



Voluntary Report - public distribution

Date: 10/4/2000

GAIN Report #CA0154

Canada

Grain and Feed

Minister Goodale Defends the CWB at NAFTA

Conference

2000

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Report Highlights:

This report provides CWB Minister Goodale's speech to the S. Dakota State University NAFTA conference as well as the text from a press question and answer session. Goodale defended the CWB against the NDWC's section 301 petition, and blamed increased EU and US subsidies for exacerbating the oversupply of grains in the world market which in turn have lowered grain prices. The minister's response to the 301 petition was strident: "... we must find a response -- maybe your (U.S.) pasta exports (75% of which flow into Canada)."

GOODALE DEFENDS WHEAT BOARD AT SDSU NAFTA CONFERENCE

The following is the text of a speech given by Agriculture Minister Lyle Vanclief at the South Dakota State University (SDSU) NAFTA conference, at Brookings, South Dakota on September 28, 2000.

Thank you, Professor Burns. Governor Janklow. Minister Vanclief. Distinguished guests. Ladies and gentlemen. Good evening.

It's a rare occasion when two Canadian Cabinet Ministers escape at the same time from a Parliamentary session in Ottawa to appear, together, at a conference in another country.

The fact that both the Canadian Minister of Agriculture and the Minister responsible for the Canadian Wheat Board have accepted invitations to be here is compelling evidence of the prime importance we attach to improving the Canada-U.S. farm trade relationship.

Before I get into what I want to say this evening as Minister responsible for the Canadian Wheat Board, I would like to set some context from the perspective of another role I play in the Canadian government – that being the Chairman of our senior Cabinet Committee on Canadian economic policy. I would stress two key points.

First, given our small domestic population (about 30 million people), Canada is compelled to be one of the world's most outward-looking, trade-focused nations. Success in the international arena is not merely "optional" for us; it has been front and center on our government's agenda since we came into office in 1993.

A full 43 percent of our Gross Domestic Product and one-third of all jobs in Canada are dependent upon international trade. By contrast, in Europe, only about 28 percent of their GDP is trade-related. For the Japanese, it's 14 percent. For the United States, it's only 11 percent.

So you can see why Canadians are so rivetted upon trade issues.

Secondly, like the American economy, our economy in Canada is in the midst of its best period of sustained success since the 1960's. We are growing at a robust annual rate of close to five percent, among the highest of the countries who are members of the Organization for Economic Cooperation and Development (the OECD).

Federal deficits are gone. We are working on our fourth consecutive balanced budget. The national debt is falling. Taxes and tax rates are coming down. Jobs are up. Unemployment is down and interest rates are low and stable. All major economic indicators are positive.

But also like the U.S., we have one key economic sector – agriculture and, in particular, the grain sector – which is not sharing in today's general boom. Indeed, significant numbers of farmers on both sides of our common border are suffering one of their worst periods in two decades.

After several years of high production levels in each of the world's major grain growing zones (North America, South America, Europe, Australia and China), global grain inventories remain large. Commodity prices are far too low to be considered "reasonable" by any decent standard.

Markets are heavily distorted by the scourge of subsidization -- overt export subsidies and, more and more, by ill-conceived domestic support programs that have trade-distorting effects. And on top of all that, of course, the vagaries of nature.

Your farmers and our farmers have both been hard hit. Their pain is quite similar. It's not a pretty picture for too many farm families and too many rural communities in both Canada and the United States.

But what our Canadian farmers find hard to understand is the almost knee-jerk reaction in many quarters in the United States to paint Canadian farmers and Canadian grain as the source of your difficulty. A handy scapegoat. A whipping boy. A convenient foreign target to blame. Without a shred of fact or logic to support the allegation.

My home town in southern Saskatchewan is just a few miles north of the Montana-North Dakota border.

In the coffee shop in Minot, I hear the rumour that the Canadian Wheat Board is heavily subsidized. In Wolf Point, there's an assertion that the CWB undercuts U.S. prices. In Bismark, anecdotes about Canadian grain "flooding" into the United States, while not a bushel of American grain can move north into Canada.

Each one of those allegations is factually wrong. Repeat, they are not true! But they get repeated and clung to as if they were gospel -- creating anger and bitterness on both sides of our border. And wasting time, effort and money chasing a false bogeyman, while the cancer that is really killing world grain markets goes untreated and grows more malignant.

In framing my argument to you this evening, I am reminded of the words of two remarkable and remarkably different U.S. Presidents.

The first is John F. Kennedy. In 1962, he said, quote: "The great enemy of the truth is very often not the lie -- deliberate, contrived and dishonest, but instead the myth -- persistent, persuasive and unrealistic."

We need to clear away the myths that I've referred to in Minot, Bismark, Wolf Point and elsewhere. A healthy and mutually satisfying bilateral relationship cannot be sustained on a foundation of anecdotes and rumours. It must be based upon facts.

So, what are the facts about Canadian grain sales into the United States? Those facts have been investigated and reported upon exhaustively.

For example, in the summer of 1999, the Economic Research Service of the U.S. Department of Agriculture published an analysis of the basic factors driving Canada-U.S. trade in wheat. It

refuted allegations of untoward behaviour on the part of the CWB.

But even more definitively, over the past decade, the conduct of the CWB has been scrutinized no less than eight times by a variety of official American government agencies:

- by the U.S. International Trade Commission in 1990 and 1994;
- by the U.S. General Accounting Office in 1992, 1996 and 1998;
- by a bi-national panel, and then by an independent international auditor, under the Canada-U.S. Free Trade Agreement, beginning in 1993; and
- most recently, by the U.S. Department of Commerce in 1999.

