• Procedures specified for settling disputes and reviewing trade barriers.

When NAFTA became law on January 1, 1994 it incorporated all the agricultural components of the CFTA. The agreement allowed the two countries to more fully reveal their respective comparative advantage.

Revealed Comparative Advantage

Data on trade of agricultural products in 1995 reveal where comparative advantage lies at the 1995 stage of liberalization of Canadian and U.S. agricultural markets (table 2). The United States has a comparative advantage primarily in fruits and vegetables and their products. U.S. exports to Canada of products in this category exceed by four times its imports from Canada. Canada has a strong comparative advantage in trade of live animals. The value of Canadian exports to the United States of live animals exceeds U.S. exports to Canada by a factor of ten.

Perhaps the most revealing information in table 2 is the similarity of agricultural trade in both directions. The distribution of trade among the various categories is approximately the same for U.S. agricultural products going north as for Canadian products going south. This is additional evidence of the similarity of agricultural supply and demand on both sides of the border.

However, many significant one-way trade flows of very specific products are hidden within product categories. For example, some meat products exported by the United States are quite different from those exported by Canada. Within the "oilseeds and products" category, soybeans go north and canola goes south.

Canadian and U.S. agricultural markets have much in common. Technology and the costs of labor and capital are similar in the two countries. The feed and livestock sectors are very important to both. The marketing infrastructure is comparable. Consumers in both countries have similar incomes and food preferences. As a consequence, Canadian and U.S. farmers have the potential to produce similar products at roughly the same cost. And Canadian consumers have similar food purchasing patterns.

But the two agricultural sectors have a political history of going their own way. Each country protected and subsidized major parts of its own agricultural industries. Barriers to agricultural trade were erected. Exports were subsidized. Protection and subsidies reached new heights in the mid-1980s. As a result, agricultural products primarily moved east-west. Cross-border trade was more difficult and costly than within-country shipments because of (a) transportation systems that were built only to serve within-country needs, (b) barriers at the US-Canadian border, and (c) a Canadian subsidy on east-west movement of grain. Even under these conditions, however, there was substantial agricultural trade between the United States and Canada prior to the CFTA.