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GROWING PROSPERITY

How agrifood can anchor a new "Grand Bargain" between the United States and Canada

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Executive Summary

As trade tensions once again dominate headlines in both the United States and Canada, we face a stark choice. We can continue lurching from one tariff fight to the next – or pursue a durable reset of the bilateral economic relationship that underpins prosperity on both sides of the border.

The current moment demands the latter.

Rather than treating agriculture as a recurring flashpoint or a bargaining chip, a more comprehensive approach is needed – one that goes beyond a narrow US-Canada trade treaty. What we need is a "Grand Bargain" that reflects how deeply integrated and mutually dependent our two countries already are in a host of areas, including North American defense and security, environmental management, and more.

Our interconnected food system means that when that system is disrupted, farmers, consumers, and industries in both countries bear the costs.

Agriculture offers a practical and politically credible starting point for rebuilding trust and stability. In this paper, we examine four areas where deeper cooperation – or at a minimum, avoiding further disconnection – would reduce costs, improve food security, stabilize prices, and strengthen resilience for producers and consumers in both countries. Closer integration is not a concession on either side, but a shared opportunity to manage risk, counter external competitors, and secure reliable agriculture input supplies.

There are several key areas that the United States and Canada could work together to improve, including:

Production Risk Management

Agricultural production is inherently exposed to weather and disease risk, which can have severe effects on output and prices. For instance, fluctuations in US production of corn, wheat, and soybeans often move counter to those in Canada: when output in one country peaks, the other tends to experience a trough. Maintaining historically low or zero tariff structures – and, where possible, further integrating these markets – would therefore help both countries reduce the risk of food shortages and price volatility.

Furthermore, as international commitments like recent fixed- or minimum-quantity agreements become more common, the risk of becoming an unreliable supplier increases. Low-to-zero tariffs give both countries greater flexibility to meet international commitments by allowing each to source products from the other in the event of a domestic shortfall.

Potash

Potash, the form of potassium used in fertilizer, is essential for plant growth. The US has a limited endowment of it: 90 percent of the potash it uses is imported, including 80 percent from Canada. As a result, US prices are highly sensitive to tariffs. The other major suppliers are strategic rivals: Russia, Belarus, and China. It is therefore clearly in the US interest to maintain a positive trading relationship with its close ally and neighbor Canada to ensure reliable access to potash at market prices.

Dairy and Poultry Supply Management

Canada's supply management system for dairy and poultry is a particular thorn in the Trump Administration's side. Canada uses it to fix supply and prices and to control imports. US industry groups argue that removing it would increase their exports to Canada. This claim can only be tested if both countries have fair market access to each other. However, if Canada unilaterally ended supply management, a fair market would not exist for dairy. That's because the US market remains more protected than the Canadian market.

Ironically, supply management has resulted in higher costs across Canada's agriculture sector, impacting land prices, financing costs, and property taxes. It also limits market access for non-supply-managed sectors and restricts quota movement, preventing the industry from achieving economies of size and location.

Clearly, supply management will need to be reformed as part of a US–Canada Grand Bargain on trade. However, reform will also require:

- A phased opening of the US dairy market, including defining Canadian milk as equivalent to US product.
- A gradual reduction of tariffs over approximately 10 years, with tariff-rate quotas (TRQs) frozen.
- Compensation for Canadian producers who invested in quota over the past 20 years, based on the additional income a reasonably sized farm would have earned had supply management remained in place.

Further Harmonization of Agriculture and Food Approvals and Inspection Systems

The health and safety systems of both countries have come under increasing criticism in recent years. Canada's system is slow, inconsistent, costly, and discourages innovation. While some cooperation already exists between the two countries, much greater harmonization is possible. Improved alignment could enhance health outcomes while reducing costs and increasing efficiency across the North American food system

Ultimately, agriculture is not a side issue to be managed at the margins of the US-Canada relationship – it is a strategic asset that touches food security, national security, and economic resilience in both countries. In a world of growing volatility, neither the United States nor Canada can afford to treat its closest agricultural partner as a contingency rather than a cornerstone. Embedding agriculture at the heart of a broader US-Canada Grand Bargain would lock in mutual reliability, reduce shared risks, and send a clear signal that North America intends to compete, feed itself, and lead together in an uncertain global economy. ★

Introduction

United States President Donald Trump launched a trade war as soon as he was sworn in by threatening and often applying very high tariffs on imports. He did this to coerce countries to negotiate new trade treaties one-on-one with the US, thereby annulling multilateral agreements made in the World Trade Organization. Interestingly, he has taken similar, but random, action against all countries, whether historical ally or rival, including Canada.

To date, Trump's tariffs – and the resulting retaliatory measures – have harmed the economies of both countries. This scenario has replayed itself globally wherever these tariffs have been imposed. Unemployment rates have risen in both countries, and both have experienced increased inflation. For instance, Tennessee-based Jack Daniels experienced a 62 per cent drop in sales in large part because of Canadian boycotts of its products (Shukla 2025).