Eight detailed, excruciating examinations, and eight consecutive clean report cards – each confirming that the CWB is a fair-trading entity, operating fully within the rules of the NAFTA and the WTO.

So you can appreciate, I hope, the frustration caused by this summer's news that yet another proceeding is being launched -- this time by the North Dakota Wheat Commission under section 301 of the U. S. *Trade Act*. A new investigation methodology, but the same old allegations.

Another source of evidence that tends to vindicate the Canadian Wheat Board in world markets can be found in an independent survey of global grain buyers, conducted in 1996. It looked -- through the eyes of customers -- at Canadian performance in comparison to American, European, Australian and Argentinean competition.

It found the highest ratings for Canada -- leading the pack -- on such factors as intrinsic quality, cleanliness, consistency, technical support, dependability, contract execution and customer service.

Our customers' biggest criticism? The CWB wants prices that are too high! That's hardly the reputation of a market under-cutter. By contrast, those same global grain buyers ranked the United States (not Canada) as the leading source of lower priced grain.

The Wheat Board seeks to market Canadian wheat and barley as differentiated, high-quality products, tailored to specific customer needs, rather than just homogeneous bulk commodities. Its target is the top-end of the market, not the bottom. On Wheat Board fundamentals, there is no great mystery.

It functions largely like a marketing cooperative, on behalf of farmers. It is not a "supply management" agency. It is financed by farmers, themselves, out of the proceeds of what it sells.

After all handling, transportation and marketing costs have been deducted, the net returns are passed through to farmers. And farmers make their individual decisions based upon direct market signals – without subsidization.

Those signals lately have not been happy ones. They have reflected the global oversupply situation, weak buying power in certain traditional markets and the depressing impact of trade distortions – flowing from European subsidies and, with all due respect, also from American subsidies.

Canada completely eliminated all grain export subsidies back in 1995, when our former rail transportation program was terminated. Since then, we have been out of the export subsidy game – lock, stock and barrel.

Without subsidization, a Canadian seller has only one over-riding objective -- to get the best possible market price. Not to leave any "value" on the table. The CWB has no interest in depressing prices anywhere.

All wheat sold by the CWB into the United States is priced off U.S. commodity markets, primarily the Minneapolis Grain Exchange.

And let me deal, for a moment, with the criticism that the CWB is not as transparent as its private sector competitors.

For one thing, the Wheat Board does indeed participate in open tenders, just as private grain companies do.

Furthermore, it is fully audited every year by the well-known and respected international accounting firm of Deloitte & Touche. Full audit reports appear publicly every year in each CWB annual report.

When was the last time that you saw the publication of a fully audited financial statement of any other major grain trader's revenues and costs? When was the last time you saw any of the private grain companies announce the specific prices at which they made actual sales?

The Canadian Wheat Board, in fact, discloses more information about its operations than any of its commercial competitors, the largest of which are very privately held and disclose little or nothing. It is also important to note that, in terms of governance, the CWB is a very different organization today from what it was just two years ago. We have amended the applicable law, effective January 1st, 1999 – the most significant changes in half-a-century.

Specifically with respect to the United States, the CWB is explicitly obliged by that law to adhere to the principles of NAFTA.

But the new law does more than just that.

The Canadian Wheat Board is no longer a government Crown Corporation. In our Parliamentary language, it is no longer "An Agent of Her Majesty."

The old governance system of government-appointed Commissioners is gone. For the first time in its history, it is run by a modern, corporate-style, 15-member Board of Directors. Ten of them

– a full two-thirds controlling majority – are farmers elected directly by farmers.

The other five directors are not government officials. They are drawn from the private sector, reflecting a broad range of expertise -- the grain trade, the legal profession, the oil industry, the mining business and international banking.

All of the powers of the CWB are vested in the hands of its directors, with an obvious new line of direct accountability to farmers.

The new law also provides the Wheat Board with more market-oriented flexibility. For example, the directors may authorize cash trading for wheat and barley, different pooling periods, early cash payouts, and negotiable producer certificates. New "fixed price contracts" have already been implemented.

All of these possibilities are in line with the recommendations of the 1995 Canada-U.S. Joint Commission on Grains. Farmers assume the market risk, not the government.

These are among the "facts" that need to be taken into account in the grain trade relationship between our two countries:

- the long record of studies and investigations which have repeatedly vindicated the CWB;
- the absence of trade-distorting subsidization in Canada;
- the CWB's focus on the high-end, not the low-end of the market;
- its new governance system, its public accountability and its legal obligation to adhere to trade agreements.

Also factually important is the volume of grain shipments involved.

Your annual wheat production averages about 65 million tonnes. Ours is less than half that -- about 25 million tonnes.

You typically export about 45 percent of your production (30 million tonnes). We must export more than 70 percent of ours (18 million tonnes).

The Canadian Wheat Board conducts business in about 70 different markets worldwide, mostly in Asia and Latin America. Only a small volume is actually sold into the United States -- typically 10 percent or less of our total foreign sales -- and that constitutes less than three percent of your production level.

I mention these numbers just to underscore that you could not fairly describe this small Canadian volume as any kind of "flood" or "avalanche," as some have alleged.

It is a modest volume, and it moves in response to the normal ebbs and flows of actual U.S. demand -- in particular, quality specifications.

The simple fact that our CWB system is "different" from yours does not mean that it is "wrong" or "unfair." Nor does it mean that it or other systems cannot operate under equivalent international disciplines.

The structure is surely not the crucial point. Actual market behaviour is the key issue. We are ready to have a rational discussion about so-called "state trading enterprises." But it must be based upon real facts, not oft-repeated myths, and it must not put marketers like the CWB at an unfair disadvantage compared to other types of marketers who exercise similar or even greater market power.

