

# Some Factors in Canada-United States Wheat Trade

Canada and the United States enjoy the largest two-way trading relationship in the world. It includes a mutually beneficial flow of agricultural products, driven by comparative advantage, geography, demographics, and other factors. Grains are just one component of this vast and diverse exchange.

*Total bilateral agri-food trade has nearly tripled since the Free Trade Agreement (FTA) was implemented in 1989, totalling \$15.7 billion in 1999. Bilateral trade in agricultural products, as well as overall trade in goods and services, is roughly in balance. However, Canada's per-capita consumption of U.S. agricultural products (\$220 in 1999) is much greater than U.S. per-capita consumption of Canadian agricultural products (\$33 in 1999).*

*This brochure provides various trade statistics and other factual information to facilitate a better understanding of the relevant issues, including reasons why U.S. processors choose to import Canadian wheat.*

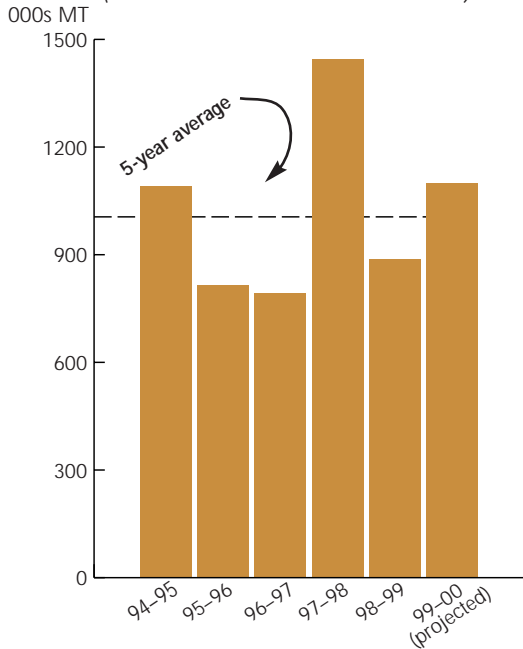


## Notes

1. All dollar figures are in U.S. dollars.
2. MT — metric tonnes

## Canadian Imports of U.S. Corn

(in thousands of metric tonnes)



Sources: Statistics Canada, Agriculture and Agri-Food Canada

## Canada-U.S. trade in grain and grain products includes an extensive range of commodities and products.

While Canada has a surplus with the United States in overall grain trade, the United States enjoys a trade surplus in corn, soybean meal, and other grain and oilseed products.

Canadian imports of U.S. corn have been increasing over the past decade. U.S. corn exports to Canada have averaged over one million tonnes annually over the last 5 years, and exceeded 1.4 million tonnes in 1997-98.

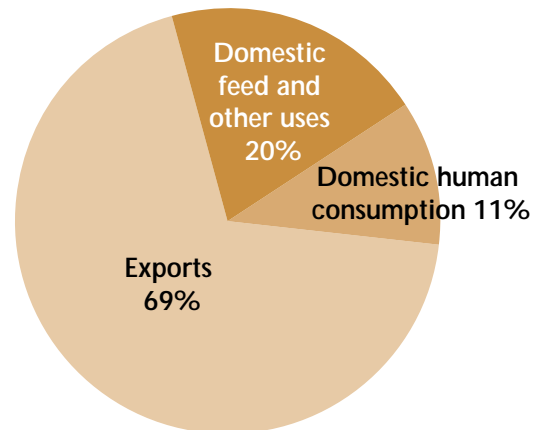


The United States and Canada are the world's largest and second-largest wheat exporters. U.S. wheat production between 1996-97 and 1998-99 averaged 66.3 million tonnes annually while Canadian wheat production averaged 26.1 million tonnes over the same period.

More than 95% of Canada's wheat is produced in Western Canada. Canada exports roughly 70% of its wheat production, of which 90% is shipped to offshore markets. In the three crop years to 1998-99, Canadian wheat exports averaged 17.9 million tonnes while 2.7 million tonnes were consumed domestically as food. The balance was used domestically for feed and other purposes.

## Canadian Wheat Disposition

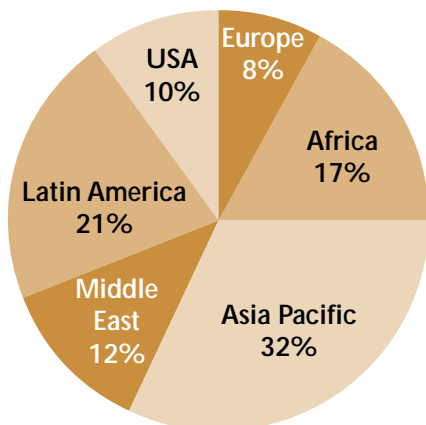
1996-97 to 1998-99 Average



Source: Statistics Canada

## Canadian Wheat Exports by Destination

1996-97 to 1998-99 Average



Source: Canadian Grain Commission

The majority of Canadian wheat export sales are to markets in the Asia Pacific region and in Latin America.