The world Travel and Tourism Council projected last May that the US would lose $12.5 billion in international visitor spending in 2025, the only country of 184 predicted to see a decline (Chen 2025). This was led by 25 per cent fewer Canadians visiting the US, though many others are staying away, too. The Council said many people attributed the decline to what they called the "self-inflicted" US injury from its trade and other border policies. By way of example, Chen cited specific losses in Seattle: normally, the annual series between the Toronto Blue Jays and the Seattle Mariners attracts thousands of West Coast Canadian Blue Jay fans. This year, they simply never showed up, impacting several local food suppliers.

In primary agriculture, Dan Basse of AgResource Company in Chicago estimates that the US, prior to any deals with China by Trump, is likely to lose between 14 to 16 million tons of soybean sales to China (Cao and Plume 2025). Meanwhile, Canada's alignment with

the United States on anti-Chinese EV policies has led the Chinese to retaliate against Canadian canola farmers. Trump made a deal with China's leader, Xi Jinping, but that deal did not consider any of what the United States is asking its allies to do, nor the trade disadvantages they will suffer by aligning with the US. The Trump administration will need to address this issue with large trading partners like Canada and Mexico, whom it is pressuring to cut ties with China even as it makes its own deals with Beijing.

Trump's tariff war has disrupted the unique and long-standing trade relationship between the United States and Canada – a mutually beneficial partnership that strengthens both nations and extends far beyond simply the buying and selling of goods. For decades, our two countries have been among the closest allies in a host of areas, including defense and security. Our societies are similar, and we share issues and endowments in water, minerals, metals and energy. We have naturally evolved mutual inexpensive transportation systems. Our industries have evolved into close and successful supply chains, in large part because of our geographic proximity and social similarities. Like many other product categories, agrifood products may cross the border several times: for example, Canadian cucumbers can be exported to the US and then return to be sold as pickles; Canadian wheat can be turned into flour in the United States, return to Canada and be used to make a bakery product, which is then exported to the US, and so on.

For decades, our two countries have been among the closest allies in a host of areas, including defense and security.

This is all intuitively obvious to most Canadians and Americans. This is why the current situation, which sees the United States on the brink of pushing away its largest customer – not to mention one that is the easiest and least expensive to sell to – seems ill-informed.

The more logical approach would be to establish a "Grand Bargain" relationship between the US and Canada – one that vastly improves prosperity and enhances our collective security, while raising the standing of both countries.

Agrifood is a fundamental component of the long-standing relationship between the United States and Canada, with historical aspects that benefit both countries – and could do so even more if the two nations solidified their relationship. We already are highly integrated: for example, Canadians are often both members and clients of the wheat-harvesting crews that start in Texas and Arizona then move north as the season progresses. Indeed, some producers – both American and Canadian – farm in both countries to spread the risk of weather or disease. The geographic proximity of our two nations allows for these unique synergies and opportunities.

As neighbors with vast natural resource endowments and shared societal values, the US and Canada have a tremendous opportunity to make agrifood a major component of a broader "Grand Bargain." But achieving this will require negotiators on both sides of the border to roll up their sleeves and tackle several outstanding issues. Success will bring greater prosperity, stability, and security to both nations – while failure will mean a continuation of the mutually destructive path we are currently treading.

Risk Management

When two countries produce similar agricultural products, having open borders can be a risk management tool to mitigate against problems and challenges that arise in these sectors. Similarly, taking a closed-border market approach can exacerbate harms.

The most basic of these is food security: drought, flood, or disease often affect major producing regions. For instance, recent floods in Iowa impacted crops there, while two major outbreaks of avian influenza in the US forced mass culls of chickens, which, in turn, caused egg prices to soar. However, not all food-producing regions suffer these challenges at the same time. For instance, neither of the two previously mentioned crises impacted Canadian producers as much as US producers. In the case of a serious natural disaster, food shortages can occur – a precarious situation that can be exacerbated by a closed-market system.

Indeed, even if a food shortage doesn't occur, disasters that hinder local production can result in major price volatility, as occurred with eggs in the US in recent months (Funk 2025) as well as grains and oilseeds in at least two extended periods of the past 20 years.