I mentioned at the outset that I had the comments of two former American Presidents in mind tonight. Beyond President Kennedy's warning against the destructive power of myths, I also want to refer to the words of Ronald Reagan.

During his Presidency, he observed, quote: "While America counts many friends across the globe, surely (there's) no better friend than Canada, and though (Americans) share bilateral interests with countries throughout the world, none exceeds the economic, cultural and security interests that (Americans) share with (Canadians)."

In that spirit, we have a prime opportunity to work together to do something meaningful about that real culprit of excessive, counter-productive subsidization that is killing the marketplace for both of us.

Rather than flailing away at each other -- in an exercise in which only the trade lawyers and lobbyists have made any profit -- we can and should focus together on making profits for farmers.

Equally important, we need to be worried about a downward spiral of trade actions and reactions that could easily get out of hand. You attack our grain shipments on grounds that we believe are ill-founded, and we must find a response -- maybe your pasta exports (75 percent of which flow into Canada). It's a mugs' game with a lot of collateral damage.

Instead, we can make common cause with Australia, Argentina and other Cairns Group countries to take on those European policies that inflate production, distort markets, depress prices and throw up trade barriers.

When I met with the European Union a couple of weeks ago, they told me they only subsidize to match American programs. U.S. officials have told they only subsidize to match the Europeans. In the meantime, farmers in Canada get ambushed in the cross-fire. We have to break that vicious cycle.

And it can be done, if we work together.

To improve market access. To remove trade barriers. To eliminate export subsidies. To reduce trade-distorting domestic supports. To fairly discipline export credit schemes and the misuse of food aid.

We need to manage excess global supplies in ways that do not depress commercial markets.

We need to foster economic stability and renewed growth in potentially big-volume markets in Asia and Latin America.

And we need to address the bitter irony that, while we quarrel about the relatively small grain flows across our common border in North America, more than 800 million people in this world live in the shadow of starvation.

How can we help stimulate their economic and social development, so they can ultimately emerge as new customers for our producers?

Now there's a challenge and a cause that should inspire our best brains and our most concerted collaboration.

Surely, by working cooperatively together, we can muster the will and wisdom to build and strengthen global markets everywhere -- in the best interests of farmers and, indeed, all of humankind.

GOODALE Q&A SESSION WITH PRESS

RALPH GOODALE (Minister, Natural Resources and Canadian Wheat Board): The university is hosting this week an international conference on Canada - U.S. farm trade relationships, particularly in the light of the NAFTA and other trading agreements. And both Agriculture Minister Vanclief and I are here to hopefully explain and very vigorously defend Canadian agricultural trading practices, particularly in relation to grain, to try to improve the level of understanding in the United States about the way in which Canada conducts itself and to make the point that Canada is not at all the source of farm difficulties in the United States.

Indeed, Canadian farmers are facing exactly the same kind of difficulties in terms of low income on our side of the border. We both share that common problem in both Canada and the United States, and it's important for the two countries to address the real problems in the world that are causing that depression in farm income rather than quite frankly wasting time and effort in trade actions where we batter away at each other but miss the real point.

I should also note that at this conference, there are some Canadian farm leaders in attendance. For example, Mr. Don Dewar, from the Keystone Agricultural Producers in Manitoba, will be in attendance. There will also be representation from the Canadian Wheat Board. As well, the Minister of Agriculture from Manitoba and the Minister of Agriculture from Saskatchewan are both expected to attend, as well as a number of members of Parliament from Canada.

So the Canadian side of the equation is very strongly and thoroughly represented and we hope over the next two days to be able to improve the level of knowledge and the level of understanding with respect to agricultural trade issues between our two countries.

Essentially, Minister Vanclief and I will be making two key points. First of all, Canada is not the problem in terms of the farm difficulties that are being faced in the United States. And we come armed with very substantial facts and figures to demonstrate that point in very clear terms. It is not Canadian grain. It is not the Canadian Wheat Board. It is not Canadian farmers that are causing the difficulties in the United States, as I said before. Those difficulties are also occurring in Canada and it's an issue of farm income that is far too low, which is not a problem caused by Canada. The root cause of that problem are subsidies, particularly export subsidies and trade distorting domestic programs that depress prices around the world and make markets rather miserable.

And if you're looking for the source of that problem, which is really the root cause, those subsidies originate largely in Europe and in the United States itself. Canada is not the issue and Canada is not the problem.

Secondly, we will be making the point that we would all be better off not by battering away at each other through specious trade actions and reactions. Those are time-consuming, they are expensive, they are frustrating and quite frankly, they achieve very little at the end of the day.

What Canada and the United States should be doing is joining forces, making common cause together and also with other countries like Argentina and Australia and perhaps others that may be involved in the Cairns group to focus attention upon the issue of subsidization and to take on the Europeans for the processes in which they engage – limiting market access, stimulating over production, distorting trade by their subsidy programs and depressing prices. If there was a common front put together between Canada, the United States, Australia, Argentina to address those issues in a unified manner, we would be really getting at the root of the problem and doing something to solve it rather than engaging in these internal fights within North America.

We think it is very important to carry that message and to fight the fight on behalf of Canadian farmers in every available forum. This is a good one. It is in a grain-producing State. It is sponsored by an academic organization. It will attract people from academia. It will attract people involved in farming and ranching in this part of the United States. It will attract farm leaders and farm organization representatives. It will attract also media attention and we think this is a good forum in which Canada can get out its messages, number one, that we are a fair trading country; that we do operate fully and fairly within all of the trade rules that apply to NAFTA and the WTO.

