

being challenged by the unilateral imposition of U.S. countervail law on some Canadian exports. Since multilateral trade exists in many agricultural products, an FTA might be workable only if additional policy constraints, or rules-of-origin criteria, are included to govern "pass-through" trade -- that is, when incentives exist to divert trade to one FTA member in order to gain access to another member. The most notable example of agricultural pass-through trade is in sugar, where U.S. protection substantially exceeds that in Canada and where rules-of-origin criteria are difficult to enforce.

In this discussion of policy harmonization under an FTA, it should be emphasized that not all the anticipated changes would result from freer bilateral trade. Powerful forces already are pushing Canada and the United States toward greater harmonization of policies. Furthermore, this process will be accelerated following the next round of GATT negotiations if, as is likely, agriculture becomes an important component of the negotiations. Bilateral negotiations also would speed up this process, but might increase only modestly the eventual overall degree of policy harmonization.

Anticipating the Major Policy Changes

To anticipate the likely pressures on Canadian agricultural policy in bilateral trade negotiations, we begin by examining measures of protection accorded Canadian agriculture. According to recent evidence, which provides documentation of most of the elements of support for agriculture, except for tax expenditures, the average effective rate of protection -- adjusted for the effect of trade barriers on farm inputs -- is estimated to be 60 percent during the past decade across all commodities.⁵

Protection varies considerably from one commodity to another. This is significant, since it is the individual commodity level that is relevant to