Using a recent three-year average, these regions accounted for more than 50% of total wheat exports. They were followed by Africa (17%) and the Middle East (12%). The United States accounted for roughly 10% of Canadian wheat exports during this three-year period, ranging from 9 to 14% on an annual basis.

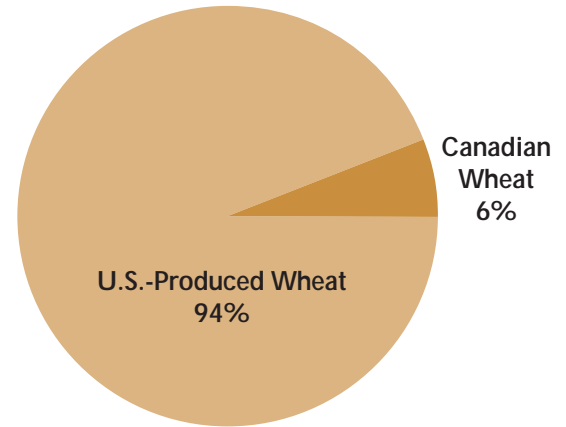


The U.S. Department of Agriculture concluded that “the geography of wheat production and use in North America and basic economics indicate that some Canadian wheat is well placed to supply U.S. use centers.” (*Agricultural Outlook*, June–July 1999, p.9)

Any new variety released in Canada must meet quality standards established for its class, resulting in predictable milling and baking characteristics. U.S. processors value Canadian wheat for its resulting uniformity of quality (within and among shipments), and other factors such as product cleanliness and reliability of supply.

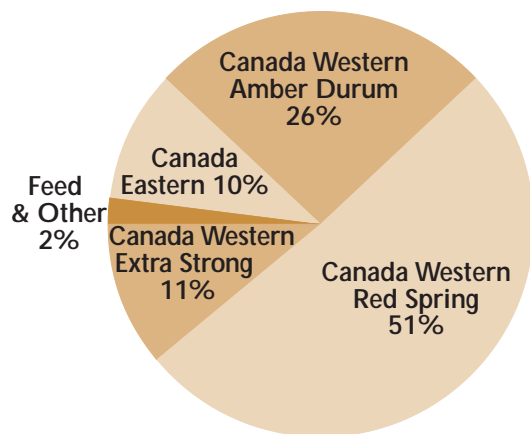
U.S. millers import Canadian wheat with guaranteed quality characteristics and blend it with U.S. wheat to achieve desired results. From 1996–97 to 1998–99, annual U.S. imports of Canadian wheat averaged 2.0 million tonnes, or less than 6% of average U.S. domestic use of 35.8 million tonnes.

### Wheat Usage in the United States 1996–97 to 1998–99 Average



Source: U.S. Department of Agriculture (USDA)

### U.S. Wheat Imports by Class 1996–97 to 1998–99



Source: Canadian Grain Commission

The United States imports a number of Canadian wheat classes for various end uses, including several milling wheat classes and durum wheat.

Canadian wheat fills a market niche in the United States. Blending of Canadian and U.S. wheat by U.S. millers adds value to their operations by softening the variations in U.S. wheat supplies and enhancing flour performance.

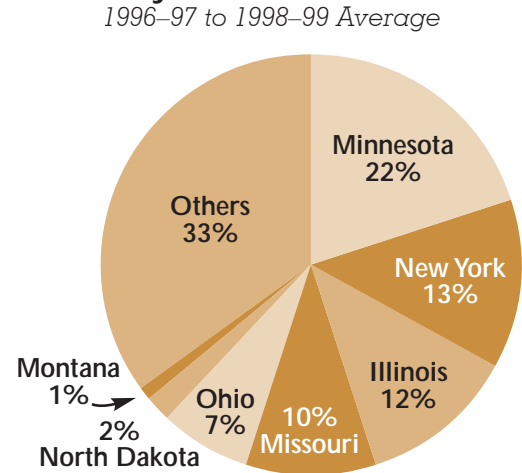
Various intrinsic properties of Canadian wheat enhance U.S. wheat consumption. For example, Canada Western Extra Strong wheat is uniquely suited as a blending wheat to increase gluten strength. It can be an especially effective complement to U.S. wheats in the production of flour used to serve the growing number of in-store bakeries and other frozen dough operations.