That point has been investigated no less than eight times over the course of the last decade. And just so you don't think that's a rhetorical excess, I'll give you the details on that. The Canadian grain and the Canadian grain trading practises have been investigated by the United States International Trade Commission in 1990 and 1994; by the U.S. General Accounting Office in 1992, 1996 and 1998; by a bi-national panel and then by

an independent international auditor under the Canada - U.S. Free Trade Agreement beginning in 1993 and continuing over a period of two years. And then most recently by the U.S. Department of Commerce in 1999.

Eight very thorough, exhaustive and exhausting examinations and at the end of the day, the score is eight to nothing in Canada's favour.

So we have obviously had these issues thoroughly ventilated. There is no ground for an allegation or an action against Canada, against Canadian farmers, against Canadian grain or against the Canadian Wheat Board. That kind of exercise is quite frankly a total waste of effort and it misses the real point. The real point is subsidization. That subsidization flows from Europe and the United States. That's the root cause of the problem and that is where we should all be focussing our attention if we want to do something to improve the incomes of farmers on both sides of our common border.

So I think I'll leave it with that as a preliminary introduction and I'd be happy to try to answer your questions on this conference or other matters that you might want to raise.

QUESTION: I've seen your speech that you raised the possibility of blocking the imports for the United States. How seriously are you looking at that and can you talk about the value and the volume of those imports?

RALPH GOODALE: The point I'm trying to make is this. When you get into a series of trade actions and reactions, you get on a very slippery slope. One country feels aggrieved. They feel they need to respond. They respond. The other country feels aggrieved. They feel they need to respond back in return, and you get into a very nasty downward spiral of action and reaction and reaction again.

And I simply want to make the point that is totally counterproductive. It's a mug's game. At the end of the day, there aren't a lot of winners but there's a lot of collateral damage along the way. I just want to make the point that these kinds of specious trade proceedings are not without consequences.

QUESTION: Mr. Goodale, did you raise... (unclear)... are you serious about using it?

RALPH GOODALE: I want people to know Canada will defend its position and it's obviously too early to speculate in any details about what the proceedings may be. There's a lot of water yet to go under the bridge. But the point needs to be made that the downward spiral is dangerous and people should not take for granted that they can abuse Canada without some reaction in return.

QUESTION: Pierre Elliott Trudeau has passed away in Canada today and I apologize for barging in this way, but I wondered if you had heard and your reaction.

RALPH GOODALE: Yes, I have. I have heard and obviously, I'm very saddened by Mr. Trudeau's death. I first got involved in political life when Pierre Trudeau was first the Prime Minister of Canada. I had the honour to serve in his government from 1974 until 1979. A very interesting time and a very interesting government and things like the Western Grain Stabilization plan got done and the prairie branch-line rehabilitation program got done.

It's obviously with a very profound sense of loss that Canada will receive the news today of Mr. Trudeau's passing. And to those of us who had the privilege to know him and to work with him personally, it is a very real personal loss. He was a very strong

leader, a person who knew who he was and where he wanted to go and he will be very sorely missed by the vast, vast majority of Canadians.

QUESTION: On that note, you are obviously quite aware of the history of your portfolio. Was Mr. Trudeau, do you believe, badly misquoted over the years about his remark to farmers about selling their grain?

RALPH GOODALE: Oh yes, that one became quite a bit of mythology, or folklore. If you recall the incident, it was in the midst of a rather boisterous demonstration.

What Mr. Trudeau was saying was that the grain sales on behalf of Canada are not made directly by the government of Canada. They are indeed made by the Canadian Wheat Board, which was simply an explanation of fact. But obviously, in the political turbulence of the time, that remark got rather taken out of context and extrapolated far beyond its original meaning. So I think that was a bit of a misquotation that got a life of its own that was not at the end of the day all that very accurate.

QUESTION: Is there one defining moment, especially when you served as part of Trudeau's government, is there one defining moment throughout his career that you will recall that impacted upon you personally?

RALPH GOODALE: Well, I can think in particular of the two policy measures that I referred to in my earlier remarks. The Western Grain Stabilization plan, which was probably one of the very first initiatives aimed toward farm income safety nets, and the prairie branch-line rehabilitation program, which at the end of the day pumped hundreds of millions of dollars in the prairies in rebuilding branch-lines into virtually every corner of the province.

Those were very large initiatives, very expensive initiatives at the time, and initiatives that absolutely needed in order to pass the Prime Minister's personal endorsement. And while the political times were not all that favourable to it, and there was not a lot of political credit to gain, he made the decision that made the finances available to put these two programs into place.

QUESTION: Okay, we've got troubles internationally, but right now, it looks like we've got some problems here in Western Canada regarding transportation. How are we going to solve that one?

RALPH GOODALE: Well, the parties that are involved in the grain handling and transportation system have the policy framework that was announced by the government in May. They have the legislation to amend the *Canada Transportation Act* that was passed in June. They have the operating Memorandum of Understanding that was finalized at the end of June and published during the summer. So the elements of the new system that will be more commercial, more contractual, more competitive are all there on the public agenda. And the parties have been negotiating and even though the elevator companies had asked a couple of weeks ago for a form of mediation, it has now been agreed and understood between the various parties that a better approach would be to carry on their discussions among themselves and work out their new contractual arrangements as mature, responsible business partners who need to get along with each other and to work well with each other.

I think when you look at it, all of the players in the system have been used to an

operating environment for decades that was heavily administrative and heavily regulated. And that environment has now changed. It is emerging as a commercial competitive contractual system and it will probably take a little bit of time while the parties get used to that new environment and used to the new business relationships they have to establish for everyone to sort of settle in and settle down.

And I would note that in the meantime, while those discussions are going on, the volume of prairie grain being delivered and the volume of prairie grain being put into export position is in most cases so far this year exceeding last year, so that there has not been to this point any disruption in the system, nor should there be. And I'm looking forward to the parties getting on with their new relationships.

