Free Trade: Impact on North American Horticulture

PLENARY ADDRESS

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I am honored to have this opportunity to discuss the issue of bilateral trade and the potential impact it may have on the Canadian and American horticultural industries.

Since the time the present bilateral trade agreement was first considered in 1985, the direction, purpose, and long-term effect of such an agreement has been undergoing constant scrutiny and revision.

In other words, the potential free trade agreement has been shadowed by uncertainty from the start. You will note that I refer to the agreement as a "potential" agreement. When you consider the amount of negotiation, renegotiation, lobbying, and re-writing that has gone into it thus far, it would not be wise to consider it a document carved in stone.

From the Canadian perspective, free trade has been proposed in the past under several prime ministers, including Wilfred Laurier, who was defeated in an election campaign based on freer trade with the United States.

Patriotism on the part of Canadians, and the fear of being swallowed up by the influence of the United States, were major factors in the discussion on free trade.

Today, it does not appear much different. Any discussions on the issue—at least on the Canadian side—invariably bring in Canadian sovereignty and the threat to our cultural identity.

Questions are also being raised about the economic stability of our industries—and today I would like to talk about the economic implications of the proposed free trade agreement as it applies to the agriculture and food industry in Canada and the United States, and specifically the horticulture sector.

But, before I delve into the subject, I would like to provide some background about Canada and our agriculture and food industries in comparison to the same industries in the United States.

In total area, Canada is slightly larger than the United States—3.8 million square miles compared to 3.6 million for the United States. And, with a total population of only about one-tenth of the United States, it sounds like we have a lot of space for development. But, the reality is that much of our land is not suited to being densely populated—not to agriculture.

In the United States, about 45% of the land area is farmland. In Canada, the corresponding proportion is 5%. In Ontario, it is a little better—close to 7% of our land is farmland.

Compared to the nearly 2.2 million farmers in the United States, there are some 293,000 in Canada, and 72,000 in Ontario. In 1987, there were some 27,310 horticultural producers in all regions of Canada, compared to about 162,000 in the United States.

Geographically, Ontario is at the center of Canada, with four provinces to the west and five to the east. Ontario is home to more than 9 million people—more than one-third of the population of this nation.

As Canada's agricultural heartland, Ontario produces more than 200 different commodities, but the majors are livestock, dairy products, and corn. In addition, Ontario is home to about 40% of Canada's food processing industry. Primary production means more than $5 billion a year to Ontario's farmers. Food processing and the related industries add another $10 billion or more to that total. Out of 226 million acres of land in Ontario, we have only 16 million acres with class 1, 2, and 3 soils—and not all of this is in farm use.

Ontario can be divided into two regions—north and south. In the northern part, only a little more than a million acres is farmland. In the south, only half the available land—close to 14 million acres—is used as farmland. In the southwestern part of the province, our tomato capital, Leamington, is situated on the same latitude as the northern portion of California.

Let me give you some characteristics of Ontario's horticultural sector. The province is fortunate to have a diversified production and processing base, and enjoys being a net exporter of carrots, onions, and ornamentals to northeastern states.

However, our grape industry, centered around the Niagara area of the golden horse-shoe, as our tender fruit region is called, is experiencing difficulty competing with imports from large-scale, temperate-climate producers.

As well, our most productive area of the province, the southern half, also contains large concentrations of population, creating land-use competition.

In spite of this, our vegetable production in 1987 was valued at $405.9 million, with tomatoes being the largest crop commodity, contributing $103.6 million to the total.

Fruit production in the same year was valued at $126.8 million, with apples being the largest contributor at $43.1 million.

And, the cash receipt value for horticultural products—that is, vegetables, floriculture, and nursery products—contributed roughly $730 million to our $5+ billion agri-food industry in 1987.

Given this scenario, the free trade agreement, designed to re-shape the economic structure of business, poses a great deal of uncertainty for our agri-food industry. First, because it is an industry dependent on a relatively small land base facing competition from a much larger agricultural producer, and second, because Canada and the United States are the world's largest trading partners.

Canada and the United States have been successful trading partners for a long time. Exports are crucial to Canada's economy and account for almost 30% of our gross national product. Between 75% and 80% of Canada's total exports go to the United States.

From Ontario's point of view, Americans are our biggest customers. The two-way trade between the province of Ontario and the United States in terms of goods and services is a $100 billion annual business.

In terms of total Canadian agricultural imports, Canada imported 21.5% of fruits, 16.5% of vegetables, 2.6% of nuts, and 1.3% of potatoes from the United States in 1986. In terms of total U.S. imports, the United States imported 3.6% of Canadian vegetables, 2.1% of our potatoes, and 0.8% of our fruit and nut produce.

