

hectoliters of evaporated milk -- that are exported or used for food aid. In addition, Canada has strict controls that permit 20,400 tonnes of cheese imports per year but largely exclude all other dairy imports. Margarine imports are prohibited to encourage butter consumption, and refined vegetable oil imports currently face a 20 percent tariff for the same reason. Finally, strict health and licensing regulations inhibit interprovincial, not to mention international, trade in fresh or liquid milk.

U.S. policies generally are similar to those in Canada, except that quotas are not used to restrict domestic production. Instead, surplus production in the form of butter and skim milk powder is purchased, stored, and generally exported. Prices for industrial milk have begun to fall since 1980 to reduce this surplus, and are now lower than those in Canada, which have risen over the period. U.S. border controls generally take the form of import quotas. In the case of cheese, for example, imports are permitted to provide 5 percent of the U.S. market. Fluid milk imports are subject to tariff-rate quotas, with a tariff of 2¢ per gallon up to 3 million gallons.

Because policies and price levels in the two countries are already similar, one might anticipate that policy harmonization under an FTA would be minor. In fact, it likely would provoke significant changes. An open border, with milk and milk products moving freely in each direction, would lower farm prices for both fluid and industrial milk in Canada, with the price fall of the former being more significant -- 20 to 40 percent, depending on the region. In the United States, the current regional pattern of fluid milk price differentials also might be difficult to maintain in some northern states. Further reductions in the Canadian industrial milk price could be anticipated, as the U.S. price is widely expected to fall further in future. Equalization of industrial milk product prices could also be expected, with small volumes of cross-border trade.