
WHEAT DISPUTES UNDER NAFTA

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INTRODUCTION

U.S. imports of Canadian wheat grew as tariffs were lowered, following the implementation of the Canada-U.S. Trade Agreement (CUSTA) in 1989. The subsequent implementation of the North American Free Trade Agreement (NAFTA) changed nothing—by the time it came into effect, tariff barriers on wheat had been eliminated. While trade flows waxed and waned, any growth in trade was accompanied by an outbreak of tension between the two nations, and threats of trade disputes.

A U.S. International Trade Commission (ITC) inquiry was initiated formally in January 1994. Following conflicting testimony from various sources, the ITC forwarded three separate reports, reflecting a three-way split decision, to the President on July 15, 1994. Before the President took any action, however, in a negotiated settlement, the government of Canada agreed to limit its wheat exports and the U.S. government agreed to cease to pursue the issue under GATT.

The agreement lasted for 12 months ending in September 1995. Subsequently, tensions continued, with threats from U.S. wheat interests whenever

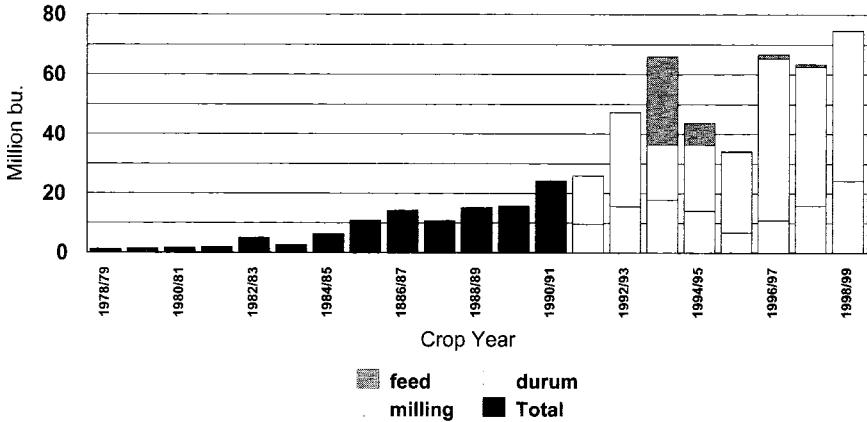
wheat prices fell or the quantity of imports rose. However, since 1994 there have been no further legal challenges. Trade rules have remained virtually the same, with minor changes in the use of end-use certificates. Wheat trade, particularly the Canadian Wheat Board (CWB) has remained a concern of U.S. producers, but overall the trade agreements appear to have resulted in a more integrated North American wheat industry.

This paper describes the history of the wheat trade and trade disputes between the United States and Canada during the past 10 years under CUSTA and NAFTA. The most significant dispute during this decade was the one that led to the 1994 ITC case. We discuss the details of that case, and present in summary form the different elements of testimony brought before the ITC, including the USDA position, our own modeling results, and the ITC staff analysis, as well as the ultimate decision and consequences.¹ Then we discuss the more recent events and summarize the overall experience and the effectiveness of the dispute resolution processes.

CANADA-U.S. WHEAT TRADE DISPUTES UNDER CUSTA

The Canada-U.S. Free Trade Agreement (CUSTA) came into effect in 1989. Prior to the free trade agreement, explicit barriers of importance were Canadian import licenses on wheat (and wheat products) and a U.S. tariff. CUSTA scheduled the gradual elimination of all tariff barriers between Canada and the United States. As a result of the CUSTA, a formula was developed to allow for removal of Canadian import licenses, and in return the United States agreed to gradually phase out its tariff of \$0.21 per bushel on wheat. Notwithstanding its position as a major exporter, the United States has imported significant amounts of wheat from Canada, especially durum. U.S. imports of Canadian wheat rose from almost zero in the late-1970s, to over 2 million metric tonnes in 1993/94 (Figure 1). Although they represented only about three percent of total wheat supplies in the United States, the shipments of wheat

¹For much of what is reported here, we draw heavily on our previous work, including Alston, Gray, and Sumner (1994, 1999), Alston, Carter, Gray, and Sumner (1997), and Sumner, Alston, and Gray (1994).

Figure 1: U.S. Wheat Imports from Canada, 1978/79 - 1998/99.

