Canada is to eliminate the subsidized rail freight rates set under the Western Grain Transportation Act on products shipped through Vancouver and Prince Rupert for consumption in the United States.

Each country is to take into account the interests of the other in the use of export subsidies in third country markets.

The Agreement will reduce technical barriers affecting the flow of feeds, fertilizer, seeds, pesticides and processed products.

Effect on Producers

Canada and the United States both currently produce large exportable supplies of grains and oilseeds. Nevertheless, there will still be opportunities to sell additional volumes of high quality wheat, oats, canola oil and soybean oil to the United States. A major constraint on the sale of grain and grain products has been the possibility of the United States invoking Section 22 of the Agricultural Adjustment Act[1] and thereby imposing quotas on the importation of Canadian products. The United States is able to impose quotas through a GATT waiver obtained in 1955. The Agreement will restrict the use of such quotas. The Agreement provides that either country can reintroduce import restrictions or import fees on imports of grain and grain products produced in the other country if imports increase significantly as a result of a substantial change in the grain support programs of either country. In the absence of a substantial change in Canadian or U.S. programs, Canada will be able to increase its exports to the United States.

As far as livestock is concerned, there is potential for increasing shipments of grain-finished cattle to the U.S. Pacific Northwest and of high quality lean beef cuts as a result of the Agreement. Although it will take several years for these increased shipments to occur, they will result in increased consumption of feed grains in Western Canada.

Effect on Processors

A significant portion (40 per cent) of Canada's milling capacity is in Ontario, adjacent to surplus U.S. milling capacity in New York State. Unless complete wheat cost/supply equivalency is assured, the industry believes that employment in both milling and grain products processing will be at risk from products originating in the United States.

The Canadian share of the global export flour market has declined from 20 per cent (1970) to seven per cent due to flour export subsidy policies of the European Community and the United States. Capacity utilization in the United States, influenced significantly by export assistance programs such as PL-480[2] and the Export Enhancement Program[3], exceeds 90 per cent compared to about 75 per cent for the Canadian industry.

[1] Section 22 of the Agricultural Adjustment Act of 1933 allows the United States to impose quotas if it is determined by the U.S. International Trade Commission that such imports are threatening U.S. price support programs.

[2] Public Law 480 provides for long-term concessional sales at very low interest rates and for donating agricultural commodities.

[3] The Export Enhancement Program provides government-owned commodities at no cost to U.S. exporters as bonuses for commercial sales to targeted markets.