Agricultural Economy and Policy Report
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U.S. - Canada Relationship

GENERAL: Canada is the United States' most important bilateral partner. The United States and Canada share 5,500 miles of common borders and a long history of close cooperation. Canadian political institutions are different from those of the United States with a parliamentary system and federal structure, in which the provinces have far more autonomy than American states, controlling much of their natural resources.

TRADE HIGHLIGHTS:

- The United States and Canada have the world's largest bilateral trading relationship. During 2007, two-way merchandise trade alone reached $562 billion, translating into $1.5 billion in goods crossing the border every single day. When services are added, the daily total exceeds $1.6 billion.

- Canada exports 82% of its merchandise goods to the US, and receives 55% of the goods it imports from the US. On the flip side, 21% of US merchandise exports go to Canada, and 16% of the goods the US imports come from Canada.

- Since the implementation of NAFTA in 1994, total two-way merchandise trade between the US and Canada over the 14 year period has more than doubled, registering an average annual growth rate of 7%.

AGRICULTURE:

Canada is the top market for U.S. consumer food products (surpassing Japan in 2002) and one that has been growing steadily over the past 10 years. Canadian purchases of U.S. agricultural products now account for 60% of total Canadian agricultural imports. In 2007, U.S. agricultural exports to Canada reached a record $14.0 billion and accounted for 16% of U.S. agricultural exports worldwide. Last year, more than half (56%) of total U.S. exports of fresh fruits and vegetables ($4.8 billion) were shipped to Canada. Further, the importance of trade with Canadian provinces cannot be underestimated. If Ontario, British Columbia and Alberta were countries they would rank, respectively, as the 4^{th} ($9.0 billion), 7^{th} ($2.1 billion) and 18th ($976 million) largest individual markets during 2007 for U.S. agricultural exports. Total U.S. agriculture, fish and forest product exports to Canada in 2007 reached $17.0 billion and surpassed the level exported to the twenty-five European Union member states by $5.9 billion.

Canada ships almost 60% of its agricultural exports to the United States, a level that accounts for 21% of total U.S. food product imports. In addition to the $15.2 billion in agricultural imports from Canada, the U.S. imported $12.1 billion in fish and forest products from Canada. On balance, the U.S. trade deficit in agricultural products with Canada was $1.2 billion for 2007. When fish and forestry products are included, the deficit rises to $10.3 billion.

Under the tariff phase-out provisions of the NAFTA, Canada applies no tariffs to U.S. food and agricultural products with the exception of the tariff-rate quotas on domestic "supply-managed" agricultural products such as poultry and eggs and dairy products. For some products where U.S. access is different under the WTO and the negotiated NAFTA level, Canada applies the higher access level.

A U.S./Canada Record of Understanding (ROU) on Agricultural Trade signed in December 1998 established an ongoing process of consultation that emphasizes early identification of problems and effective cooperation to resolve them. In accordance with the ROU, a Consultative Committee on Agriculture (CCA) was established. The ROU calls for at least an annual meeting, but since that time, the CCA has mostly met twice per year.

Bilateral cattle and beef trade took a step closer to normal following USDA's implementation in November 2007 of the Minimal Risk Rule 2, which expanded the list of allowable imports from Canada, now recognized as presenting a minimal risk of introducing bovine spongiform encephalopathy (BSE) into the United States. Both the U.S. and Canada received "controlled risk" status for BSE in May 2007 from the World Organization for Animal Health, the OIE.

In November 2007, the countries signed an arrangement to facilitate bilateral potato trade. The arrangement will provide U.S. potato producers with predictable access to Canadian Ministerial exemptions, a regulatory vehicle to import potatoes that is only granted by the Government of Canada on a case-by-case basis when there is a proven shortage of potatoes in Canada. The Arrangement, when fully implemented in the third year, will allow contracts between U.S. growers and Canadian processors to serve as sufficient evidence of a shortage in Canadian potatoes.