Source: ERS/USDA, Wheat Situation and Outlook

from Canada became a political irritant in the United States, and legal disputes began almost immediately after the CUSTA was implemented.²

Beginning in 1989, durum wheat producers in North Dakota argued that Canadian freight subsidies constituted an export subsidy, in violation of CUSTA Article 701.2.³ After the United States Trade Representative determined that Canada had not violated this article, because the freight subsidy under the Western Grains Transportation Act (WGTA) applied to all shipments to Thunder Bay, whether destined for export or domestic use, the U.S. Congress instructed the ITC in 1989 to examine the “conditions of competition”

²There were previous restrictions on wheat trade under Section 22 of the U.S. Agricultural Adjustment Act of 1933 (as amended). The U.S. Tariff Commission (precursor to the ITC) instituted a Section 22 investigation in 1939. As a result, a U.S. wheat import quota of 21,775 tonnes was introduced. In 1973 the Commission and USDA recommended suspending the quotas indefinitely and, in 1974, the President did.

³Similarly, the U.S. government has argued that the CWB has violated Article 701.3 of CUSTA by selling below acquisition cost (including storage, handling and freight).

between the U.S. and Canadian durum industries.⁴ The ITC rejected the argument that the CWB had been “dumping” durum into the United States (i.e., selling into the U.S. below acquisition price).

In 1992, the case of Canadian durum wheat sales was heard before the binational panel, under Chapter 18 of the CUSTA. The binational panel made its final ruling in January 1993, finding no compelling evidence that the CWB was selling below its acquisition cost. On reviewing the evidence, Alston and Carter (1993) suggested that the primary impetus for increased Canadian durum exports came from export subsidies, under the U.S. Export Enhancement Program (EEP), creating a premium market in the United States for Canadian durum that had been increasingly exploited in the post-CUSTA period.⁵ More recently, Alston, Carter, Gray and Sumner (1997) developed a quantitative analysis of the Canada-U.S. durum wheat trade and concluded that the increased trade following the CUSTA had led to net costs to the United States as a whole, and to U.S. durum producers. They also pointed out that having eliminated the WGTA freight subsidies would have exacerbated the effects on U.S. producers by increasing CWB incentives to ship wheat South.

While these studies identified a major source of the increased trade as being U.S. policy rather than either Canadian policy or dumping by the CWB, they also supported the U.S. wheat growers’ contention that freer trade with Canada was not in their interests, especially in the context of a U.S. export subsidy scheme. In response to relentless pressure from U.S. wheat-producing interests, combined with some other factors, a second ITC investigation was initiated in January 1994.

⁴This was USITC Investigation No. 332-285 “Durum Wheat: Conditions of Competition Between the U.S. and Canadian Industries.” The investigation began on December 4, 1989. The final report was released in June 1990.

⁵ EEP was established in 1985 and designed to boost the volume of U.S. exports. It has played an important role in U.S. wheat exports. Gardner (1995) documents total wheat EEP expenditure during 1985-93 of \$4.9 billion, with subsidies averaging about \$31 per metric tonne or about 25 percent of the gross price.

THE 1994 “SECTION 22” DISPUTE

The 1994 ITC inquiry focused on the impacts of U.S. imports of Canadian wheat on the U.S. wheat farm program, in relation to Section 22 of the U.S. Agricultural Adjustment Act of 1933 (as amended). To apply section 22, the U.S. government had to show that imports had (or threatened to) “materially interfered” with the operation of the U.S. farm program for wheat. Parties agreed that the only reasonable channel for such interference was by causing lower U.S. wheat prices; the dispute turned on how much lower.

A finding of “material interference” by the ITC could have led them to recommend that the President implement tariffs or quantitative restrictions against Canadian wheat. In its evidence before the ITC, the USDA claimed such material interference, and recommended a tariff rate quota be introduced. In contrast, submissions on behalf of U.S. pasta makers, flour millers and grain handling industry, and Canadian grain industry interests led by the CWB, found much smaller effects—on the order of one-tenth of the effects claimed by the USDA. Critical differences in approaches in these studies concerned the treatment of trade with third countries, the role of trade in pasta products, and assumptions about elasticities.

The USDA Position

In testimony before the ITC, the USDA claimed effects of Canadian imports on the U.S. wheat farm program that, if valid, would seem to justify an intervention under Section 22. In testimony before the ITC on April 28, 1994, Keith Collins, Acting Assistant Secretary for Economics, U.S. Department of Agriculture, concluded as follows:

After a review of all the facts and all of the evidence, we believe the case for material interference is conclusive . . .

