade Representative Carla Hills defended the so-called section 301 actions that the U.S. uses to punish what it believes are unfair trade practices by its trading partners.

"So long as we do not have agreed-to multilateral rules, it's difficult to tell Congress they can't protect their people," Mrs. Hills said.

Globe and Mail December 21, 1991, page B1 Policy Event #11

Dunkel issues ultimatum as farm wrangle unresolved

GATT countries given until Jan. 13 to sign new deal

BY MADELAINE DROHAN
European Bureau

GENEVA — GATT director-general Arthur Dunkel brought a five-year effort to rewrite the rule book for world trade to a head yesterday by presenting the 108 countries involved with a take-it-or-leave-it offer and giving them until Jan. 13 to decide.

His move came as European Community and U.S. officials failed to reach an agreement on the farm issue, which has bedevilled the GATT round from the outset. EC Agriculture Commissioner Ray MacSharry said two days of talks with U.S. Agriculture Secretary Edward Madigan ended without an accord on the size of the cuts the EC should make in its generous subsidies for farmers.

Mr. Dunkel has stepped into that gap by offering his proposal. If GATT's members don't reach agreement by Jan. 13, he can terminate the current round of negotiations.

Mr. Dunkel, who heads the world trade watchdog known as the General Agreement on Tariffs and Trade, built on the consensus already reached in most areas. But he had to write his own agreement on the potential deal-breaker over which the United States and the EC remain at loggerheads — how to reduce farm subsidies.

"No one is infallible, and I would not for a moment expect all participants to be fully content with all the decisions which I have had to make," Mr. Dunkel admitted in his send-off message to GATT representatives.

But he told them there is "no going back" and urged them to judge the entire deal — not just pieces — and not to be hasty about their decision.

Canada's initial reaction to the deal was positive, even though the proposal will erode farm supply management over the long term.

International Trade Minister Michael Wilson said last night in Ottawa that he remains hopeful a farm deal can be worked out between the EC and the United States.


GATT head Arthur Dunkel: "No one is infallible, and I would not for a moment expect all participants to be fully content with all the decisions which I have had to make."

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Dunkel issues ultimatum

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But he noted that all countries have to agree to some "give and take" regarding their objectives for an overall deal.

"We don't expect that there will be anything that will prohibit marketing boards, but there will be propositions that will affect certain elements of the operations of the supply management system," Mr. Wilson told reporters, emphasizing that he had not yet seen a copy of the draft text.

"I'm sure we will see some movement from the text as we get into the new year."

Because of the complexity and range of the GATT talks, negotiators leaving Geneva yesterday with the 500-page document in hand did not want to give a snap reaction.

The proposed package reduces trade barriers across a wide range of goods and services, brings new areas such as agriculture and textiles under GATT jurisdiction and sets out new rules and disciplines for those nations that do not abide by them.

On farm export subsidies, Mr. Dunkel says countries should cut the amount of money spent by 36 per cent between 1993 and 1999 and the volume of subsidized goods should be cut by 24 per cent in the same period.

For Canada, as for all the rest, the deal contains both pluses and minuses.

As an exporting country, Canada will benefit from clearer rules on world trade.

But the government faces an embarrassing climb down in one area and the recognition of a smoldering dispute in another that could make the GATT deal a hard sell in Canada.

The politically sensitive sections in question deal with reducing farm subsidies — where changes should benefit grain farmers, but could potentially harm dairy, poultry and egg producers — and with the protection of intellectual property, where changes will mean that generic drug producers must wait longer before producing their own version of popular brand-name drugs.

Canada fought a losing battle at the GATT to gain a long-term exemption that would allow it to preserve indefinitely the system of supply management under which domestic dairy, poultry and egg production is kept in balance with domestic consumption by severely restricting imports.

The agreement to replace all import barriers to farm produce with tariffs and then gradually reduce these tariffs over time constitutes a long-term threat to supply management.

The Dunkel proposal calls for these tariffs to be reduced by 36 per cent between 1993 and 1999. He also proposes that imports be allowed at least 5 per cent of the market by the end of that same period. While details still remain to be worked out, it's expected that tariffs for dairy products will initially range between 100 per cent and 300 per cent. A 36-per-cent reduction still leaves a hefty tariff.

The first round of the generic drug battle was fought just before the Canada-U.S. free-trade negotiations began and was criticized by the federal government's opponents as a concession to the multinational pharmaceutical manufacturers.

The second round will see a further lengthening in protection for new drug products to 20 years from the date of a patent application, which officials say will extend the current period generic producers must wait before making copies in Canada by two to three years.

On the plus side, the GATT deal defines what constitutes an unfair trade subsidy, something Canada and the United States battle over constantly, as softwood lumber producers and pork producers can attest. Reaching a definition proved impossible during the Canada-U.S. free-trade talks and it was left for GATT members to resolve.

Gerry Shannon, Canadian Ambassador to the GATT, said talk of anyone walking out was "premature."

"You can't come to a view on walking until you know what you've got in your hand," he said, adding that he thought there is a "good shot" of getting an agreement Canada could be happy with.

Washington trade lawyer and lobbyist Gary Horlick said the deal on subsidies "looks a lot like what Canada and the U.S. discussed in 1987, but never completed."

The GATT agreement should also limit the unilateral trade sanctions by the United States because its dispute settlement procedure requires that members first try to settle their differences through a binding process supervised by GATT.

Canada will also gain in a number of other areas, including the commitment by GATT members to reduce all tariffs by a minimum of 33 per cent, with larger reductions still to be negotiated in some areas. In those negotiations, which will continue in the early part of next year, Canada is pressing for larger cuts in tariffs on natural resource products, such as lumber and non-ferrous metals.

Whether all of this will come to pass depends on whether GATT governments will accept the entire package and how well they sell it to domestic constituents.

