While the Agreement will be expected to result in reduced trade in canola meal, this will be more than offset by the effect of reducing tariffs on canola oil. Factors outside the Agreement, such as the Generally Recognized as Safe (GRAS) status recently obtained in the United States for canola oil, and the promotion of canola oil in the United States as a superior oil for health reasons, will also affect trade positively over the next few years. It is estimated that exports of canola oil could increase by as much as 10 per cent annually, beginning in 1989.

The soybean crushing industry in Canada is currently working at only 65 per cent of capacity, mainly because it is producing large surplus quantities of soybean oil. In the absence of tariffs, the proximity to the northeast U.S. markets should give it a competitive advantage, allowing it to increase soybean oil exports to the United States. This will eliminate the oil surplus and provide crushers with an incentive to increase their crush. In the longer run, it will encourage producers to grow more soybeans. This might require temporary imports of soybeans while Canadian production catches up with the higher crushing demand. Increased crushing of soybeans will also make more soybean meal available for domestic markets, reducing import requirements[4].

In the short run, these positive effects may not be as obvious due to a large glut on the U.S. soybean oil market. Canada may even see occasional imports of soybean oil. In the long run, however, Canada's eastern crushing industry stands to gain from the Agreement.

Imports from the United States of cottonseed, sunflower oil and derivatives may increase in the long run, but will remain relatively minor commodities when compared to the dominant canola and soybean products. Other commodities, such as safflower and soybean flour, have such a small market in Canada that any increases will be insignificant in the overall oilseed trade balance.

*Effect of Tariff Rate Changes*

Most Favoured Nation tariffs in effect in January 1988 are noted in Table 4.2.

In general, the tariff rate changes in the Agreement will have only a marginal impact on the domestic industry.

U.S. tariffs on canola oil and meal are 7.5 per cent *ad valorem* and U.S. $2.60/tonne, respectively. Reductions in these tariffs will benefit the Canadian canola industry to some extent although other factors, such as the recent granting of GRAS status for oil, will have a greater impact on increasing exports. The U.S. tariff on soybean oil is 22.5 per cent. The phaseout of this tariff should result in increased exports of soybean oil from Ontario to the northeast U.S. market. Reduced Canadian tariffs on cottonseed and sunflowerseed oil may result in some increased imports, but volumes are not expected to be significant.

[4] Meal and oil are produced in relatively fixed proportions during the crushing process. The current volume of seed processed gives soybean oil in excess of Canadian demand and meal insufficient to meet Canadian demand.