QUESTION: There's a wire story out today that says that the North Dakota Wheat Commission is filing a petition with President Clinton... (unclear)... to ask him to take retaliation against Canada if there's evidence that the Wheat Board is an unfair trader. So even as you speak there or about to speak and try to calm the waters, it sounds like they're getting very choppy, and I wondered what can you do to stop this? Apparently, they're going to make a decision on whether or not to endorse this petition on October 23.

RALPH GOODALE: Well, this is not a new proceeding. The North Dakota Wheat Commission announced that they were thinking of this sort of activity back in the spring. A couple of weeks ago, they indicated specifically that it would be a proceeding under Section 301 of the U.S. *Trade Act* and the application has been filed now and the response date from the U.S. government is later on in October, as you point out.

So we're obviously aware that this kind of action is being contemplated. But I think whether there is this kind of action specifically on the table or not, it is exceedingly important for us on the Canadian side to work in every available forum to get our side of the message out. And that's quite frankly a never-ending process.

When you look at it, we have just a huge trading relationship between Canada and the United States, two ways across that common border, in virtually every kind of economic activity you can think of and the agricultural activity is especially important. It is good trade. It is valuable both ways. Both countries benefit very significantly from it and we should be looking at ways to liberalize, improve and enhance the trade rather than throwing up road blocks and impediments that are in our judgement not helpful and entirely counterproductive.

So we just have to keep working at this constantly. When there is a proceeding like this, well, obviously we defend ourselves very, very vigorously with every tool at our disposal. But broader and more generally than that, we also need to make sure we're improving the information level, providing the facts and figures, the solid data that makes the point that Canada is a fair trading nation, just as those eight investigations over the course of the last decade have proven.

QUESTION: Could you tell me first of all, the timing of this is interesting. You have a U.S. election coming up in November. We have a Canadian government and Canadian opposition debating when the Canadian elections should be. Talk to me about how you view the politics and the timing of the 301 exercise?

RALPH GOODALE: Well, the 301 proceeding was started by the United States side before there was any serious speculation about an election on the Canadian side.

QUESTION: Right, not in the U.S.

RALPH GOODALE: Whether there'll be an election or not, of course that remains to be seen. But on the U.S. side, there very definitely will be an election. And if you track back over four year cycles into history, I think you do find that the controversy surrounding issues like international trade tends to accelerate according to that election cycle. It probably does have a political tinge or a political overtone to it, but in our judgement, it's quite frankly too important to be put through that mill every four years.

Because I say it again, the trade both ways, going in both directions is valuable in very large terms to both countries, and we should be looking for ways to improve that trade rather than finding roadblocks to throw in the way, whether that's a convenient stump to get on at election time or now.

QUESTION: You've mentioned the possibility of retaliation. I'm interested in what are your legal options beyond defending yourself vigorously at the 301 exercise in Washington? What are your legal options beyond that?

RALPH GOODALE: Well, we will obviously have to examine those options very carefully. Quite frankly, I am not in a position today to provide that detailed legal analysis. We are with our trade advisors and lawyers examining first of all of the potential consequences. And secondly, all of the tools that could be at our disposal to defend ourselves in the first instance and then respond appropriately at some future date, should that become necessary.

QUESTION: Presumably, that would mean the NAFTA and the WTO?

RALPH GOODALE: Yes. We've worked very hard to get a rules-based, multilateral trading system into place. Whether that is a regional arrangement like the NAFTA or a global arrangement like the WTO, we think it's exceedingly important for all countries to respect the rules and to play by the rules.

If you don't have a rules-based system, then it's just a case of the biggest and the toughest in the marketplace automatically wins, no matter whether they're right or not. So the rules-based approach is one that is very important from the Canadian point of view.

QUESTION: As you so rightly pointed out, this is the ninth time that the Canadian Wheat Board's being investigated. Do you think the message just isn't getting through? Is it just a good political football? How do you prevent this kind of thing from cropping up whenever there is either a discontent because of a farm income crisis or a political election taking place?

RALPH GOODALE: Well, you said is it a political football or is the message just not getting through? I think probably it's a combination of both those things. There are obviously significant political pressures in the United States, people who representing the grain-growing States to constantly resort to this type of action. Whether there's any factual base or factual rationale, it's sort of a convenient tool to use because it's politically popular.

I think there's also a major gap in information and facts and understanding. For

example, earlier this spring, I spoke at a meeting of the Canada Grains Council in Winnipeg. Also at that same meeting of the Grains Council was the former chairman of the American Farm Bureau who is a very well-known, well-respected, learned and knowledgeable individual. And I made this point, that Canada has been investigated eight times already and I cited chapter and verse and what the proceeding was and what the State was and what the investigating agency was and pointed out that Canada had won eight out of eight.

This gentleman representing the Farm Bureau indicated that was news to him. He wasn't aware that there had been eight previous investigations.

I remember not long ago addressing a meeting of the U.S. Wheat Associates, which is an American farm lobby organization. And I pointed out that Canada does not have a grain export subsidy in place. And somebody in the audience who was about to join the executive of the organization said, yes, you do. You have your Grain Transportation policy. And I said no, that was abolished in 1995. And we have been out of the train export subsidy business lock, stock and barrel since then.

So there are obviously massive information gaps. And quite frankly, I think this is an issue that we have to take on with far more vigour and in a lot more systematic manner to reach the farm leaders, the farm media, the policy-makers at both the State and the national level to get much, much more of this factual information in the common public domain so that they can fill in some of that information gap that constantly bedevils us.

QUESTION: What are you going to do, then? What are we likely to see come out of either your office or Ottawa to facilitate that?