In fact, 1988 exports of horticultural products from the United States are forecast to be just more than $4 billion, with about $1.5 billion being exported to Canada. That $1.5 billion is roughly five times the value of horticultural exports from Canada to the United States.

The records for 1987 show that total imports of horticultural products to the United States were about $7 billion.

A moment ago I mentioned that Ontario, and Canada, is facing competition from a much larger U.S. agricultural industry. Let
me give you a more detailed picture of the scale of the American horticultural industry.

In 1987, fruit production in the United States was valued at $6.3 billion, with grapes representing 5% of total fruit production. Vegetable production was valued at $3.4 billion, with lettuce being the largest crop, valued at $8.6 million. Processed vegetable production had a 1987 value of $9.5 million.

Now, if these figures are combined for a total fresh and processed fruit and vegetable production value, it comes to $10.7 billion in 1987—about 12 times more than the total Canadian fruit and vegetable production value.

As well, the United States has about nine times as many food processing establishments as Canada, which produced about 19 times the total Canadian shipments in 1987.

In addition to the magnitude and excess capacity of the U.S. agriculture and food industry, Canada has several other disadvantages. For example, the climate of the United States allows production through most of the year, giving American growers a decided advantage over Canadian growers, who are at the northern fringe of production areas.

Most Canadian processing plants have shorter production runs, giving some U.S. competitors a cost advantage; the Canadian harvest season reaches its peak when U.S. supplies are abundant and prices are under pressure; some U.S. producers have cost advantages over Canadian counterparts for such necessities as labor, fuel, chemicals, and fertilizers; some U.S. growers also enjoy subsidized irrigation costs.

That is not to say that the Canadian horticultural industry is not without some advantages. The industry enjoys well-developed technology applied to the production and processing of food. The food produced in Canada is nutritious and of a high quality.

We also have the benefit of hard-working growers that are often part of cooperatives, which results in efficient storage, grading, and marketing. Our commodity marketing boards assist our producers with a system of supply quotas and price setting and contract negotiations with processors that contribute to fair and more stable market conditions.

And as much as a short growing season is a disadvantage in competing with multi-season producers, it is a benefit in terms of pest and disease control.

Given these disparities, how has the Canadian horticultural industry managed to compete so far? The answer is—tariffs. The seasonal duties we apply to imported American produce at peak Canadian production times is our main bulwark against severe domestic market disruptions by low-priced imports. However, with the proposed bilateral trade agreement, these seasonal duties as safeguards will go by the wayside.

On 2 Jan. 1988, Prime Minister Mulroney and President Reagan signed the legal text of the Canadian–United States free trade agreement.

At present, the agreement remains to be ratified by the Canadian parliament and the American congress. I should add that congressional committees have passed various sections of the agreement, but not the entire proposal.

The free trade agreement is a comprehensive deal that covers agriculture, automotive trade, cultural industries, customs, energy, financial services, government procurement, investment, safeguards such as temporary import quotas, services, standards and tariffs, temporary entry for business purposes, and wine and distilled spirits.

As it applies to agriculture and horticulture, the key elements are the elimination of all tariffs on agriculture and food products over a 10-year period and a special "snapback provision" for fresh fruits and vegetables.

The snapback provision means that tariffs on fresh fruits and vegetables can be re-introduced under certain conditions. In order for tariffs to be re-introduced, prices must be depressed below 90% of the 5-year average for 5 consecutive days before it can be applied, and that there can be no increase in acreage of that specific crop grown.

As you can see, this will be a difficult mechanism to use, and there is wide skepticism in the horticultural industry about its ultimate effectiveness.

A number of other sections cover Canadian–U.S. trade and tariffs in meat and poultry, grains and oilseed, products containing sugar, and general food products.

Our studies in Ontario have indicated that the agricultural package will have an overall negative impact on Ontario agriculture.

Although some commodity groups, such as Canadian beef and pork producers, have welcomed the agreement, the adverse impact of tariff removal has alarmed fruit and vegetable growers, and the supply-managed dairy and poultry industries. Our grape growers fear that the proposed agreement on wine pricing practices will mean the demise of the grape and wine industry in Ontario.

My ministry's main concerns are the loss of protection for sensitive industries, particularly the fruit and vegetable industry, and the true effectiveness of the tariff snapback process for the growers of these products. We are concerned with the adverse impact that will be experienced by grape growers stemming from the potential loss of protection through provincial liquor board pricing practices. We also believe that the dispute settlement mechanism is inadequate to ensure access to the American market.