Further reaction from the United States and the EC — whose acceptance is key — may be given today at a news conference in Brussels, where U.S. Trade Representative Carla Hills and EC Trade Commissioner Frans Andriessen are winding up their annual bilateral meeting.

Should the two parties scuttle the deal, they will be condemned not only by developing countries, who will see it as a North-South issue, but also by the former Soviet satellites anxious to gain access to Western markets to speed their painful transitions to capitalism.

Both Mrs. Hills and Mr. Andriessen are under intense pressure from unhappy farmers, who have marched in the streets of world capitals to protest what they fear will be an attack on their livelihood.

Yesterday, for example, several hundred Swiss farmers laid siege to GATT's Geneva headquarters, blocking traffic, ringing cowbells and pelting negotiators with eggs as they entered the building.

Globe and Mail December 23, 1991, pages B1, B2 Policy Event #11

GATT agreement gets lukewarm reception

Accord still faces tough scrutiny

MADELAINE DROHAN
European Bureau

GENEVA — It was a moderately hopeful sign for the future of a world trade agreement that no one panned the 500-page document outright after its release on the weekend.

Politicians being politicians, those who did comment criticized the sections of the proposed accord that did not go their way.

But none of the 108 governments involved uttered the unqualified condemnation that would kill the five-year effort to write a new rule book for trade, a move that would set the stage for increased protectionism and trade wars.

Governments have until Jan. 13 to decide whether they have gained more than they have lost in the new GATT agreement. That is the day all 108 members of the General Agreement on Tariffs and Trade must officially deliver their verdict.

More importantly for the politicians, they have until then to decide whether the deal can be sold on the home front, particularly to domestic constituents such as some farm groups that fear their livelihood is under attack.

In countries where elections loom, such as the United States, or where governments are unpopular and vulnerable, such as Canada, Japan and France, the political dimension is all important.

"No agreement is better than a bad agreement," U.S. Trade Representative Carla Hills said on the weekend. She added that the United States was going to examine the document carefully before commenting.

Please see GATT — B2

• From Page B1

Mrs. Hills has said that a bad agreement, which in U.S. terms means one that does little to reduce farm subsidies or decrease barriers to trade in services, would not get by Congress.

"It's much worse than expected," said EC Agriculture Commissioner Ray MacSharry, who did not like what he saw in the farm subsidies section but said the EC examination of the accord would continue. EC farm and trade ministers are to meet today in Brussels.

The farm section — which calls for reductions in farm export subsidies of 36 per cent in dollar terms and 24 per cent by volume between 1993 and 1999 — was inserted by GATT director-general Arthur Dunkel when the EC and United States failed to find a compromise in last-minute negotiations last week. Their disagreement over farm subsidies was threatening to scuttle the entire GATT agreement.

Canada, echoed by Japan, took issue with the part of the farm subsidies accord that calls for all import barriers to be translated into tariffs and then reduced on average by 36 per cent between 1993 and 1999.

This threatens the long-term survival of the system of supply management under which domestic dairy, poultry and egg production is kept in balance with domestic consumption by severely restricting imports.

The politically weak Mulroney government doesn't want to antagonize dairy, poultry and egg farmers, many of whom also happen to live in Quebec.

Japan and Korea also don't like this section because they want to continue to ban rice imports. But Japan's burgeoning trade surplus with the rest of the world, particularly the United States, weakens their bargaining position on this point.

Trade Minister Michael Wilson said he hoped a deal could be worked out, but he, like all the others, refused to give up quite yet.

Mr. Dunkel might have characterized the deal as take-it-or-leave-it, but Mr. Wilson is still hoping to make changes.

Canadian trade officials have always feared it would come down to this. Since the GATT round began in 1986 Canada has been pushing two conflicting positions in the farm talks — free trade for commodities such as grain where Canada can compete, but continued protection for dairy, poultry and eggs.

Now the Mulroney government will have to decide whether the eventual loss of protection for the dairy, poultry and egg sector is worth scuttling the entire agreement, which contains important gains for Canada in many other areas.

The agreement on what constitutes a subsidy and rules limiting the use of unilateral action by any one government would go a long way toward smoothing and regulating Canada-U.S. trade relations. Little wonder that Canadian negotiators were grinning broadly when they emerged from the GATT meeting late Friday.

But accepting the GATT deal as is, which is how Mr. Dunkel has said it must be accepted, will involve a great deal of back pedalling by the Mulroney government. Having said that Canada must have an exemption for its dairy, poultry and egg producers, the government will now have to explain how it can live with a deal that does not have one.

If one country demands a section be changed as a condition of its acceptance of the deal, that will open the floodgates and everyone else will seek changes too. The fragile consensus on issues other than farm subsidies will shatter.

There is a genuine fear among trade analysts that a rejection of the GATT agreement will open the door to increased protectionism, which in turn could lead to outright trade wars.

As the 108 government leaders consider their response to the proposed GATT agreement, they must also decide whether they want to be responsible for unleashing the forces of protectionism.

It would help if they remembered the lesson from the 1930s — in a trade war there are no winners.

Financial Post March 30, 1992 page 6 Policy Event # 12

Farmers fear trade deal

Draft shows no safeguards for quotas

By Darren Schuettler

Financial Post

EDMONTON — A draft text of the North American free trade agreement has sparked fears among some farm groups that Ottawa is putting dairy, egg and chicken farmers at risk in the pursuit of a continental trade pact.

Industry critics argue the document contains no specific protection for import quotas on supply-managed commodities, leaving farmers vulnerable to international competition.

"Nowhere in here is there a Canadian proposal that would allow our supply management system to function effectively under a free trade agreement," says Wayne Easter, president of the National Farmers Union.

International Trade Minister Michael Wilson has said Ottawa will stand by its GATT position, which opposes the conversion of import quotas on supply-managed products into tariffs, in trade negotiations with Mexico and the U.S.