RALPH GOODALE: Well, we've already taken some steps. You'll recall that about a year and a half ago, Mr. Vanclief negotiated with Secretary Glickman an agricultural accord to try to alleviate some of the trade irritants in agriculture between the two governments, or two countries. That accord provided for a much more concerted exchange of people and information and ideas at the national level, the state level, the local level, farmer to farmer, organization to organization and so forth.

Since that time, there has been encounters between for example the U.S. Wheat Associates and the Canadian Wheat Board directly face to face, across the same table.

So some steps have already been taken to encourage greater interconnection, greater exchanges of information, more education about each other on both sides of the border. Maybe because we're so close and such good neighbours in most things, we tend to take each other for granted. And when we trip over a problem, we're kind of surprised and get mad in a hurry.

We just have to pick up the pace on the factual side of this equation. I think the steps that were taken in the cross border accord of 18 months ago are a good beginning, but that in itself is not sufficient and I think we're going to have to put far more time and effort and resources into this to make sure that on the Canadian side, we get our story out.

QUESTION: On that very point, the North Dakota Wheat Commission is getting some of its so-called facts from Canadians and notably the Western Canadian Wheat Growers Association and their Full Farm Magazine. They quote, for example, from the

Wheat Growers that the pool account is nothing but a flush fund that the Wheat Board can use to push its weight around in markets. It also refers to the fact that the Wheat Board brags about price discrimination and if it can price discriminate, then why can't it undercut in U.S. markets?

I'm wondering what your reaction is to the fact that Americans are getting some of their arrows from the quiver of Canadians?

RALPH GOODALE: Well, partly the fact that happens in a rather misinformed way is the result of there being such a big information gap on the American side and if there's such a big gap, then any bit of information will do, no matter whether it's accurate or not. So that just goes to reinforce my earlier point, Allan, that we have got to be far more proactive and aggressive in making sure that the facts are clearly known and understood.

Now, I suppose critical comments on the Canadian side would naturally be glommed onto by the Americans to support their position, and I suppose that if we were involved in some other trade proceeding the other way around, we might rely on comments on the American side to kind of inflate our rhetorical position on the Canadian side.

But what is very important here is when these matters come before the senior decision-makers within the U.S. government who will actually draw the conclusions and make the decisions under the 301 proceeding, we need to make sure that they are fully informed about all of the real facts of the situation and not simply proceeding on some anecdote or some rumour or some myth they've heard somewhere.

That will be part of the way that we approach our defence to this matter is to explode the myths. Whether the myth is emanating from the Canadian side or the American side, we will make sure that the facts are clearly told accurately.

QUESTION: Dr. Fishler, the European Agriculture Commissioner, delivered a proposal in Geneva, in Brussels earlier this week, with your and his negotiators are talking about in Geneva on the WTO negotiations.

The European Commission's position is that you really can't go after their export subsidies, which you suggest in your speech you should be doing with the Americans, unless you also consider new disciplines on state-trading enterprises like particularly the Wheat Board, reform of export credit and reform of food aid.

Could you respond to that position of Dr. Fishler?

RALPH GOODALE: Well, first of all, in terms of the discussions going forward, also trying to incorporate fair and reasonable rules with respect to export credit and with respect to the potential misuse of food aid, obviously it is consistent with Canada's position that those matters need to be dealt with. We also take the position that there should be a complete end to export subsidies. Export subsidies in non-agricultural goods were ended under the old GATT in the 1950s. So surely it's time for the world to end direct export subsidies that are so, so damaging and debilitating in world markets on the agricultural side. Surely 50 years later, we can finally get around to doing that with respect to agriculture.

We also want a very substantial reduction in domestic support subsidy programs that have a trade distorting consequence around the world.

With respect to STEs, we are prepared to have a discussion about state-trading

enterprises, but we make two or three very fundamental points. First of all, it needs to be a fact-based discussion. Not the latest rumour that came out of the coffee shop in Minot. A fact-based discussion.

Now, I have been asking my counterparts in the United States to give me those facts. Not rumours, not myths, not anecdotes. Give me the facts that show that they've got a problem. I've asked them that question since 1993 and I'm still waiting for the answer. But Canada is prepared to have a fact-based discussion.

But we also make this point. That the issue here surely is not necessarily the structure of the trading enterprise. The issue is its behaviour in the marketplace. And that is really what should be focussed upon and from our Canadian point of view, with respect to the Canadian Wheat Board, that behaviour in the marketplace has been investigated already eight times and it has been vindicated eight times.

So as I said, we're prepared to have the discussion about STEs, but it must be fact-based. It must be focussed not on structure but on behaviour and at the end of the day, those types of marketing approaches should not be subjected to disadvantages in the marketplace compared to other marketing approaches and structures that may be of similar or larger size and may in fact have more market power than an STE might have.

So I hear the point that Dr. Fishler has made on getting rid of export subsidies, yes; on substantial reductions in trade distorting domestic support, yes; on including export credit and the misuse of food aid in the discussion process, yes. And with STEs, we're prepared to have a conversation. But don't bring me a rumour. Bring me facts and don't bring a solution that artificially discriminates against an STE in comparison to its private sector competition which may in fact be in a greater position to exercise or abuse market power.

QUESTION: It is fair to say then you would agree with the European Union's position that it's not alone the classical export subsidies. It's also export credit, food aid, as well as STEs that have to be included in the whole package when you look at reform of the idea of export competition.

RALPH GOODALE: Those items have to be discussed, but I would underline the caveats, the very large caveats that I've put around the discussion about STEs. Because I'm not quite sure about the thresholds that Dr. Fishler would have in mind in setting the parameters for a discussion about STEs.