Imports materially interfere by increasing program costs through higher deficiency payments and loan activity. . . For 1994-95, imports are expected to increase the cost of the USDA wheat program by an estimated \$228 million, 15% of the projected cost of the entire wheat program . (p. 11)

The USDA did not present details of the model and assumptions underlying their quantitative estimates. From the testimony we can infer some implicit assumptions (for instance, that the USDA ignored some third-country effects and pasta trade, and aggregated all wheat into a single category), and we can even deduce some implied values for elasticities, but the complete information that would be required to replicate the figures in a formal modeling context is not available. Below, we first summarize our own model and results under the most reasonable parameter values and explicit market assumptions, and then we show the effects of imposing alternative (less reasonable) assumptions, that would appear to be consistent with the USDA testimony.

A Simulation Model of U.S./Canada Wheat Trade and Policy

We developed a three-region model of wheat production, consumption, policy and trade. In our model, wheats of different classes, types and characteristics are segregated according to their end-use characteristics, into three categories: durum, other milling, and feed. The three regions are Canada, the United States, and an aggregate representing the rest of the world (ROW). Each of the three regions produces each type of wheat, with feed wheat being a byproduct of milling and durum wheat production, and consumes some of its own production of each type. Canada exports all three types of wheat to the ROW and to the United States; the United States exports milling and durum (but not feed) wheat to the ROW; and the ROW exports durum, in the form of pasta, to the United States.

The complete details of the model, its structure, data sources, the representation of policy in the United States and Canada, and the values used for the parameters, can be found in Alston, Gray, and Sumner (1994) and Sumner, Alston, and Gray (1994). The supply and demand equations are represented by functions that are linear in prices and quantities over the range of changes being analyzed. Supply is linked among categories within a region, but there is no appreciable substitution in consumption among these three categories. The slopes and intercepts of the supply and demand equations are defined using initial quantities and prices, and the own- and cross-price elasticities of supply and demand.

On the demand side, wheats of the same type from different regions are treated as differentiated products in an Armington framework in which the own- and cross-price elasticities of demand for any type of wheat (durum, milling or feed) in any region depend on market shares (which can be calculated using data on trade flows), the overall elasticity of demand for the commodity, and elasticities of substitution among different sources. We obtained estimates of these underlying elasticities from a combination of a review of the relevant literature and informed professional judgment, as discussed in Alston, Gray, and Sumner (1994, 1999). On the supply side, durum and other wheat compete for the same land and other specialized inputs. Therefore, the cross-price elasticities relate to the effect of the change in the price of durum in a region on the same region's production of other wheat, and vice versa.

Simulations

In Sumner, Alston, and Gray (1994) we presented simulations for two crop years, 1993/94 and 1994/95. We reported detailed sensitivity analysis showing a range of results for a range of parameter values. In what follows we use base or preferred values for all parameters unless otherwise stated and, to conserve space, we report simulation results only for 1993/94.⁶ The most important result for present policy purposes is the calculated effect on the average price for U.S. wheat and, therefore, the effect on the total expenditure under the U.S. wheat program.

First, the model was run to simulate the quantities and prices for 1993/94 to define the base situation, as shown in column A of Table 1. Second, we simulated the effects of reducing Canadian exports to the United States of all types of wheat to half the base-run values in 1993/94. The simulation results are given in column B of Table 1. Relative to the base simulation in column A, the reduction in imports would have led to a saving in costs of U.S. wheat deficiency payments of \$9.9 million in 1993/94.

⁶1993/94 was an unusual year in terms of weather damage to wheat which affected both the availability of high quality durum and milling wheat in the United States (increasing demand for imports from Canada) and the supply of feed wheat to the United States from Canada (a higher proportion of Canadian production was downgraded).

Table 1: Effects of Imports on U.S. Wheat Price and Program Costs, 1993/94.