Critics, however, say Wilson's assurances are not enough.

Richard Doyle, executive director of the Dairy Farmers of Canada, says a North American trade pact should include a specific reference to GATT Article XI, which allows for import quotas on supply-managed commodities.

"We would prefer the text of Article XI outlined in a NAFTA agreement so even if we lose it at GATT you can still maintain a supply management system," he says.

Without that protection, Easter says "the bottom line is we'll find our security and stability very much in jeopardy."

The draft text also shows the Americans appear eager to settle unfinished business from the 1989 Canada-U.S. free trade agreement. During those trade talks, U.S. negotiators argued that government agencies or "public entities" such as supply management boards may be guilty of unfairly subsidizing exports.

"For us, it's quite a concern that the U.S. is still arguing that we are a public entity," says Gerry Gartner, general manager of the Canadian Egg Marketing Agency.

Gartner also expressed concern that Canada chose not include specific support for Article XI in the draft text. And he called for a full analysis of the deal's impact on the industry before it is signed.

"We may fall into a situation like [the Canada-U.S. free trade agreement] where we suddenly wake up with a signed deal and severe impacts on our industry," he says.

Other observers believe Ottawa cannot afford politically to be seen backing away from its commitment to protect dairy, egg and poultry producers when they protested on Parliament Hill last month.

"I think the government would be foolhardy after making such a commitment and then signing a regional trade agreement that pulled out the rug from beneath it," says the Canadian Federation of Agriculture's trade representative, Don Knoerr.

Aside from supply management, Easter says the government has failed to protect domestic programs like the Crow transportation benefit and farm safety net plans.

Although the draft text says those programs will be adequately protected under GATT, Easter says it isn't enough.

"Nobody knows at this stage where GATT is going to go and those programs are currently being disputed," he says.

It also appears it will be more difficult for Canada to fight unfair export practices by its trading partners, he says.

Provisions under the Canada-U.S. deal to prevent the U.S. from wielding export subsidies to capture traditional Canadian grain markets have been weakened in the draft North American text, he says.

"Instead of a violation, like under [the Canada-U.S. deal], you're going to consult. So what. You're going to consult with the elephant," he says.

The U.S. also is seeking to supply the language for a clause that would require each country to set out its trade policies more clearly. That could have major implications for the Canadian Wheat Board, which the Americans have attacked for being too secretive in its pricing practices, Easter says.

"I expect we will see the board targeted extensively, because the Americans want visible pricing," he adds.

Don Knoerr believes Ottawa can't afford to be seen backing away from its commitment to protect dairy, egg and poultry producers, a pledge made when farmers staged a big protest last month.

Financial Post April 6, 1992 page 8 Policy Event # 12

Montreal may be NAFTA's last chance in '92

By Peter Morton

Financial Post

OTTAWA — Trade ministers from Canada, Mexico and the U.S. sit down for the fifth time Monday, in Montreal, to try to overcome seemingly insurmountable barriers to creating the world's largest free trade zone.

Negotiators from all three countries say little progress has been made in recent weeks in finding common ground in the key areas of trade in automobiles, energy and agriculture, and in lifting limits in Canada and Mexico on foreign investment in sensitive industries.

In addition, the U.S. and Mexico and have joined forces to push for a new proposal on textiles that would effectively remove Canada's now privileged access to the U.S. market.

In the Montreal round of talks, the Mexican government may finally indicate how far it is willing to go to get a deal with the U.S., especially after week-long talks in Washington in mid-March went virtually nowhere.

"I think I would have to characterize the progress as modest," said a senior Canadian trade official involved in the talks.

So far, the Mexican government has not offered much access to its protected automobile, energy and financial industries, something both Canada and the U.S. are insisting upon.

Compounding the problems with negotiations is the attempt by the U.S., under the name of FTA Plus, to get concessions from Canada that it was unable to get in the Canada-U.S. free trade agreement.

Its latest move would change the way North American content in computers is calculated, something the Canadian industry says would devastate it.

Although Canadian trade officials still say there is sufficient time to get a deal to the U.S. Congress this year, there is growing speculation that a package could not be ratified in 1992 because of the U.S. election. In order for Congress to consider a trade deal this year, it must get the proposals by the end of April.

Financial Post April 7, 1992 page 3 Policy Event # 12

U.S. seeks to rewrite trade pact, group says

By Peter Morton

Financial Post

MONTREAL — The U.S. is trying to rewrite the Canada-U.S. free trade agreement to create a fortress within North America that would benefit only Americans, Canadian apparel manufacturers say.

The accusation came as Trade Minister Michael Wilson, Mexican Trade Minister Jaime Serra and U.S. Trade Representative Carla Hills began their fifth high-level meeting here yesterday in an attempt to bridge deep differences on a North American trade pact.

As the ministers met in seclusion in a downtown hotel, groups worried about the impact of free trade gathered to press the federal government into walking away from the talks if a new agreement would mean giving up access Canada already has to the U.S. market.

The U.S. is trying to renegotiate a deal that Canadian clothing manufacturers got under the 1989 trade agreement that allowed imported yarns to be spun and woven into clothes, said Jack Kivenko, president of the Canadian Apparel Manufacturers' Association. Those clothes can be shipped to U.S. markets carrying lower duties than those from other countries.

U.S. Trade Representative Carla Hills.

Largely to keep Mexican textile manufacturers at bay, U.S. negotiators have been trying to insist on a North American content rule for textiles such as cotton. Cotton is grown only in the U.S.

"That would mean we would be forced to buy only American cotton, adding 25% to our costs," said Kenneth Khoury, director of finance for Château Lingerie Manufacturing Inc. of Montreal. The family-run operation is the largest underwear manufacturer in Canada through its licensed Calvin Klein and BVD lines.

