

Adjustment Assistance

The above results indicate that transition to free trade in the highly protected sectors implies large losses by Canadian poultry and dairy producers and by U.S. sugar producers. An adjustment assistance policy could be part of a liberalization package.

Dispute Settlement

A key to the success of NAFTA will be the extent to which the dispute settlement process does in fact resolve disputes in a timely manner. Will the disputing parties allow the process to dictate modifications of domestic policies and procedures? Answers to these questions will not come until national reactions to a major dispute can be observed.

The dispute settlement process of NAFTA is being used. In response to the Uruguay Round agreement, Canada removed non-tariff trade barriers and replaced them with new tariffs on dairy, poultry, and barley products, and on margarine. Some new tariffs exceeded 200 percent. The United States claimed that NAFTA did not allow new tariffs. Canada claimed that in this case the Uruguay Round commitments superseded NAFTA. A NAFTA panel was established to resolve the issue. A final report released in December 1996 over Canadian tariffs on dairy and poultry ruled unanimously in favor of Canada.

After the Uruguay Round, the United States also established new tariffs on imports of dairy and other products. But according to a USDA official, "U.S. products under the tariff-rate quota face the lower NAFTA tariff, which will be phased out by 1998" (13).

More North-South Marketing Infrastructure

Increased U.S.-Canadian agricultural trade is creating a demand for better infrastructure for moving goods north and south. As these facilities are built and upgraded, the cost of north-south trade will fall and the volume will continue to grow. Expect rerouting of traditional marketing flows of some goods within both countries.

Free Trade Narrows Domestic Policy Options

An end to border barriers diminishes policy options for income protection to agriculture in the future. Freer trade is inconsistent with, and eventually tends to remove, domestic commodity programs. To be sure, free trade can be consistent with "decoupled" policy instruments such as direct payments. But these are difficult to maintain in the face of pressure to restrain government outlays.