<i>Quantity, Price or Value</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>
	<i>Base</i>	<i>Imports at 50% of Base</i>	<i>Imports at 22.40% of Base</i>	<i>Combined Assumptions</i>
U.S. Imports		('000 tons)		
Feed Wheat	1,088.61	544.31	243.85	243.85
Milling Wheat	680.38	340.19	152.41	152.41
Durum Wheat	653.17	326.58	146.31	146.31
Durum Pasta	163.29	216.18	244.99	322.36
U.S. Production		('000 tons)		
Feed Wheat	7,075.99	7,084.07	7,088.79	7,150.59
Milling Wheat	56,417.37	56,445.38	56,461.46	56,784.22
Durum Wheat	1,877.86	1,916.50	1,939.25	2,125.65 U.S.
Exports		('000 tons)		
Feed Wheat	0.00	0.00	0.00	0.00
Milling Wheat	31,841.93	31,537.36	31,369.96	31,709.50
Durum Wheat	1,496.84	1,271.99	1,150.01	1,427.53 U.S.
Market Price		(\$/ton)		
Feed Wheat	110.23	110.52	110.68	114.45
Milling Wheat	134.68	134.77	134.82	135.46
Durum Wheat	180.41	182.46	183.67	193.42
U.S. Market Prices		(\$/bushel)		
Average Producer Price	2.970	2.975	2.978	3.017
Deficiency Payments	1.030	1.025	1.022	0.983
^a Deficiency Payments	0.000	-0.005	-0.008	-0.047
Government Outlays		(\$ million)		
Deficiency Payments	1,932	1,922	1,916	1,845
^a Deficiency Payments	0.00	-9.94	-15.80	-87.28

Source: Calculated by authors. See Alston, Gray, and Sumner (1994) for details.

Note: "Combined assumptions" refers to a combination of a U.S. feed demand elasticity of -2.4, a U.S. export demand elasticity of -0.5, and other assumption that mean there are no third-country effects (see Alston, Gray, and Sumner 1994 for details).

The USDA stated that they modeled a restriction of wheat *grain* imports to 261,000 tonnes (9.6 million bushels) without imposing any similar restriction on imports of flour and other products, but assuming they would be unaffected by a wheat import quota. Essentially this amounted in their analysis to imposing a total quota of about 20 million bushels on wheat and products imports from Canada (excluding pasta from the ROW). This means they (implicitly) simulated restricting total imports to 543,000 metric tonnes, 22.4 per cent of the base in 1993/94 rather than 50 percent. The USDA reported that

such an import restriction would have resulted in an average U.S. price of wheat about nine cents per bushel higher and a deficiency payment cost about \$230 million lower.

To assess the USDA claims, we simulated a reduction in imports of each type of wheat to 22.4 percent of the base. The results of that simulation are given in column C of Table 1. The 22.4 percent reduction in imports would have led to a saving in U.S. wheat deficiency payments of \$15.8 million in 1993/94—about 7 percent of the savings reported by the USDA. We found it difficult to identify even remotely plausible combinations of parameters that would yield effects nearly as large as those claimed by the USDA.

It appears that the USDA aggregated all wheat types together, regardless of end-uses, treated pasta imports as unresponsive to trade barriers on grain and other products, assumed quite small elasticities of supply and demand, and ignored “third-country” effects (see, also, Alston, Carter, Gray, and Sumner 1997).⁷ In an attempt to replicate the figures of the USDA, in Alston, Gray, and Sumner (1994) we estimated the effects of reducing the U.S. imports to 22.4 percent of the base given (i) a U.S. feed demand elasticity of -2.4, (ii) an export demand elasticity of -0.5, and (iii) precluding third-country effects. The combined effects of changing these assumptions is to increase the estimated increase in costs of deficiency payments to \$87.3 million in 1993/94 (Table 1, column D). This is still only one-third of the value estimated by the USDA; to obtain their estimate would require use of parameter values that are totally implausible.

The ITC Staff Analysis

The ITC staff used a vector autoregression analysis of U.S. wheat prices during the preceding 15 years, to estimate the price effects of changes in total U.S. wheat supply. Such a procedure ignores all of the structural features of the

⁷When Canadian wheat is withdrawn from the U.S. market, it will be diverted onto ROW markets, depressing prices in the ROW for Canadian wheat and its substitutes, including U.S. wheat exported to ROW markets. As a consequence, U.S. exports to ROW markets will contract and U.S. domestic prices will be lower, offsetting to some extent the direct effect of the withdrawal of Canadian wheat. Similar effects arise through trade in pasta products.

market—pasta imports, product differences and Canadian export competition with U.S. wheat exported to third markets. Implicitly, imports from Canada (or, for that matter, pasta imports from Italy) have exactly the same relationship to the U.S. price of wheat as do changes in the amount of idled land under set-asides or a drought. Further, the 1994 wheat market was assumed to be identical to that of 15 years previously, when the European Community was a customer not a competitor, and when there were no U.S. export subsidy programs.⁸

The ITC staff also adapted the ITCs general simulation model (COMPAS) to derive implied effects of imports on the domestic price of wheat. This model also left out pasta imports, and third-market competition between the United States and Canada—two features of the wheat trade that are fundamental to understanding the influence of imports.