While Wilson has said Canada will fight the proposals, Canada's textile industry would be willing to accept them if they were granted a larger market share in the U.S. free of duties.

"We may have no choice but to accept," said Eric Barry, president of the Canadian Textiles Institute.

But Barry said both textile and apparel manufacturers would want "substantially" larger market share in the U.S. than they have under the Canada-U.S. agreement. Clothing manufacturers are allowed to ship the equivalent of 55 million yards of clothing, roughly half of 1% of the U.S. market. Textile manufacturers can ship about 30 million yards, he said.

Yesterday, the nationalist Action Canada Network again called on Wilson to abandon the talks, arguing that Canada is giving away even more than it did during the 1988 negotiations.

"The Americans are renegotiating the free trade agreement through the North American agreement," chairman Tony Clarke said.

Financial Post April 9, 1992 page 5 Policy Event # 12

Trade talks bog down over cars and textiles

By Peter Morton
Financial Post

MONTREAL — Three days of intense talks have failed to bring Canada, Mexico and the U.S. any closer to putting together a North American trade deal.

Trade Minister Michael Wilson said yesterday that while there had been significant progress in a number of areas, the countries had not moved any closer on the crucial areas of automobiles and textiles.

"The automobile and textile industries are still significant problems at this point," Wilson told reporters after the trade ministers from the three countries wrapped up their fifth meeting.

The U.S. has taken a hard line on textiles, insisting on regional rules of origin for importing yarns. That means the Canadian industry would not be able to import basic yarn from Europe or Asia and then ship to the U.S. market duty-free.

Canada now imports nearly all of its basic yarns for Canadian consumption from Mexico. Because Mexico would be included in these new regions, Canada would get access to yarns at lower prices, she said.

On the issue of automobiles, negotiators and industry groups are to meet in Washington today to discuss content and rules of origin.

Globe and Mail November 21, 1992, page A1 Policy Event #13

World economy given boost

EC-Washington agreement on farm subsidies averts trade war

BY MADELAINE DROHAN, JOHN SAUNDERS and BRUCE LITTLE
The Globe and Mail

The European Community and the United States averted a trade war and opened the door to a new world trade deal yesterday when they resolved a long-standing dispute over farm subsidies.

Unless initial grumbling by the French government turns into outright opposition, the way is clear for negotiators from 108 countries to complete a six-year-old effort to rewrite the rule book on trade, giving the world economy a much-needed boost.

"It is clearly the single most important event that the industrial world needed to lift the gloom that has been in so many industrial countries over recent years," said British Prime Minister John Major, who currently holds the six-month rotating presidency of the EC.

In Washington, U.S. President George Bush declared himself "exceptionally pleased" with the breakthrough, which "should enable us to press forward the global trade negotiations to a successful conclusion."

But it is a mixed blessing for Canada, which now must deal with the question of what to do about its dairy, poultry and egg farmers, who are protected from foreign competition by marketing boards and import controls. Unless a last-minute exemption can be won, Canada may be forced to allow more imports under the terms of a global trade deal.

In Toronto, Trade Minister Michael Wilson called the U.S.-European deal good news, but said: "Our objective is to maintain the status quo on the structure of the marketing-board system."

The breakthrough was achieved by threats and compromise only 15 days before a scheduled showdown between the two economic superpowers. In the end, transatlantic trade relations almost broke down over soybeans, a crop used mainly for cooking oil and cattle feed, and U.S. wine fanciers were nearly deprived of European vintages as a result.

The United States, which leads the world in soybean production, said its beans had been squeezed out of European markets by subsidized local oilseeds (including soybeans, rapeseed and sunflower seeds) in violation of a 30-year-old agreement promising U.S. producers access to those markets.

The complaint was upheld by international arbitration panels, but EC nations, especially France, rejected U.S. demands for sharp cuts in their oilseed production.

Please see TRADE — A14

• From Page A1

U.S. officials planned to raise the stakes starting Dec. 5 by collecting import duties of 200 per cent on all white wines from EC nations, a move intended to drive the imports off the U.S. market by roughly tripling their retail prices.

The threat "may have had a therapeutic effect," said Carla Hills, the chief U.S. trade negotiator. Her European counterpart, Frans Andriessen, said Mrs. Hills assured him it now would be lifted. He agreed that negotiating with a gun at your head was not "an easy position, but it was reality."

The EC agreed that European farmers will use a maximum of 5.128 million hectares for oilseed production and further promised to cut exports of all subsidized farm goods by 21 per cent. EC negotiators say this is in keeping with internal European plans for agricultural reform to which the 12 member states already have agreed.

Washington had pressed the EC to cut oilseed production to eight million tonnes a year or less from a recent peak of about 13 million tonnes. The final deal fudges the point by restricting the amount of land, not the amount of output, a move that should please the French, who are the biggest producers of oilseeds in the EC.

Leaders of France's 1.7 million farmers called for immediate nationwide protests. "Before we die, we will resist," Luc Guyau, leader of the main farmers' union, was quoted as saying by Reuters news agency. "And we will do so with force."

French trade minister Dominique Strauss-Kahn said that the deal was not acceptable to him and that the French government will review its implications next week. It is not yet clear whether the French will risk creating a major rift within the EC by trying to block the accord.

Jacques Delors, the Frenchman who currently heads the EC bureaucracy, was not looking pleased as he headed into a meeting of top EC bureaucrats in Brussels to discuss the deal. But he did not stop EC negotiators from saying that a breakthrough had been achieved.

Although the bean dispute was a side issue in the world trade talks, negotiations in other areas were effectively stalled until it was settled, and the latest U.S.-European discussions evidently went beyond farm questions.

Mrs. Hills told reporters that the two sides agreed "to achieve maximum liberalization on access for all sorts of goods, to try to harmonize the low tariffs, bring down the high tariffs and to open markets on services [and] to move forward on [government] procurement."