On the other issues, I think we're largely on the same page. But I would very quickly point out to Dr. Fishler that when you compare the subsidy level in Canada to the subsidy levels in Europe, you're looking at probably a 15-to-1 discrepancy on the European side of the equation. So they've got a long way to go to clean up their act in terms of subsidization.

QUESTION: Mr. Goodale, on the issue of the common front that you were recommending, how do you get the Americans to deal with the thorny issue of domestic subsidies which obviously the Europeans are going to focus on if you try to put pressure on them to reduce subsidies?

RALPH GOODALE: Well, I was in Europe a couple of weeks ago, and I met with representatives of the EU while I was there, including among others the German Minister

of Agriculture and the Director General of the EU for Agriculture. I made many of these same points in that conversation. They said back to me that they only subsidize, whether it's the export subsidy or the domestic support system, they said they only subsidized to match the Americans.

And then when I talked to Secretary Glickman, I hear from him and others in the U.S. Administration, well, they only subsidize to match the Europeans. So it's a case here of the kettle and the pot calling each other black, but it certainly does pinpoint the nature of the problem. And they've got it within their respective hands to solve the problem. If European subsidies are a problem for the Americans and the American subsidies are a problem for the Europeans, well, they should both move in the right direction and get rid of the thing.

Because the collateral damage they do in world grain markets is just enormous and countries like Canada that are smaller in terms of size, smaller in terms of production volume and so forth, certainly smaller in terms of budgetary capacity, are ambushed in the cross-fire.

QUESTION: But can you have the United States as part of the common front if they're in fact part of the problem to begin with?

RALPH GOODALE: Well, they would obviously have to agree that a first and major step here to move forward is the reduction of their own subsidization. Just as the Europeans would have to agree. Both the Americans and the Europeans get transfixed on the STE issue, the state-trading enterprise issue. And as I say, that is just entirely missing the point. That's not the point. If they want to find the root cause of the problem here, look in the mirror. It's subsidies, and they are both European subsidies and American subsidies, and both of them should come to the table, prepared to reduce that massive amount of subsidization that's causing so much damage to farmers everywhere, including their own farmers.

QUESTION: Doesn't that say, though, Mr. Goodale, that perhaps both the EU and the US are fixed on maintaining their subsidies? In other words, they want to support their farmers and while they say otherwise, really they're not really serious about modifying their policy because for political reasons, they have to support agriculture?

RALPH GOODALE: Well, the issue is not whether or not to support agriculture or whether or not to support farm families in rural communities. I think it is recognized globally that support systems are necessary. The issue is how, and there are ways to do it that do not have production distorting and trade distorting consequences. And that's basically our Canadian point.

Each country has the sovereign right and indeed the responsibility to support farmers, to support agriculture, to support their rural communities. And they all need to make the appropriate decisions within their sovereign responsibility as to how much can be afforded and so forth.

But the methodology that is chosen should not be a trade distorting methodology. The problem in Europe and the problem in the United States is they have chosen techniques that cause damage in the markets for everybody. The programs that we've tried to design in Canada and the programs that the Australians have tried to design in

their country have attempted to stay within that green category under the WTO so that they don't cause collateral damage. They provide support but they don't do harm in the marketplace.

So it's not so much an issue of whether people should support or not. Obviously, they should. But do it in a way that doesn't foul up the marketplace for everybody else. And you get into a vicious cycle because once you do that, it begs more subsidization and then the problems get worse and then it's more subsidization again, and on and on and on it goes.

QUESTION: Is the big exercise, it sounds from what you've just said that you view the major exercise of the WTO starting next March as a battle over the domestic subsidy question, the domestic support question versus the export competition question. Is that fair to say?

RALPH GOODALE: Well, Canada's position is first and foremost the elimination of all export subsidies. Some progress has been made on that. For example, in some sectors, the United States has not for the last number of years directly applied the Export Enhancement Program. And let's give credit where credit is due. That is a very important forbearance on the part of the United States to not use EEP, which they were doing earlier and causing great harm and damage. So the fact that they've refrained from using the EEP program is certainly a step forward. Quite frankly, it should be eliminated as an available tool.

Now, with respect to the Europeans, they argue and we'll see that they argue that now that we're into a new crop year, that their intervention price is moving closer and closer to the actual market price and that they will be less involved on the export subsidy side of the equation with their system in Europe. That's what their policy position is. That's what they told me two weeks ago when I was in Brussels and Berlin. We'll have to watch that very carefully. But they maintain that their level of direct export subsidization has gone down.

As I've mentioned to you, Canada is out of that game altogether as of 1995. The Australians maintain that they are as well. So there has been a lessening of the action, if you will, on the direct, overt export subsidy side of the equation. The residual problem is that the programs remain in place and they could be reactivated at some future point. So we would argue that we should have agreement at the WTO to eliminate altogether export subsidies with respect to agriculture, as was done with respect to industrial goods many, many years ago.

But as the tension on the export subsidies side of the equation has subsided a bit over the last four to five years, the action on the domestic support system has accelerated. So the focus of the problem has shifted. So obviously there is now a lot more work to be done to bring the right disciplines to bear on the domestic support system side of the equation. We can't ignore the export subsidy side. That is still an issue that needs to be addressed. But the domestic support systems side of it obviously needs further and greater attention.

If I could just give you an example from the circumstances of last year. The Americans had a particular program in relation to durum. Their program had the effect

of quite frankly miscalculating the amount of subsidy that was payable and paying it in such a way that it encouraged American farmers to actually withhold durum from the U.S. domestic durum market. So they miscalculated the number. It was too high and they had a structural flaw in the design of the program that encouraged U.S. farmers to keep durum off the market.

What happened? Canadian durum moved into the vacuum to fill the hole that the American program itself had created. It was just a natural market reaction. And then the Americans criticized Canada for sending them the durum when it was their program that stimulated the activity in the first place.