The ITC Reports—A Split Decision

The ITC forwarded its findings and recommendations—based on a combination of information from the hearings and internal analysis conducted by the ITC staff—to the President on July 15, 1994. Three separate reports were sent to the President, each of which had distinct findings and recommendations. Three of the six commissioners (including the Chair and Vice Chair) reported as a group that they determined that there was no “material interference” with the U.S. wheat program by imports. Nonetheless, they provided the President with recommended import restraints should he have determined (contrary to their findings) that there were grounds for restricting imports.

A fourth commissioner, determined that there was sufficient evidence to determine material interference, but recommended only a ten percent additional duty be applied after imports reached 500,000 tons for durum and 800,000 tons for other wheat—i.e., after imports of all wheat and wheat flour exceeded 1.3 million metric tons in wheat equivalent units. Such a policy would probably not have had any significant impact on imports. The last two commissioners also found material interference, but they recommended relatively tight tariff-rate quotas, or equivalent tariffs, be applied.

⁸Our concerns about such an approach were outlined in Alston, Gray, and Sumner (1994, 1999).

Negotiated Resolution

Before the President took any action relative to the Section 22 case the wheat trade dispute between Canada and the United States came to a negotiated resolution at least for the 1994/95 year. On August 1, 1994, the government of Canada agreed to limit wheat exports to the United States and the United States agreed to drop its efforts to restrict wheat imports.⁹

Under this agreement, tariff rate quotas were used to restrict U.S. imports of wheat from the CWB. For durum wheat, the very low NAFTA tariff rate (\$3/tonne) applied to the first 300,000 tonnes, a tariff of \$23/tonne applied to the next 150,000 tonnes, and a rate of \$50/tonne applied to imports over 450,000 tonnes. For "other" wheat from the CWB, the NAFTA tariff rate applied to the first 1,050,000 tonnes and a tariff of \$50/tonne applied to imports above that quantity. The \$50/tonne tariff was expected to be prohibitive for both durum and "other" wheat. There were no restrictions on flour, semolina, or Canadian soft red winter wheat from outside the Wheat Board area.

Although these restraints might have influenced the quantity of export shipments during the twelve-month period covered by the agreement, it is instructive that the official USDA projections for total wheat imports during the 1994/95 marketing year remained at 80 million bushels or 2.4 million tons (including the grain equivalent of flour and wheat products) before and after the agreement. The agreement was not viewed, even *ex ante*, as a binding constraint on expected U.S. imports by the USDA analysts, except in the case of durum.¹⁰

⁹ At the same time, the two countries agreed to appoint a binational panel of non-government experts, to examine and report on all aspects of Canadian and U.S. support systems, and on competition between the two countries in third markets for wheat. The Canada-U.S. Joint Commission on Grains filed its final report in October 1995. Although the report illuminated many of the differences in the marketing systems, little concrete progress was made in addressing the differences.

¹⁰As Figure 1 shows, actual imports in 1994/95 were only 12 million bushels (about 330,300 tons) of durum and only 32 million bushels (870,000 tons) for other wheat.

MORE RECENT EVENTS

The policy landscape for grain in the United States and Canada has changed substantially since CUSTA and even since NAFTA was implemented in January 1994. CUSTA mandated gradual tariff cuts and these have allowed wheat from Canada to become available in the U.S. market. Other U.S. and Canadian policy changes in the later 1990s were *not* mandated in CUSTA, NAFTA or the Uruguay Round Agreement on Agriculture (URAA). It is arguable, however, that these changes were, in part, a consequence of these trade agreements.

U.S. Policy Changes

The first change was the rapid reduction of the loan rate for wheat and elimination of the price support feature of the U.S. commodity loan program. These changes meant that the government no longer acquired stocks of wheat whenever the market price was low relative to some political norm. They also have meant that the market price facing buyers in the United States has been allowed to decline to clear the market. With an open border for wheat imports, a substantially higher budget outlay on government purchases is required to maintain the government set price. The loan program remained, with low guaranteed producer prices implemented by direct payments or loan repayment at the local market price, which could be lower than the loan rate.