The free trade deal provides for antidumping and countervailing duties to be addressed by a bilateral panel. However, the panel would only be empowered to determine whether any anti-dumping and countervail rulings made are consistent with Canadian and U.S. laws and regulations.

For example, the panel would only look at whether the U.S. or Canadian laws have been properly applied. It would not be able to look at whether these laws are fair. In effect, the panel replaces the Canadian and American courts as the final forum to enforce our respective trade laws.

As the agreement now stands, the Ontario agriculture industry risks the loss of an estimated $95 million annually. And I should note that this estimate does not include possible impacts on the food processing industries.

The estimated loss to Ontario fruit and vegetable growers is $50 million per year, and grape growers may lose an estimated $15 million per year—roughly half the value of Ontario’s grape crop for 1986.

Now, I want to make it clear that the Ontario government is in favor of an improved trading relationship with the United States. But, we view the proposed trade agreement as not being in Ontario’s, and Canada’s, best interests.

Before I analyze the impact on the Canadian agricultural and horticultural industry in more detail, I would like to examine the impacts of the proposed agreement on the American industry.

As we established, fresh fruits and vegetables account for about one-half of U.S. agricultural products exported to Canada. The removal of seasonal tariffs should result in increased shipments of fruits, vegetables, and other horticultural products to Canada, particularly from Michigan, New Jersey, Maine, and Illinois. However, with some Canadian tariffs being higher during the growing season, the phase-out of tariffs over 10 years could mean an increase in Canadian imports of fruits and vegetables to some states in the midwest and northeast.

In general, the U.S. horticulture sector appears to be supportive of the proposed agreement and is in favor of establishing better trading relations with Canada. Some parts of the horticulture sector are more positive about the deal than others.

Some examples: California wineries are pleased with the articles in the agreement that end certain discriminatory practices of the provincial liquor control boards. This provision will ensure that they have better access to the Canadian market and will allow for expanded operations.

The Michigan sour cherry producers are supportive of tariff removal, as it could provide an opportunity to expand into the Canadian market. Washington apple producers are supportive of tariff removal as well, and are calling for clarification on anti-dumping actions.

And, overall, the snapback provision is considered a useful safeguard in the United States to ensure that lower-priced Canadian produce does not enter the market.

On the other side of the border things are different. I will use the federal government’s assessment of the deal as well as my own ministry’s studies to give a balanced analysis.

As I said, the existing tariffs on fresh fruit and vegetables will be phased out over 10 years. However, for a 20-year period from the date of implementation, both countries retain the right to apply a special duty for these products, based on the conditions of the snapback provision.

As I stated earlier, the Ontario fruit and vegetable industries are skeptical about the feasibility of this provision. To be effective,
the tariffs would have to be re-instated as quickly as possible.

For certain commodities, peaches, for instance, relief from imports would be required as soon as the snapback conditions were met because of the short length of the marketing season. This concern applies to any commodity for which serious market disruption can occur—possibly as little as 2 or 3 days subsequent to any large U.S. shipment.

My ministry put this provision to the test. We took 20 fruits and vegetables and monitored their prices over a 3-year period. The results showed that a snapback on those 20 fruits and vegetables would have been triggered only 3% of the time over the past 3 years under the conditions of the proposed agreement.

Let me analyze the implications of the proposed deal on a commodity-by-commodity basis. I will begin with apple production. An area of concern to our apple producers is the growth of imports of juice concentrates. Surplus apples will continue to be used for juice, but at a lower rate of return to producers under the free trade agreement. The effect of reduced revenues will be small. The United States has no tariff on juice concentrate, and imports of third-country concentrate under the U.S. quota are already very small.

The grape industry stands to suffer the most. Canadian grape production is concentrated in Ontario and British Columbia, with smaller areas in Quebec and Nova Scotia. Where grapes are an integral part of the fruit operation, the entire business may be jeopardized if the other fruit crops cannot support the operation. Grape juice is subject to a tariff of 15%, and juice is an important outlet for surplus grapes in years of large harvests. The removal of this tariff could be a problem on such occasions, resulting in reduced grower returns.

Our domestic grape industry has a recent history of surplus production. Purchases of these surpluses have been made by the federal agricultural products board in 6 of the past 10 years.

The industry has also been assisted by both levels of government in a number of marketing, crop insurance, cultivar evaluation, and replanting initiatives.

In the area of tender fruit production, the processing of peaches and pears has been declining and the agreement is unlikely to affect the trend. Processing in British Columbia will also be adversely affected. Under the agreement, growers will be small. The United States has no tariff on fresh-market production of peaches and other deciduous fruit products that are affected to a lesser extent.

