

procurement practices is one of the main Canadian objectives in seeking an FTA, yet in beer and wine it is Canadian government procurement practices which are at issue. With some reduction in these varied forms of protection, domestic wine and beer production, grape prices, and grape production could be reduced. Marginal elements of those industries, in turn, would be under pressure to exit their industries. The likelihood of these changes is unsure; following the Tokyo Round of GATT negotiations, difficulties arose in the interpretation of voluntary provincial commitments about the distribution of alcoholic beverages.

Finally, the processing sector is likely to be an important factor in bilateral trade negotiations. While some significant changes in the farm sector could arise from harmonizing agricultural policies, the greatest effect such a trade agreement would have on the agricultural sector as a whole could well come about from increased competition and new opportunities to exploit economies of size in food processing. Areas that would feel U.S. competition most keenly include fruit, vegetable, and milk processing, meat packing, and the milling of lower-quality wheats. In those areas such as fruit and vegetable processing, where transnational firms are important, some Canadian plants may become uncompetitive without tariff protection, and thus be closed in favor of U.S. plants of the parent firm. This is relevant not only to calculating the net benefits from freer bilateral trade but also in anticipating the firms, industries, and provincial governments that are likely to express strong opposition to freer trade. Against these risks, there is the advantage that some processing firms would be able to buy their raw product at lower prices than is currently the case. Removal of this "negative protection" (to processors) would work to increase Canadian food processing competitiveness. This competitiveness will be enhanced further by removal of tariffs on packaging materials and machinery.