The second change was the replacement of annual deficiency payments tied to production, with payments tied only to a history of wheat production, and related to market price only on an ad hoc basis. Because they are less connected to production and market price, these payments are less affected by imports. The third change was the reduction and then elimination of required acreage set-asides. When imports may freely enter, the price gain is smaller from a given amount of acreage idled, therefore the set-aside policy was gradually abandoned.

Finally, while EEP is still authorized, the United States has not implemented its export price subsidy program for wheat since the middle 1990s. Here, again, the effectiveness of export subsidies at raising domestic prices is much curtailed by an open border policy for imports. Thus, while there are

other reasons for not using the export enhancement program for wheat, free imports from Canada are surely a contributing factor.

Wheat Trade Tensions

Since the Section 22 hearings of 1994 there have been no significant grain disputes between Canada and the United States. No cases have been brought to the NAFTA or WTO trade panels. The only trade action of significance was the U.S. introduction of an end-use certificate (EUC) for wheat imported into the United States early in 1995. This requirement had only a very modest effect on trade flows and, according to Buckingham and Gray (1996), may have assisted the CWB in maintaining monopoly control over wheat exports.

Despite the lack of any tangible trade actions, the anti-Canadian grain trade rhetoric has continued in the United States. The U.S. Trade Representative, farm leaders, and congressmen from wheat producing states have continued to publicly condemn Canadian-U.S. grain trade, and in particular the actions of the CWB. U.S. wheat farm representatives expressed their desire to address the CWB issue within the next round of the WTO negotiations.

Canadian Policies

Given continued access, market forces will continue to drive Canadian grain exports to the United States. The elimination of the WGTA east-west freight subsidy in 1995 made the United States an even more-attractive market for Canadian grain products (see Alston, Carter, Gray, and Sumner 1997). As Figure 1 shows, after a drop in 1995/96, imports from Canada have been at or above the 1993/94 quantities in each of the past three years. And this occurred without the stimulus from EEP export subsidies.

The operation of the CWB has been and remains a key trade irritant to some U.S. wheat interests. However, even if the CWB were eliminated, if exports to the United States expanded, we might reasonably expect that U.S. wheat producers would continue to mount opposition to Canadian wheat exports and look for other rationalizations for dispute.

The U.S. industry is unlikely to obtain remedies for CWB behavior within the existing NAFTA and the URAA.¹¹ It seems unlikely that the CWB would find it profitable to price discriminate in a way that would be both inimical to U.S. producer interests and in contravention of the anti-dumping provisions that apply. State trading enterprises are allowed in the GATT and are allowed to price discriminate as long as they do so within the bounds of commercial practice. Price transparency and the conduct of state trading enterprises will continue to be discussed in the current round of WTO negotiations. However, given the number of countries with STEs to protect, it seems unlikely that binding disciplines will be forthcoming. Therefore, the decisions concerning the CWB, at least in the short run, lie with Canadian wheat and barley producers and the Canadian Government. It also seems unlikely that the domestic pressure for reform will cause the government of Canada to unilaterally remove the CWB any time soon.