She said U.S. and European officials must still bring nearly 100 other nations into the process but said negotiations may start in Geneva as early as Monday.

Mr. Major greeted the farm deal as though it represented a much broader consensus between the two major trading partners.

"It will be good for the industrial countries in the West. It will be good for the developing countries as well. They'll find fresh markets open to them in which they can sell their produce and their goods. I believe it is a remarkable opportunity to help lift the world out of recession."

Globe and Mail December 16, 1993, page A1 Policy Event #14

Tradeoffs lead to GATT pact

MacLaren hails deal as source of exports, jobs for Canadians

BY MADELAINE DROHAN
European Bureau

GENEVA — Seven years of agonizing and often hostile trade negotiations came to a successful conclusion yesterday when the 117 participants in the General Agreement on Tariffs and Trade finally agreed on a host of contentious issues and agreed to disagree on several others.

"Today the world has chosen openness and co-operation instead of uncertainty and conflict," GATT director-general Peter Sutherland said as he brought the Uruguay Round of negotiations to a close with a tap of his gavel, triggering hugs, back-slapping and the quaffing of Chilean red wine by the jubilant negotiators.

"The results mean more trade, more investment, more jobs and larger income growth for all," added Mr. Sutherland, who said he planned to be "celebrating massively" last night.

The long process had brought the United States and the European Community to the brink of a trade war several times. While such difficult issues as trade in audio-visual, maritime and financial services were left unsettled because of gaps that could not be bridged, delegates leaving Geneva today were confident they had opened the way to more peaceful relations.

"This is almost — I'm going to get poetic, emotional — almost like when the astronaut set foot on the moon and said, 'One giant step for mankind,'" said Kika de la Garza, the head of the U.S. House of Representatives agriculture committee.

SOME EFFECTS OF THE DEAL

Agriculture: Import bans and quotas to be gradually replaced by tariffs. Subsidies to farmers and export subsidies to be reduced.

Automobiles: The United States and European Community have in the past required Japan to accept limits on exports. Each nation now would be allowed only one such limit on any industry.

Manufacturing: Ban to be imposed on subsidies to boost exports, but subsidies to be allowed to help poor regions or promote research.

Textiles and apparel: Quotas on clothing imports to be phased out over 10 years.

Globe and Mail December 16, 1993, (continued) page A2 Policy Event #14

GATT negotiations end in success

• From Page A1

"It's a beautiful girl," European Community representative Tran Van Thinh said, comparing the trade agreement to a newborn child. Why a girl? "She'll grow up, get married and have children."

Head EC negotiator Hugo Paemen added: "I'm a happy man. There were enormous ups and downs; at times we were desperate and thought it would collapse. It was nerve-racking."

Canadian officials said the agreement will mean more exports and jobs for Canadians.

"As Canada competes throughout the world, [the deal] will provide the all-important and much improved rules of the road," Trade Minister Roy MacLaren said in Geneva.

Canadian officials estimate the deal will open access to $125-billion (U.S.) in goods and services for Canadian business and government. Further negotiations under the deal could add $175-billion (U.S.) to the total, they said.

Canada surrendered its import quotas that protected 37,000 dairy and poultry farmers from foreign competition and that have kept the prices of butter and chicken artificially high. The quotas are, however, replaced by tariffs that will drop only slightly over six years starting in 1995 and will not disappear altogether until the year 2010.

The deal also:

• Reduces tariffs on a number of key Canadian exports, including pulp and paper and wood products, depending on the market.

• Reduces export subsidies and opens markets for farm products, one of the most quarrelsome aspects of the talks. Countries that export farm products will reduce the volume of subsidized exports by 21 per cent over six years. Outright bans on rice imports in Japan and South Korea will be lifted. U.S. quotas on such commodities as sugar, dairy products and peanuts will be replaced by tariffs.

• Brings under world trade rules textiles and apparel and trade in such services as tourism, consulting and construction. Quotas that limit imports of textiles and apparel will be phased out over 10 years. In the service sector, developing countries agreed to open their markets in legal services, accounting and software.

• Beefs up protection for intellectual property such as computer programs, songs, films, books and industrial designs. Patents, trademarks and copyrights are protected for 20 years.

• Establishes a more powerful world trade body with a mechanism to settle disputes.

• Identifies which subsidies can be used without fear of retaliation to help disadvantaged regions, encourage research and development or adapt to new environmental requirements.

• Sets sunset clauses on such retaliatory measures as countervailing duties, anti-dumping measures and safeguards.

The agreement is expected to be signed April 15 at a trade ministers meeting in Marrakesh and will come into force on July 1, 1995. But first it must clear the U.S. Congress, where opposition forces are already readying their assault. Any changes that affect Canada require approval of Parliament. The governments of 115 other nations will also need to approve the agreement before it comes into force. That may be difficult for some of them, as evidenced by riots among South Korean students and a shutdown of the Indian parliament in a protest.

In Seoul, "Yankee go home" was the slogan as 1,000 militant students clashed with riot police near the U.S. embassy in protest against U.S. pressure that led to an end to South Korea's ban on imported rice.

There have been daily protests and hunger strikes in South Korea and Japan, where critics fear the GATT deal will drive hundreds of thousands of rice farmers out of business and uproot centuries-old rural traditions.

For Canada, whose most important trading partner is the often fractious United States, the creation of clear rules on allowable subsidies and the requirement that a country take a complaint to GATT first before undertaking unilateral action are two major gains.

These were issues that Canada was hoping would be resolved in the GATT after they remained unsettled in the Canada-U.S. and North American free-trade agreements.

For dairy, poultry and egg producers, the GATT deal represents an eventual loss because it will gradually reduce their protection from imports. Aluminum producers might also feel aggrieved after being left out of a deal to reduce tariffs on non-ferrous metals to zero because of French fears for its aluminum industry.