Canadian imports of fresh tomatoes in 1985 were valued at $89 million. Practically all of this product was destined for the fresh market, and 90% was supplied by the United States. While fresh-market tomatoes are presently imported year-round from areas such as Florida, Arizona, and California, removal of the seasonal tariff will be a concern to Ontario and Quebec producers because of the somewhat earlier growing seasons of nearby states such as Michigan and Ohio.

The floral product trade between Canada and the United States was worth about $63 million in 1986. In that year, Canada’s imports were $22.5 million from the United States, while Canada’s exports were $40.5 million in return.

From 1981 to 1986, Canadian imports of floral products from the United States increased at a rate of 28% each year, while Canadian imports of fresh produce from the United States increased at an annual rate of 8%.

The cut flower sector expects that the agreement could increase opportunities for local border trade based on local market conditions, while Canadian pot plant producers expect that it will increase Canadian access to markets in the eastern United States and along the west coast.

Overall, the proposed agreement would appear to offer growth opportunities for floriculture and a number of vegetables, including cole crops, potatoes, carrots, onions, sweet corn, greenhouse cucumbers, mushrooms, and frozen potato products—while having potentially disastrous effects on the grape and tender fruit industries.

Ontario processors of fruit and vegetables have the same concerns as many of our growers. The shorter harvesting season in Canada results in processing plants having higher fixed costs per unit. The loss of tariff protection is likely to speed up the rationalization of the industry, which is already occurring as a result of declining consumer demand for canned goods.

The adjustment pressures faced by our fruit and vegetable growers raises the issue of whether Canada will be able to maintain our more stringent health and quality standards, which increase the costs for Canadian growers, but may not protect Canadian consumers from imported products.

The agreement calls for harmonization of standards. Harmonization, as defined in the text, means “making identical”, which entails making seed, fertilizer, pesticide, and plant and animal health standards identical in both countries. For us in Ontario, this means that our high standards of food quality may have to be altered to meet the differing standards of the U.S. industry. On the safety side, harmonization means that we might have to accept imported food products grown with chemicals not registered in Canada or containing amounts above our accepted limits.

For example, both U.S. and Canadian producers use captan to control disease in many fruit and vegetable crops. However, Canadian standards for residue levels are much more stringent. The United States allows captan levels of 10 parts per million on cherries, lettuce, and spinach. Canadian standards allow only five parts per million on cherries and spinach, and residue levels of zero on lettuce.

At present, we currently have the right to turn produce back at the border that contains residue levels higher than our permitted standards. The future of this right under free trade remains to be seen.

In the legal text of the agreement, a general commitment has been given to the harmonization of technical regulations and standards. Implementation committees have been established, but it remains uncertain what degree of harmonization will be achieved.

Any bilateral effort to harmonize standards should not be aimed at lowering standards that ensure the health and safety of consumers, plants, and livestock, but should reduce the incidence of standards being used as trade barriers. This exercise could improve our trade and trading relationship immensely.

I realize that my analysis of the proposed free trade agreement has been a lengthy journey through a complex subject. But, the recurring themes throughout my talk have been uncertainty, anxiety, and economic disparity.

I have tried to outline that Canada and the United States need each other for trade. We share a continent and are proud of our relationship across the border over many years. But, when we talk about how much of a benefit free trade will be to Canada, as proposed by the agreement, there are several unresolved issues.

The economic viability of our agricultural industry is the major issue. Granted, there will be adjustment. But, the ambiguity surrounding the application of basic safeguards, such as the snapback provision, leaves us on unstable ground. Simply put, we are smaller and newer at the international agro-food business. To saddle our producers at this crucial time would change forever our self-sufficiency and their growth. Ontario is arguing against this free trade agreement. The jury is still out.

The U.S. Congress is now working on a decision whether to accept or reject the proposed agreement. President Reagan signed the free trade agreement letter of transmittal on 25 July 1988, and has asked congress to give this legislation fast-track approval. The expectation among most U.S. senators is that the proposal will be voted on by autumn and will most likely be accepted.

In Canada, the proposal is awaiting passage by the senate, with the chance that it will be blocked and become an election issue. By 15 Dec. 1988, the U.S. trade representative, Clayton Yeuter, is required to submit a report to congress on Canadian implementation of the agreement.

The future of the deal, and two countries’ horticulture industries, hangs before the U.S. Congress and the Canadian Parliament.

Whatever the outcome, I would suggest that both nations face even greater challenges in the current round of the multilateral trade negotiations. But that is another story.


The federal Conservatives were returned as the majority party on 21 Nov. 1988. The Canadian Parliament passed the legislation in Dec. and it became effective 1 Jan. 1989.