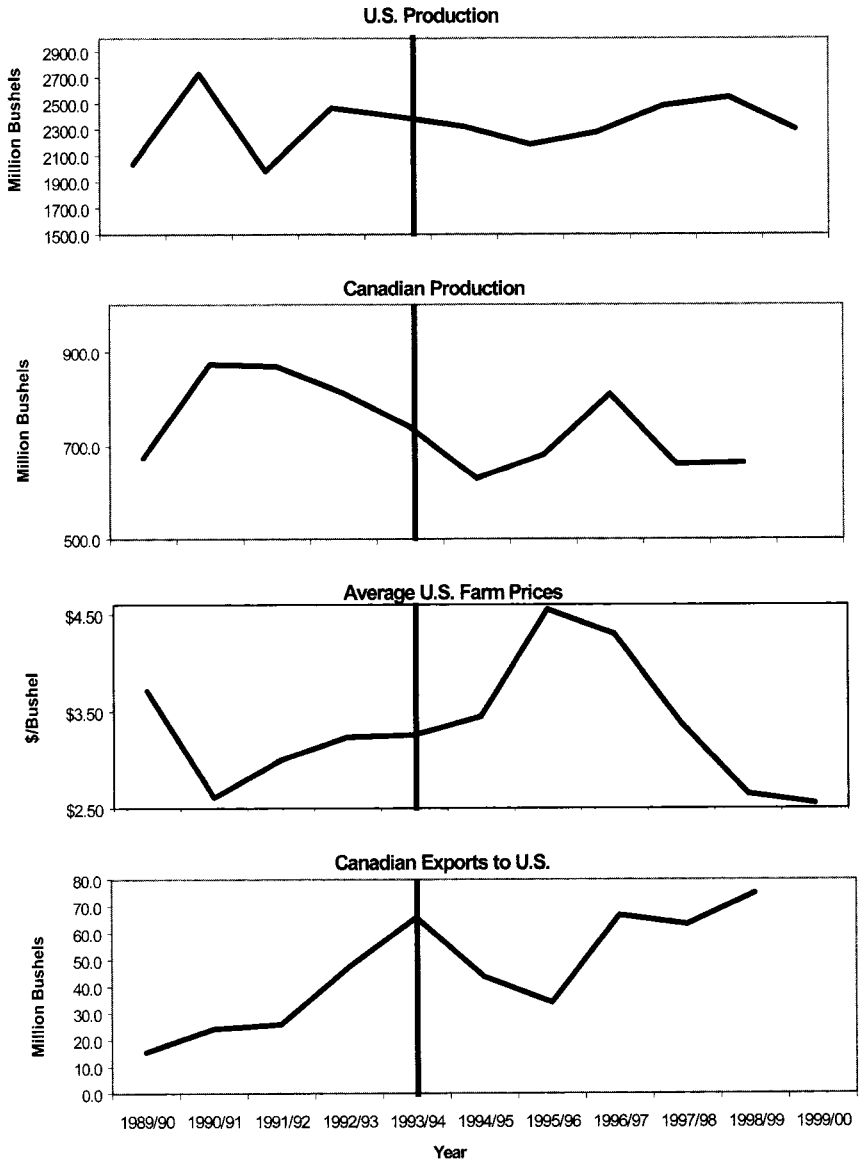
PAST DISPUTES: BASIC CAUSES AND IMPLICATIONS FOR THE FUTURE

We have described the wheat disputes between the United States and Canada in the first half of the 1990s, and the lack of formal disputes in the later 1990s. Now we consider the fundamental reasons behind that pattern of events and then go on to draw implications for future controversy or formal disputes.

On one level it seems clear that past disputes were driven by increased imports of wheat into the United States from Canada. Before the middle 1980s, shipments South were quite small and a tiny proportion of the total supply available in the U.S. market. Imports then began to grow gradually, with a notable jump in the 1990/91 crop year. A second large jump in 1992/93 brought import quantities to approximately three times the 1989/90 figure, and another jump in 1993/94 left imports at four times the quantity that had seemed high just four years earlier. During this period, wheat prices remained at low to moderate levels, with substantial U.S. government payments used to make up the deficiency between the market price and the government-set target price (Figure 2).

¹¹The Uruguay Round Agreement established the new World Trade Organization (WTO) which administers the General Agreement on Tariffs and Trade (GATT). Negotiations for the new GATT/WTO Agreement were concluded in Marrakesh on April 15, 1994 and the Agreement was implemented in 1995.

Figure 2: A Decade of Relationships in the Wheat Sector.



Source: Wheat Situation and Outlook Yearbook (various), Economic Research Service, USDA

The pattern of imports and price after 1994 has not been conducive for the United States to take trade actions against Canada on wheat. Serious and broad-based trade complaints seem to require two market conditions. First, a high level of recent imports compared to what market participants have come to accept as normal. Second, a low commodity price—again relative to some accepted norm. In the early 1990s both of those requirements held. Compare the period 1992/93-1993/94 for wheat to the period 1996/97-1997/98, as shown in Figure 2. In the earlier period we had an increase in imports of wheat coinciding with low prices. In the later period we had a jump in imports, but not low prices; and by the time wheat prices subsequently dropped, the import quantities had become a regular part of the market. This made it hard to complain that something new was causing disruption.

To justify even the 1994 dispute required a stretch of the imagination. As documented by Alston, Sumner, and Gray (1994), a number of political and meteorological events contributed to the situation in 1994. The political events include the pledges made by President Clinton to build congressional support for NAFTA and the process leading up to the signing of the URAA. The meteorological events include weather damage to the U.S. and Canadian crops in 1992/93 and 1993/94 that added to the volume of wheat trade, and the visibility of that trade. As the USDA/ERS (1999) now notes in its most recent evaluation of NAFTA:

Tariff reductions under CFTA[CUSTA]/NAFTA have increased U.S. wheat imports from Canada above what would have occurred without these agreements. However, sharp rises in U.S. wheat imports, such as those that occurred in 1994, have mainly stemmed from weather-related events. (p.3).