With reports from Canadian Press, Reuter and The Wall Street Journal

Calgary Herald December 16, 1993, page D1 Policy Event #14

Reuter

DEAL: Peter Sutherland, head of GATT talks, swings gavel to officially end the session that led to an accord

NEW TRADE ERA

World GATT accord hailed as deal of the century

GENEVA (AP-CP) – It's called the trade deal of the century, smashing tariffs on everything from computer chips to potato chips.

Officials from 117 countries agreed Wednesday on a trade reform package they hope will knock down export barriers, create jobs around the world and kick-start the global economy.

Economists believe trade liberalization holds out the promise of expanding global output by $6 trillion over the next decade.

The expanded rules of world trade now also cover agricultural products and the expanding services sector.

Canadian officials estimate the deal will open access to $125 billion US in goods and services for Canadian business and government. They say further negotiations under the deal could add $175 billion US to the total.

The agreement will mean more exports and jobs for Canadians, said Trade Minister Roy MacLaren, who was attending the GATT negotiations.

"I intend to raise this gavel and to conclude the Uruguay Round as a success after seven long years," said Peter Sutherland, head of the talks, as he banged the table to loud applause and the flash of cameras.

The endorsement of the trade pact followed years of negotiations, missed deadlines and wars of words. It was clinched virtually overnight after the U.S. and European Community resolved their differences on Tuesday.

But the agreement still faces contentious legislative battles before it can take effect in 1995. It must be formally signed in Morocco in April, and in the United States, Congress cannot begin debating the measure before April 15 at the earliest.

President Bill Clinton called the agreement an early Christmas gift which "cements our position of leadership in the new global economy."

The agreement will establish a World Trade Organization with tougher enforcement powers to succeed the General Agreement on Tariffs and Trade.

There were a number of compromises in the final days of bargaining as various protected industries successfully fought to retain their barriers against foreign competition.

Canada was forced to back off on import quotas for 37,000 dairy and poultry farmers. Instead, it got high tariffs – up to 351 per cent – to protect domestic dairy and poultry products from being undercut by imports.

Those tariffs will come into effect July 1, 1995 and will be reduced by 15 per cent overall in the next six years.

Dropping tariffs on paper products may open markets for Canada and the price of grain may rise, once subsidies drop, helping Prairie farmers.

Canadian telecommunications expertise may prove valuable as new markets open up.

Faced with Europe's refusal to cut its barriers to U.S. film and television imports, Clinton told Trade Representative Mickey Kantor to go for no deal rather than a bad one. The administration agreed to sort out European aircraft subsidy issues at a later date.

Speakers forgot the acrimony of the past seven years and tense bargaining of the last seven days and welcomed what many hope will be the start of a bright new trade era.

Farm fears fade — temporarily

By Donald Campbell
Calgary Herald

If there was "a giant sucking sound" whistling across Alberta Wednesday after confirmation of the new GATT deal, it was farmers taking another deep breath before studying the fine print of the agreement.

Because for now, at least, concerns that jobs will be swept south resulting from the global trading arrangement have been temporarily allayed.

"Hopefully this is the end of it," said egg producer Rudy Kust, "because if the system falls overnight, there will be absolute havoc."

Alberta agriculture producers will spend the next few nights nervously assessing who won and lost as details of the 117-nation agreement speed across the globe.

The deal brings several fundamental changes to Canadian agriculture.

There will be a new import control system put in place to protect Canadian egg, poultry and chicken producers' grip on the national market; exporters such as beef producers will be assessing changes to market barriers in the Far East; wheat producers will be looking for both access to new markets and an end to subsidy wars that depressed prices below cost of production.

But initial assessments of the deal's effects included cautious optimism — and a smattering of confusion. Industry spokesmen for particularly sensitive sectors said that the kind of "giant sucking sound" of jobs going south (that U.S. billionaire Ross Perot warned about during NAFTA) will likely not happen in Canada as a result of GATT.

Concern that marketing boards for egg, chicken and milk could be wiped out have been temporarily deflated. The protection promised that new tariffs on imports will keep prices higher than what Canadian farmers need to compete has been hyped by federal Agriculture Minister Ralph Goodale.

Goodale said the tariffs — which will range as high as 280 per cent on chicken and 351 per cent on butter — won't raise consumer prices and the amount paid to farmers won't go down.

At the end of six years, the tariffs will remain high and the poultry and dairy industry will be secure behind the tariff wall as trade negotiations continue, Goodale said.

But the United States is expected to fight Canada over the tariffs. According to the Canada-U.S. free trade agreement, all tariffs on agricultural products between the two countries are to be eliminated within 10 years.

"It's important that we use this interval between now and 1995 to constructively renew, reform and adjust the supply management sector to make it as successful in the future as it has been in the past," he said.

Roger King, general manager of the Alberta Chicken Producers Association, said Wednesday he needed more time to study the level of tariffs and the effect they will have on the prices of imports.

"I hope he (Goodale) knows what he's talking about," King said, "for the sake of the industry and all the jobs it creates in this province."

The food service industry attacked the government's decision to continue blocking cheaper foreign dairy and poultry products being sold in Canada.

"These obscene tariffs simply replace one bad system with another," said Douglas Needham, president of Canadian Restaurant and Foodservices Association. "Canadian consumers are the big GATT losers."

Mike Scally, Alberta Wheat Pool manager of policy and business research, said the GATT deal holds promise that export subsidies that helped the U.S. and European farmers undercut competition will be gradually eliminated.

"We won't see a miracle turnaround in grain markets," Scally explained, "but at least we don't think things will get any worse. It means over time we'll get control of export subsidies and better market access."