QUESTION: Do Canadian farmers, are they going to need aid before the next election? More farm aid?

RALPH GOODALE: Well, we have worked very hard over this last year, particularly Minister Vanclief, to put together the new proposals with respect to farm safety nets in Canada. The value of those safety nets has essentially doubled. The amount that is now on the table from the government of Canada over the next three years is 3.3 billion dollars. The government of Canada has negotiated contributions from the provinces at an incremental 2.2 billion dollars. So the total amount of money that's available for safety net in Canada is 5.5 billion dollars over the next three years. That obviously includes the fundamentals like crop insurance and NISA. It includes also the disaster mechanism. The negotiations on exactly how that program will be designed are under discussion between the federal government, provinces and farm organizations. So the program design on the disaster program side of the equation has not yet been resolved. But the money is committed.

QUESTION: My question was is that enough, before the next election?

RALPH GOODALE: Well, we'll obviously have to monitor the situation and determine that question very carefully. Minister Vanclief has indicated that he is very sensitive to the ongoing requirements of farmers. He has indicated that as circumstances unfold, if an argument can be made for more, that he will certainly be prepared to make that argument. And I think at this stage, before we've got the final part of that disaster mechanism designed and agreed upon, it's a bit premature to say whether what is presently on the table is sufficient.

It is a significant number: 5.5 billion dollars over the next three years, which is on an annual basis effectively twice as much as would have been there a few years ago. So it's a big number. It's an improved number. Whether it is sufficient or not, Mr. Vanclief will have to make that judgement and prepare the arguments going forward when there's a bit more information on the table.

QUESTION: In the whole area of subsidies, the National Farmers Union, you might have seen a while back put out a news release saying that projected stock-to-use ratio will be the lowest in 40 years. They're saying the problem isn't excess production as a result of subsidization but rather market failure or perhaps even market manipulation.

I'm wondering what your view is on that, and maybe you might comment two briefly on their idea of a set-aside amongst the major exporters.

RALPH GOODALE: The problem in the grain market is a combination of things.

And I don't think you can sort of pull out one part of the equation and say that is or that is not a part of the bigger picture. It's all a part of the bigger picture. And a lot of factors that contributed to the mess in the marketplace at the present time. One of those factors is levels of supply. For the last four to five years, every major production zone in the world – North America, South America, Europe, Australia, China – have had average or better than average crops consistently year after year after year. That kind of consistent production pattern has not occurred before for a very long time on such a sustained basis.

Now, partly, that's a factor that flows from weather conditions. Part of it also flows from the subsidy situation. So there is an excess supply problem. There's also the difficulty that some of our traditional major markets, especially in Latin America and Asia, have been going through their own domestic economic difficulty. And that has weakened their buying power from what it used to be.

Now, fortunately, a lot of that turmoil of the last three or four years is subsiding. The economies are recovering. They're coming back into the marketplace gradually. That buying power is improving. But weakened buying power among our traditional customers is also a part of the equation. But a very important part of the equation is also market distortion caused by the subsidy programs most particularly of the United States and the E.U.

The NFU makes an argument that there may be some manipulation in the marketplace. Quite frankly, I think that's a question that serious people involved in the WTO negotiations need to pay attention to. It's a factor that certainly needs to be inquired into to see if the markets are operating fully and fairly and freely without untoward manipulation or misuse of market power.

There are a whole series of factors here that have to very, very seriously be taken into account and they're all contributing to the problem. But quite frankly, if I had to single out one that is the biggest single contributor, it is in fact that pattern of subsidization – the subsidization that leads to market distortion.

Now, there's also a conundrum because while we worry about a perceived oversupply, and we have the rather silly arguments between Canada and the United States about a relatively small volume of grain that moves back and forth across our common borders, I think it ought to be remembered by everybody that 800 million people in the world live in the shadow of starvation. So you've obviously got on top of everything else a real distribution issue where you've got the hungry in the world not in a position to be involved in the commercial marketplace. And that is a dimension to this problem, a very human dimension that cannot be overlooked or lost in the equation.

QUESTION: And set-aside?

RALPH GOODALE: I have heard the proposal from the NFU. I have heard the competing proposals that have been put forward by some others in the private sector, basically along the lines of the same principle. The biggest challenge, would be coordinating international conduct at a time when the marketplace is very disturbed and distorted as it is. There may be an argument for that kind of approach to be examined. But it would not work unless the entire world were in agreement about it. So those who

advocate that point of view have quite a large challenge on their hands in terms of getting everybody on the same page, not only in terms of the principle but actual conduct. When push comes to shove, will they behave accordingly?

Now, you also have to factor in two other things. Those countries in the world that do not have sufficient domestic capacity to supply their own needs, therefore they must import. They have serious worries about security of supply. And in a kind of set-aside approach, you would need to be able to assure those net importing countries that they are not going to be in a net deficit position when it comes to the supply of their foodstuff because they depend on imports literally to live, from day to day.

So there's a security and supply issue that the countries who are commercial importers would want to be assured about. And you also have that overlaying humanitarian issue that I mentioned before about 800 million hungry people. And that is a side of this equation that cannot be lost sight of.

But this type of approach was discussed in an earlier stage. Not exactly this, but there are similarities between the concept that is being described by the NFU and what applies at least in part under the old international grain agreement, international wheat agreement. But if one were going to go that route, you would need to be very sure that you had a global consensus because no one country could go it alone. They would sacrifice themselves and achieve nothing in terms of the marketplace. So it's a global consensus. You also have to deal with security of supply for those commercial importers and you would have to deal with the humanitarian issue for the 800 million people who need food and don't have it on any terms or conditions right now.

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