In particular, the combination of poor quality of the Canadian wheat crop with weather-reduced supply of U.S. feed grains, encouraged the flow of unprecedented quantities of wheat used for livestock feed. This low-quality wheat competed more with corn, sorghum and barley than with other wheat in the United States. Unfortunately, the USDA was not willing to admit this point, at least publicly, in 1994.

For trade actions to be pursued the government must have some potentially plausible legal basis for the action under current law and in accordance with current trade agreements. On these grounds, too, the period since 1994 has been less than conducive for trade actions. As noted above, prior to implementation of the URAA, the United States reserved the right to block imports whenever they threatened to materially interfere with the operation of a U.S. farm program. This so-called Section 22 waiver was written into GATT rules until the United States gave up that right for WTO members in January 1995 when the implementation of the URAA took effect. Ironically, even if the United States had conclusively won the 1994 ITC case, and if the President had applied limits on imports of wheat from Canada under Section 22, those restrictions would have been applicable for at most six months. Furthermore, the U.S. deficiency payment program, which was most at issue in the 1994 case, was eliminated in 1996 (Young and Westcott 1996).

The three main remaining legal bases for U.S. trade action on wheat imports from Canada are (i) special safeguard import barriers that may be used in the case of import surges; (ii) countervailing duties; and (iii) antidumping duties. Each of these requires demonstrated injury. Special safeguards may be applied only under limited conditions, in the case of large jumps in import quantities. Countervail and antidumping duties require evidence of trade practices that have not been shown in prior wheat cases.¹² A fourth, extra-legal, approach would be simply to apply quotas or other barriers- -accepting that, in accordance with WTO rules, this would give Canada the right to demand compensation.

CONCLUSION

The reduction in border measures following the introduction of CUSTA resulted in an increase in Canadian bread wheat and durum wheat exports to the United States. These increased trade flows resulted in four trade disputes.

In this paper we reviewed the Section 22 trade dispute in some detail. In Sumner, Alston and Gray (1994), we reported detailed results of simulations

¹²See USDA/ERS (1999, p. 21) for a review of recent NAFTA disputes across more than a dozen commodities.

using a fully-documented model that suggested very small effects of Canadian wheat imports on U.S. wheat prices and on U.S. wheat program costs. The USDA, however, asserted that the effects were much more important, claiming that in 1993/94, for instance, an import quota on Canadian wheat grain equivalent to 22.4 percent of the actual 1993/94 total would have reduced wheat farm program costs by \$230 million, compared with our estimate of \$16 million for that case. A host of unreasonable assumptions would be needed to replicate the USDA projections of large price impacts from relatively small changes in imports. The ITC staff conducted a simplified analysis that ignored most of the structural features of the wheat market. This approach led them to a set of estimates that fell generally about midway between ours and those of the USDA. The mixed set of findings and recommendations from the USITC may have been in part due to the mixed signals being given by the agricultural economists involved in the issue.

Regardless of any perceived or actual imperfections in the dispute settlement processes, wheat continues to flow from Canada to the United States with little restriction. There have been no legal challenges for the past five years, despite wheat trade at record levels and low farm prices (Figure 2). Perhaps the largest beneficial effect of CUSTA, NAFTA and URAA has been the implicit discipline placed on export subsidies in both countries. Any U.S. use of the EEP program would encourage exports to the U.S. markets. Similarly, any attempt by the CWB to use higher domestic prices to subsidize exports would be constrained by competition in Canada from imports from the United States.

Two features of government policy might cause continuing conflict. The export monopoly of the CWB continues to be an issue, particularly in terms of transparency. When U.S. farmers look North, they cannot help but suspect some trade effect of the CWB. However, there is growing awareness that the removal of the CWB's monopoly position might increase rather than reduce flows to the U.S. market. The issue is likely to remain unresolved unless Canada decides to remove these powers from the CWB.

The other possible source of conflict, is the recent disparity between the agricultural budget transfers offered by the United States as compared with Canada. When Canadian farmers look South, they cannot help but envy pay-

ments made to farmers or former farmers under various U.S. government programs. This is true even if measured or projected trade effects of these payment programs are at most small (Young and Westcott 2000).

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