WHAT'S AT STAKE

Value of supply-managed products in Canada

■ DAIRY Total receipts paid to farmers in 1992 were $3.3 billion; total value of shipments in 1992 for the dairy processing industry was $7.5 billion

■ EGGS Total national production 423 million dozen; price received by producer per dozen ranges from 67 cents to $1.17

■ CHICKENS Total receipts paid to farmers in 1992 was $1.6 billion; total value for poultry processing was $1.8 billion

Source: Agriculture Canada

Trevor Dunning, Calgary Herald

Globe and Mail December 16, 1993, page B1 Policy Event #14

Ottawa hails new GATT pact

Farmers are winners as mile-high tariffs replace marketing boards

BY BARRIE McKENNA
Parliamentary Bureau

OTTAWA — The federal government hailed the world trade pact struck yesterday in Geneva as a deal that will create jobs and wealth in every region of the country.

And heading up the list of winners is a group that many thought would be Canada's sacrificial lamb at the General Agreement on Tariffs and Trade — 37,000 Canadian dairy, egg and poultry farmers, concentrated in Quebec and Ontario.

The farmers, whose marketing boards have provided near-total protection from imports for 20 years, have won a reprieve from global competition until after the year 2000.

They lost their protective border quotas, but in their place will get a new Berlin-style tariff wall — with tariffs of up to 351 per cent for items such as butter — ensuring that marketing boards survive at least until 2010, when tariffs are eliminated.

In Ottawa, Agriculture Minister Ralph Goodale said the deal will mean the status quo for supply management: no price breaks for consumers and no loss of income for farmers.

"Those who have been reporting that Canada has abandoned its system of marketing boards for dairy poultry and eggs are simply, flatly wrong," Mr. Goodale told reporters.

Federal negotiators gave supply-managed farmers "every benefit of the doubt" in providing continued protection, concluded Ottawa-based trade consultant Peter Clark. And he predicted that the United States may launch a challenge of the new tariff structure because it insulates farm markets "every bit as much as quotas did."

FOOD TARIFFS

Tariffs will replace quotas on agricultural imports into Canada. They are scheduled to decrease annually.

	1995	2001
Butter	351%	299%
Cheese	289	246
Milk	283	241
Chicken	280	238
Skim milk powder	237	202
Eggs	192	164
Turkey	182	155

Source: GATT estimates

Douglas Needham, president of the Canadian Restaurant and Foodservices Association, said the government "has sacrificed job creation in the food industry in order to protect supply management from the real world of competition."

"These obscene tariffs simply replace one bad system with another," said Mr. Needham, who speaks for thousands of restaurant owners and food service firms.

Also clear winners at the GATT are forestry firms in British Columbia, Quebec and Ontario. They have won a phase-out of tariffs in Europe and Japan for paper products and a cut to 5 per cent in tariffs on lumber.

Likewise, the chemical industry will see tariffs in key foreign markets fall to 6 per cent and less from a range of 12 to 15 per cent. Makers of industrial, construction, agriculture and mining equipment will see export tariffs wiped out altogether and high-technology companies will win access to rich foreign government procurement contracts.

Canada also won better world access for services, such as engineering, and stronger protection for intellectual property, which should protect computer software companies against illegal copying.

"We are dealing with more and more knowledge-based industries so we need that protection," Mr. Clark said.

Please see OTTAWA — B8

Globe and Mail December 16, 1993, (continued) page B8 Policy Event #14

Ottawa hails new pact

• From Page B1

The Canadian Exporters Association predicted that cuts in tariff and non-tariff barriers would help sustain the current export-led economic recovery.

There were also losers at the General Agreement on Tariffs and Trade. Western Canadian grain farmers won't likely see a quick end to the global subsidy war that has driven down world prices for their harvests and aluminum producers like Montreal-based Alcan Aluminium Ltd. failed to wipe out European tariffs on aluminum ingots.

Alcan spokesman Charles Belbin said France's insistence on a continuation of a 6-per-cent European Community tariff will continue to penalize its European fabricating plants which are fed by Canadian-made primary aluminum.

Nor are Canadian steel makers likely to be pleased by the deal. The United States has retained its ability to use stiff anti-dumping measures, employed successfully in recent years to harass foreign firms selling into the United States.

Canada's beleaguered apparel industry, already worried about the North American free-trade deal, now has more to worry about. Quotas and tariffs will be eliminated, hastening continued price deflation in Canada for clothing.

But, as in agriculture, the GATT deal extends the status quo in other areas and does not resolve some pressing trade problems. It also should be remembered that 80 per cent of Canadian trade is with the United States, where Canadian firms have enjoyed privileged access since the Canada-U.S. free-trade deal.

Trade consultant Gordon Ritchie, who helped negotiate the FTA, said Canadian exporters got "boo-all on anti-dumping" and will see new competition from Asian and European firms in the all-important U.S. market.

"We really got much less than we were asking for," he said.

In Ottawa, Industry Minister John Manley said the dispute settlement mechanism also represents a major gain for Canada.

"We need rules and we need dispute settlement," he said. "If we are left to settle our disputes on sheer size and force, we will most times lose. In that sense it is a major gain for Canada to have clarification and have a dispute settlement mechanism."

The Reform Party said the GATT deal highlights the need for tax relief at home and for an end to interprovincial trade barriers.

"Unless we can offer, very soon, some potential for tax relief in Canada and improved competition within our borders, we will never be able to reap the full rewards of this expanded trade opportunity," said Alberta MP Charlie Penson.

Globe and Mail March 22, 1994 page B4 Policy Event #15

Canada, U.S. still deadlocked on farm trade disputes

BY DREW FAGAN
The Globe and Mail

TORONTO — Canada and the United States made progress yesterday toward ending long-running bilateral agricultural trade disputes but remain some distance from a resolution.

At a minimum, however, the meeting between Canadian Agriculture Minister Ralph Goodale and his U.S. counterpart, Mike Espy, bought time for the Canadian side before it could face Washington-imposed trade sanctions.