Most Canadian wheat exported to the United States is shipped by rail directly to processors, thus bypassing country elevators in Montana and North Dakota.

Most Canadian wheat shipped to the United States moves by rail to destinations well beyond the Northern Plains. The top importing states are Minnesota, New York, Illinois, Missouri and Ohio, which together account for well over half of total U.S. imports. From 1996–97 to 1998–99, only 3% of U.S. wheat imports from Canada were shipped to destinations in Montana or North Dakota.

### U.S. Wheat Imports by Selected State 1996–97 to 1998–99 Average



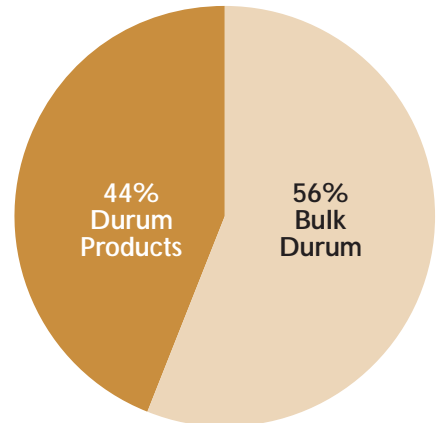
Source: Statistics Canada

# Durum and Pasta

It is not commonly known that U.S. durum import statistics include durum products such as pasta. In some years, more durum has been imported in the form of pasta than in the form of bulk durum.

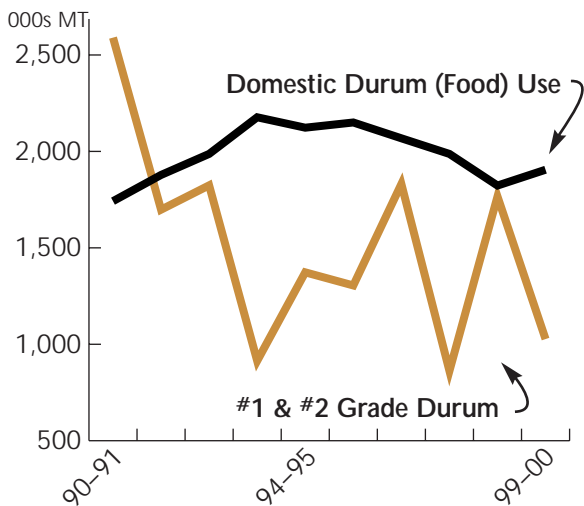
Between 1996–97 and 1998–99, bulk durum imports from Canada averaged 443,000 tonnes while imports of durum products from all sources totalled 342,000 tonnes.

**Annual U.S. Durum and Durum Product Imports**  
1996–97 to 1998–99 Average  
(in thousands of metric tonnes)



Sources: Total imports from USDA, grain imports from Statistics Canada

**U.S. Production of #1 & #2 Grade Durum & Domestic Durum (Food) Use**  
(in thousands of metric tonnes)



Sources: Kansas State University, North Dakota State University, based on data from USDA

U.S. imports of durum have been driven partly by declining domestic production of #1 and #2 grade durum, the grades required by the U.S. pasta industry.

From a high of 78% in 1990, the proportion of U.S. durum production grading #1 or #2 declined to a low of 36% in 1997, and averaged 56% during the 1990–91 to 1997–98 period.

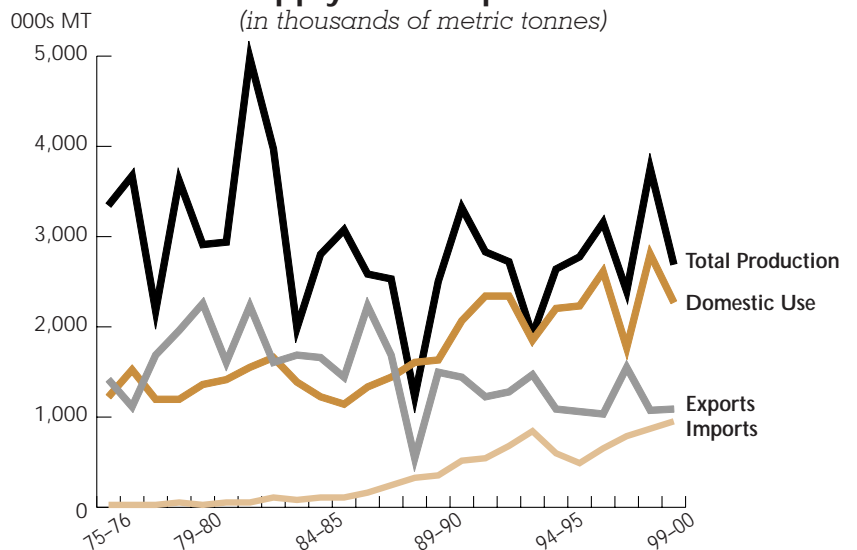
The United States has been in a deficit position for milling-quality durum in each crop year since 1990–91. This, along with consistent access to Canadian durum, has resulted in regular imports from Canada.

