

capital grants and loans, many fruits and vegetables in the United States are grown with government-supplied irrigation water sold at rates much below market prices. The latter measures rarely turn up in the public accounts because the water systems typically were built in years past, but they constitute input subsidies nevertheless.

Policy harmonization in the horticultural sector probably would center around removing or harmonizing tariff and nontariff border measures, but the issue of comparative protection, or the level playing field, would first have to be addressed. U.S. marketing orders and input subsidies might involve sufficient U.S. protection to justify some Canadian border protection, while provincial stabilization and capital grant schemes could attract attention from U.S. negotiators.

If an open border became a reality, the economic effects within Canada are uncertain. Prices would fall and some production would shift to other commodities, but the extent of these shifts is unknown. The economic information base -- a knowledge of supply functions for these sectors -- is sufficiently incomplete that one is unable to predict major cutbacks in production or the extent of ensuing losses to farmers. Indeed, with a 75-cent Canadian dollar, losses could be quite small. In a number of small fruits -- such as raspberries, blueberries, and cranberries -- as in red meats, Canada has demonstrated sufficient comparative advantage to benefit from more secure market access due to an FTA which reduces the risk of U.S. countervailing duties being applied. One area in which import competition might create significant difficulties, however, is the fruit- and vegetable-processing industries, where tariff walls are often highest and capital grants and subsidies are prevalent. These industries would still enjoy the considerable advantage the current exchange rate provides, but rationalization of operations, fewer firms remaining competitive, expansion of scale, and expansion into new markets by remaining firms are likely outcomes.