When he emerged from yesterday's meeting, Mr. Espy avoided reiterating last week's sabre-rattling. At that time, he had said he might impose sanctions on shipments of Canadian durum wheat immediately if yesterday's meeting wasn't successful.

"We just agreed to disagree and we agreed to keep talking for a short period of time," Mr. Espy said yesterday. "It is fair to say that we are closer but no cigar."

But in a report out of Washington last night, an administration official said the United States soon might impose quotas on wheat because Canada has failed to budge in the dispute over alleged subsidized wheat exports to the United States.

"We're doing the arithmetic on a possible unilateral action and an action that now appears imminent," said the U.S. official, who spoke on condition of anonymity.

The negotiations were triggered by U.S. concerns that steady increases in Canadian durum wheat shipments have been caused by unfair government aid. The U.S. peanut lobby also has been pressuring Washington to do something about rising exports of Canadian peanut butter.

The negotiating agenda has also been complicated by U.S. demands that Canada eliminate by 1998 tariffs on imports of dairy, egg and poultry products under terms of the North American free-trade agreement. Canada counters that a recent world trade deal allowing tariffs until well into the next century takes precedence.

Trade sources say, however, that durum wheat shipments remain the thorniest issue.

Canada shipped an average of one million tonnes of wheat to the United States each year from 1990 to 1992, the U.S. Agriculture Department said. But in 1993-1994, the shipments had risen to 2.5 million tonnes, due in part to weather problems in the United States.

Canada, seeking a "growth factor," wanted to bring the permitted amount over three million tonnes, the U.S. official said.

"It was clear that Canada wanted to take advantage of this extraordinary year and even ask for a growth factor. That offer is clearly unacceptable to U.S. producers and frankly it is unacceptable to this administration."

Mr. Goodale made clear yesterday that unilateral U.S. action in the form of border quotas or tariffs if the two sides can't reach a solution on durum wheat would lead to retaliatory trade measures by Ottawa.

"Canada would have no choice but to defend itself by every means available."

The Clinton administration is convinced that Canadian wheat farmers profit unfairly from transportation subsidies and other assistance, despite repeated findings in favour of Canada by U.S. agencies and panels established under the Canada-U.S. trade pact.

Canada contends that its wheat farmers, whose share of the U.S. durum market has grown to about 20 per cent, are taking advantage fair and square of opportunities caused by reduced U.S. production and a desire by U.S. farmers to ship their durum offshore to get better prices.

The Canadian government has suggested setting a cap on exports of durum wheat to the United States. But that compromise has been rejected by Mr. Espy as inadequate, following pressure from farm state politicians who want tougher restrictions.

With a file from Associated Press

Globe and Mail April 15, 1994, page B3 Policy Event #16

Canada-U.S. farm trade talks break off

Espy seeks reduction of Canada's dairy, egg and poultry protection, and concessions on wheat

BY MADELAINE DROHAN
European Bureau

MARRAKESH — Negotiations between Canada and the United States on a bilateral farm dispute broke off yesterday with U.S. Agriculture Secretary Mike Espy taking a tough line on Canada's continued protection of its dairy, egg and poultry producers.

Mr. Espy made it clear that for a resolution to be reached in the talks, which resume today, Canada will have to reduce that protection.

"Supply management is just not a system that's consistent with the doctrine of free trade," he said, emerging from a meeting with Canadian Agriculture Minister Ralph Goodale, International Trade Minister Roy MacLaren and U.S. Trade Representative Mickey Kantor.

Mr. Espy's comments could be bluster in order to force concessions on wheat exports to the United States, which are also in dispute. Or it could be that the United States wants to win on both counts.

This will dismay Canadian officials who believed the question of protection for dairy, egg and poultry producers was settled as part of the world trade deal reached by members of the General Agreement on Tariffs and Trade in December. Indeed, the Canadians believed they'd finessed the United States by acceding to its demand that import quotas be replaced by tariffs, and then setting the tariffs extraordinarily high. On butter, for example, Canada will start with a tariff of $4.71 a kilogram, reducing it over five years to $4.

Not surprisingly, a U.S. Department of Agriculture analysis of the impact of the world trade deal indicates no gains for U.S. farmers in these Canadian markets.

"Canada tariffied at prohibitive levels, extremely high levels," Mr. Espy said. "That's very creative. Very innovative. But it's not trade creating."

Mr. Goodale said he wasn't optimistic or pessimistic that the two sides would reach a deal when they returned to the table today. And he rejected the supposed April 22 deadline, saying it was something the United States had pulled out of thin air.

He said it was only scheduling problems that prevented the two sides from meeting again last night. The U.S. side was tied up with the visit of U.S. Vice-President Al Gore and a bilateral meeting with the Japanese.

And while he would not elaborate on the issues still dividing the two sides, Mr. Goodale indicated he would not reject out of hand a cap on wheat exports to the United States. "I regard the idea of a cap as something that is certainly not desirable, but I've also gone on to say that as a practical matter, whether a cap at some point becomes acceptable depends on a number of things." They include what the limit is, how long it is in effect and what other changes would be made affecting wheat exports.

While the United States is not threatening to reject the world trade deal until these bilateral matters are settled, they could become part of the debate in Congress, which has to ratify the GATT deal before it becomes law in the United States.

The Canadian Parliament also has to pass legislation to implement the deal. This is expected in September this year.

A long-simmering dispute between Canada and Australia over beef imports to Canada also came to a boil yesterday with Australia launching action under the GATT to force Canada to provide more access to its markets.

Although Canada has been preoccupied with bilateral talks with the United States, the reason the trade ministers are in town is the official ending of the Uruguay Round of GATT trade negotiations. GATT officials said the number of participants in the round has risen in recent days to 125 from 121 after several former colonies of GATT members opted to join.

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