U.S. durum production more generally has not kept pace with domestic consumption. In particular, U.S. milling-quality durum output is below domestic requirements.

U.S. durum consumption has more than doubled over the past 25 years. At the same time, U.S. durum production has not shown a long-term increase. As U.S. production and consumption have converged, imports of both pasta (mainly from Italy) and bulk durum from Canada have increased.

U.S. exports, even in times of tight supply, have also contributed to the requirement for imports of durum wheat and pasta. Over 50% of U.S. durum production has been exported over the past 25 years.

**Annual U.S. Durum Supply and Disposition**  
(in thousands of metric tonnes)

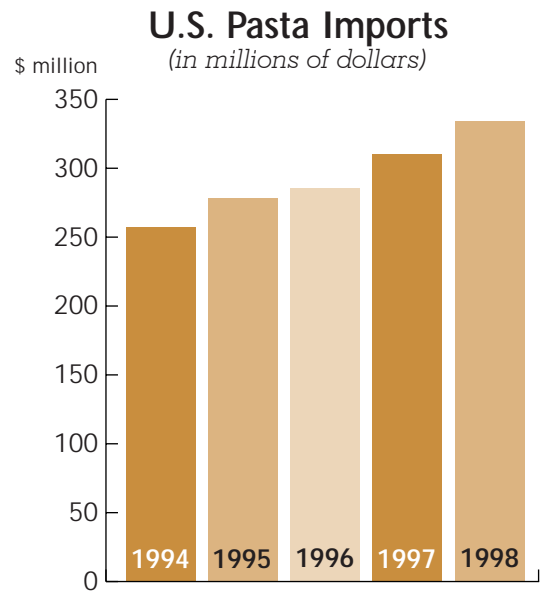


Source: USDA; export and import figures include products

## U.S. pasta imports have increased dramatically in recent years.

Since 1994, U.S. pasta imports have increased by an average of 7% per annum. The annual value has risen from \$257 million in 1994 to \$334 million in 1998.

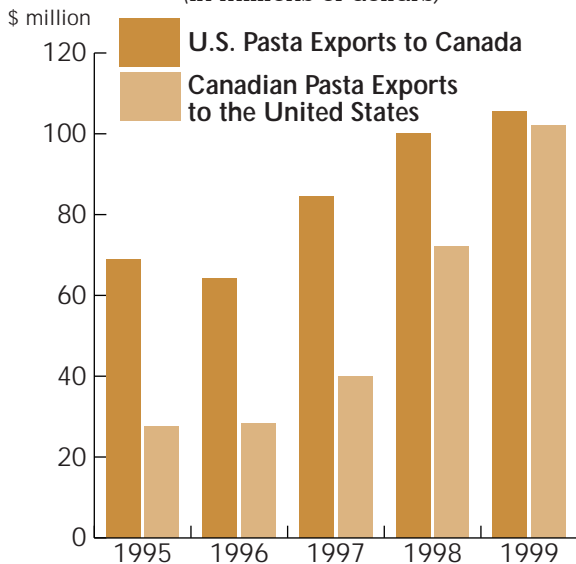
Italy supplied about one-half of U.S. imports during this period, followed by Canada with a 13% share. Other suppliers of pasta to the U.S. market include Mexico, Greece and Turkey.



Source: U.S. International Trade Commission

## U.S. Pasta Trade Between Canada and the United States

(in millions of dollars)



