Three-in-one package contains free trade future

by Hugh Maynard

If you add NAFTA to CUSTA, what'll you GATT? Aside from acronomic confusion, it depends on who you consult and whether they view the elimination of trade barriers as a good thing or not.

All three are the bilateral and multilateral trade agreements that will shape the Canadian economy well into the next century. Since agriculture and food production will be significantly affected by the new measures, rural regions have a lot at stake.

CUSTA (Canada-U.S. Trade Agreement, otherwise known as THE free trade agreement) is already in place and, year by year, border restrictions are gradually being eliminated. The GATT (General Agreement on Tariffs and Trade) is presently being re-negotiated, with emphasis on the substitution of trade barriers with tariffs, which are claimed to be easier to reduce and then remove.

NAFTA is the new kid on the block. The North American Free Trade Agreement will bring Mexico into a deal with Canada and the U.S., creating a market of over 350 million people. What's included in NAFTA and when it is signed may have the largest bearing on Quebec agriculture of all three.

Firstly, why Canadian particpation in the NAFTA negotiations when there is already CUSTA and GATT? In an economy dependent on exports, it is essential for Canada to have access to foreign markets. Removing trade barriers with Mexico, of which there are many, would open up a market of 100 million potential consumers.

Just as importantly, the U.S. and Mexico seem inclined to sign a deal with or without Canada. If Canada is not part of NAFTA, the Mexicans may end up exporting into the U.S. on a preferential basis, undermining any advantage Canada has acquired for its exports through CUSTA.

This is called the "hub and spoke" scenario, where the giant U.S. economy is the hub and all other trading countries are spokes attached to the hub in terms of trade, but seperate from each other. The major beneficiary would be the Americans, with bilateral trading partners possibly compromising their free trade gains as they compete against the other spokes in the same game, but under different rules.

Differences

The principal concerns of farm groups with NAFTA emanate from the great difference between the Mexican standards of living and those in Canada. Canadian workers earn in an hour what many Mexicans get paid in a day or even a week; environmental, health and safety standards are considerably less strict, sometimes non-existant.

Richard Doyle, Executive Director of the Dairy Farmers of Canada (DFC), says that there is certainly a large market potential in more open borders with Mexico, but what price can their consumers afford to pay?

"We get to sell more produce but it has to be at considerably less price. There is no benefit to Canadian farmers in that," he said. While he agrees that the best way to help the Mexicans raise their standard of living is to allow them to increase trade, he believes that such sweeping changes risk bringing Canadian standards down more than bringing Mexican ones up.

A second concern is country of origin provisions, specifically where Mexico would take advantage of its lower wages to import raw product that it can't produce itself, and then process it for re-sale. Doyle notes that Canadian dairy farmers sell skim milk powder at a loss on international markets because of subsidized competition; the Mexicans could purchase and process the powder into products such as ice cream, selling it back cheaper than it could be made here.

The third element is timing, which is of particular concern to the dairy and poultry commodities under supply management. Originally, the GATT negotiations were supposed to have been concluded by December 1991, but are still deadlocked over the issue of export subsidies.

In the meantime, the NAFTA talks have been steaming ahead and may possibly be concluded before the GATT. To date, there has been no mention in preliminary NAFTA texts of supply management provisions. If supply management is excluded from NAFTA there is concern that the American's resolve will be stiffened to hold out for a GATT deal that does the same.

Furthermore, even if Canada is successful in defending its domestic markets through GATT, a NAFTA deal signed beforehand may mean that dairy and poultry farmers will face unrestricted trade from the U.S. and Mexico without any of the protection accorded by GATT. Since the North American trading bloc will comprise the largest segment of Canada's agri-food trade, NAFTA has potentially greater consequences than the GATT.

Big deal

So, where's the beef? Of the three main components of the agri-food sector - farmers, processors and consumers - the processing sector stands to gain the most. Larger markets mean more sales, and more sales mean machinery and plants can be kept running to maximum capacity. In what is now a highly capitalized industry utilizing the most sophisticated processing technology, sales volume is more important to the bottom line than sale price.

It also means more jobs, and this governments like; while the number of farmers continues to decline, there is an estimated seven additional jobs in food processing, distribution and retailing for every farmer still in business.

Minister of State for Agriculture, Pierre Blais, said recently at the annual meeting of the Quebec Milk Producers Federation that opening borders for trade is essential for all agri-food sectors. "The numbers of farmers continue to disappear because (domestic) markets are shrinking . . . one in three people live on export sales, even if it's not in your domain (dairy), it's important to the country," Blais explained.

He noted that a 5% opening of the presently restricted European pork market under a revised GATT represents a "big opportunity"; a similar opening in the U.S. for dairy products would be equivalent to roughly 40% of the total Canadian market.

For farmers, the prospects are, as Doyle pointed out, less appealing. One unit of trade at one unit of price will be replaced by two units of trade at half a unit of price. The greatest fear for farmers is the downward spiral currently being experienced by U.S. dairy farmers: the more they produce, the lower the price drops; the lower the price drops, the more dairy farmers produce to try and maintain income.

In addition, open borders is a two-way street: processors will be able to obtain the necessary raw materials anywhere, potentially displacing domestic farm production. With the current economic context of chronic over-supply in most farm commodities, it will be a buyer's market.

For consumers, the picture remains cloudy. In theory, open borders means greater competition, therefore lower prices. Blais made it quite clear that the federal government does not intend to reinstitute restrictive regulations at border crossings.

"Cross border shopping is a reality that we must adapt to, restricting border traffic is not the solution," he stated. The implication is that Canada will have to meet the competition head on, which in the current economic context will mean lower prices for consumers.

Recent economic data, however, suggests that despite falling farm gate prices - pork is 40% cheaper to-day than two years ago, wheat is at an all-time low this century, as examples - substantial savings don't always make their way to the retail level.

"Compare the Share" is an annual document prepared by Ontario MP Ralph Ferguson, and analyses farm income and food prices. During the last decade, the price increases in all major food commodities were greater at the retail level than at the farm gate.

The price paid to farmers for beef rose only 8.8% between 1983 and 1990, but increased 40% at the wholesale and retail levels; corn prices declined 13% for farmers, while retail prices went up a whopping 95%. Both commodities have been traded between Canada and the U.S. during this period with minimal tariff barriers.

Supply managed commodities were no different. Despite milk, egg and poultry producers being able to recoup a fairer share of price increases, the rise in retail prices was always greater. Between 1980 and 1989, poultry prices to the consumer rose 103%, with only 31% of that being attributable to the farm gate; cheddar cheese prices rose 136% in the same period, with 86% going to the retail level.

A study carried out by the Quebec Milk Producers Federation shows that, after adjustments for exchange, etc., the farmgate price of milk in Canada and the U.S. was approximately the same ($0.39 per litre) in 1985. Since that time, the price paid to producers has risen 12% in Canada and only 2% in the U.S. On the other hand, retail prices rose 19% in Canada and 25% in the U.S. The Federation maintains that milk prices in Plattsburg, so attractive to Quebecers, are not the American norm and concludes that trade de-regulation will not bring automatic price benefits to consumers.

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