

The Canadian manufactured food sector is making structural changes as a result of CFTA/NAFTA. Before CFTA, this sector mainly consisted of small scale plants producing for the domestic market. CFTA/NAFTA is providing more export opportunities and import competition. Some firms are now producing specialized and brand-name products for the U.S. market in larger, more efficient plants. Competition is forcing other plants to shut down. The net result is a more efficient sector finding that it can compete in the U.S. market (6, 14).

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The term "free trade" in CFTA/NAFTA has no timetable for realization in U.S.-Canadian agricultural trade. Substantial protection remains in U.S. and Canadian agriculture. Canada's dairy and poultry industries, and U.S. sugar, tobacco, and peanut industries remain highly protected. As the other parts of agriculture in the two countries become less dependent on protection, pressures will likely grow for reform of these remaining industries. Estimates of potential welfare gains and losses from additional reform are included in the following pages, drawing from existing studies where possible (see methodology in Annex B).

Economists recognize that costs associated with removing protection are immediate and apparent to losers, while benefits are longer run and not necessarily apparent to beneficiaries. As liberalization progresses, the economic costs are expected to decline relative to the benefits. As the years bring fewer losers and more gainers, the political base is expected to grow for more liberalization and for more of the associated economic integration with trading partners.

Dairy

We estimated the welfare implications of free trade in the dairy industry using parameters from a study by Hallberg and Baker (7). Based upon their results from a static equilibrium model of the U.S. and Canadian dairy industries in 1990, we calculated the following welfare gains from dairy trade liberalization:

	Annual benefit in:	
	United States	Canada
	(million dollars)	
Consumer welfare	-437	720
<u>Producer welfare</u>	<u>442</u>	<u>-636^a</u>
National welfare	5	84

^aIncludes loss of quota rent.