Source: Statistics Canada

## Canada-U.S. pasta trade is increasing in both directions.

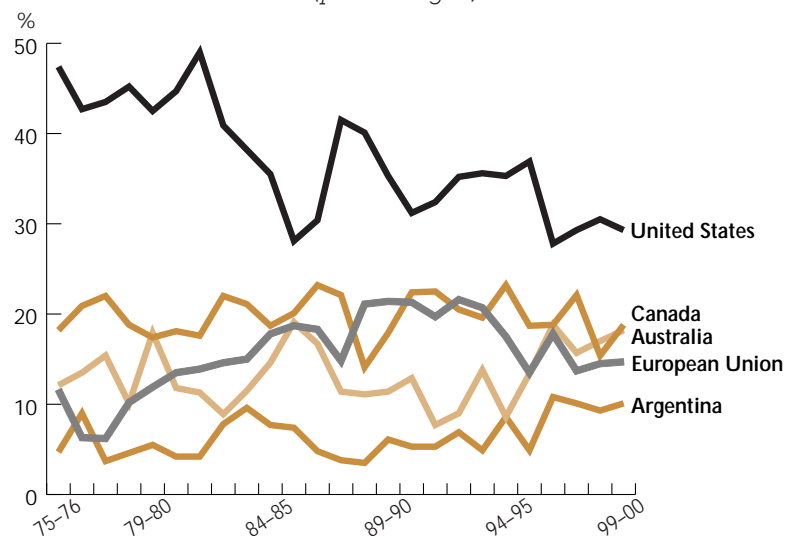
U.S. processors add value to Canadian wheat, thereby contributing to U.S. employment and other economic benefits. The United States exports more pasta to Canada than it imports. From 1995 to 1999, annual pasta exports to Canada averaged \$84.7 million, compared to an average value of \$54.0 million for Canadian pasta exports to the U.S.

## World wheat export market shares have changed over the past 25 years.

Canada's share of world wheat exports has remained stable near 20 per cent. The decline in the U.S. share of the world market to about 30 per cent was offset by increases on the part of the European Union in the 1980s and Australia and Argentina in the latter half of the 1990s.

## World Wheat Export Market Shares

(percentages)



Source: International Grains Council

# Other Aspects of Canada-United States Wheat Trade

The Canadian and U.S. wheat industries have many common interests and can better advance them by working together. These include work on various trade fronts; for example, the elimination of export subsidies and improved access to third markets.

There is no restriction on the volume of U.S. wheat exports to Canada. U.S. wheat and other grain can and do access Canadian markets, duty-free, as economics warrants. Procedures for access to Canadian elevators by U.S. farmers have been simplified in recent years.

Another program, initiated in 1999, facilitates in-transit movement of U.S. grain on Canadian railways from 17 states through Canada to U.S. destinations on the east and west coasts. Over 600,000 tonnes of U.S. wheat, barley and other grain were shipped in-transit from North Dakota, Minnesota, and Montana in 1999, thus providing U.S. farmers with an additional transportation option.

In 1995, Canada eliminated its subsidy on rail freight rates for export grain. Producers now pay the full cost of transportation.

Western Canadian wheat and barley exports are marketed by the Canadian Wheat Board (CWB), established in 1935. The CWB markets grain on behalf of western Canadian farmers, disbursing the net returns from grain sales to growers in an equitable fashion. Neither Canada nor the CWB subsidizes the export of wheat or any other grain.

The CWB endeavours to secure the highest possible returns for Prairie farmers from all available markets. Accordingly, CWB sales to the U.S. maximize overall returns to producers, while responding to the needs of buyers in the U.S. For commercial reasons, the CWB, like private grain traders, does not reveal grain sales prices.

A 1990 report by the U.S. International Trade Commission (USITC publication 2274) examined the

conditions of competition between the Canadian and U.S. durum wheat industries. Among its conclusions:

"[R]elatively higher prices of durum in the United States compared with the world markets, and the demand for high quality durum by U.S. millers, appeared to have made the U.S. market relatively more attractive to Canadian exports." (p. xi)

"There was no consistent price difference between like qualities of U.S. and Canadian-produced durum that explained the growth of durum imports from Canada between 1986-89. However, available supplies of high grade durum wheat in the United States and Canada affect prices and flows of durum wheat." (p. ix)

*The Canadian Wheat Board (CWB) has marketed grain around the world for more than 60 years on behalf of Canadian farmers. Neither Canada nor the CWB subsidizes the export of wheat or any other grain.*

Periodic investigations of the CWB by the U.S. International Trade Commission and the U.S. General Accounting Office have not substantiated allegations of impropriety concerning the CWB's pricing behaviour. The 1999 countervailing duty investigation of live cattle from Canada concluded that CWB barley marketing practices do not provide a subsidy to cattle producers.

CWB operations comply with all of Canada's international trade obligations, including those under NAFTA and the WTO Article XVII (state trading) guidelines and requirements. A 1996 U.S. General Accounting Office report (GAO/NSAID-96-94) noted that U.S. government officials acknowledged that they did not have any evidence that the CWB was violating existing trade agreements (p. 8).

An independent audit of the CWB was commissioned jointly by Canada and the U.S. in 1993 following a Dispute Settlement Panel under the Canada-U.S. Free Trade Agreement (FTA). A small number of durum sales (1% of volume) not in compliance with the FTA occurred shortly after implementation, and was related to the usual process of adjustment to a new trade agreement. Apart from this, the audit found the CWB to be in full compliance with the FTA.