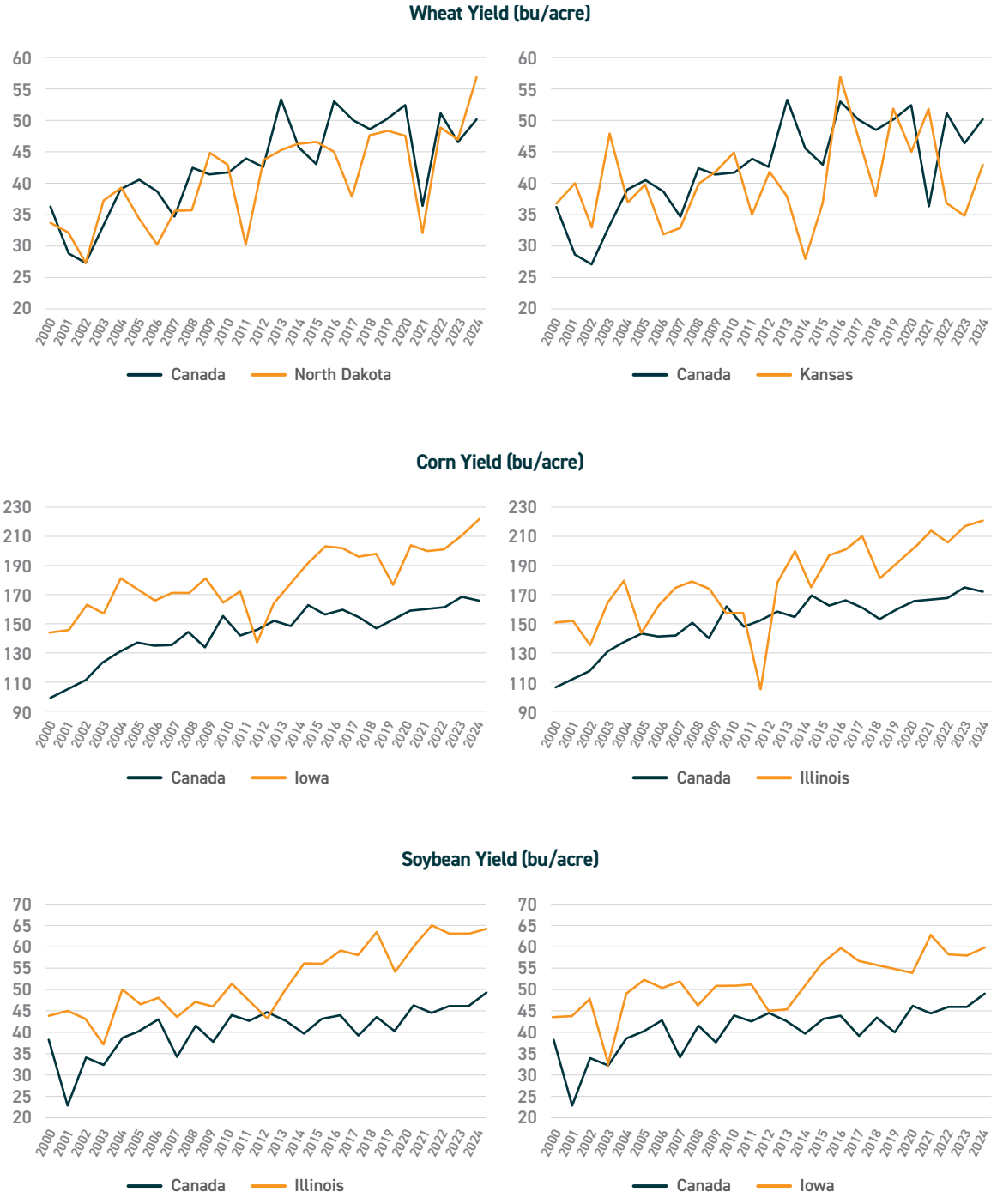
Another area of risk is emerging. Increasingly, international agreements include specific or minimum contracts rather than tariffs and quotas – i.e. apparently the recent negotiation between China and the US was for China to buy specific quantities of soybeans in three calendar periods. If Canada or the US negotiates a similar contract, the risk is that a weather or disease disaster strikes the North American country. With borders between Canada and the US restricted, the North American country may not be able to supply the requisite amount in the disaster year from its domestic production without shorting its domestic market. This, in turn, could tarnish the North American country's reputation as a reliable supplier. With borders open and assuming the other North American country did not have the same level of disaster, the affected country would have a relatively low-cost opportunity to supplement their domestic production, thereby delivering on the contract.

The US and Canada have a tremendous opportunity to make agrifood a major component of a broader "Grand Bargain."

The foregoing discussion about risk management is academic unless reality reflects that yields are offsetting to an extent. What does reality say? We checked yields of wheat, corn, and soybeans in Canada and major US states that produce the three commodities. The results, in Figure 1, indicate that the possibility of risk and its reduction are quite real.

For wheat, North Dakota and Kansas are chosen. The graph shows that yields are more variable in both US states than in Canada. North Dakota had major yield declines in 2002, 2006, 2012, 2017, and 2021. Canada had high and/or rising yields in 2006, 2012, and 2017. For Kansas, the inverse relationship is even stronger. It had yield drops in 2002, 2006, 2011, 2014, 2018, 2022, and 2023. Canada's yields were high in all those years except 2002.

FIGURE 1: Annual Average Yields of Wheat, Corn and Soybeans in Canada and Selected Major US Producing States 2000–2024



Sources: Statistics Canada 2025; USDA 2025a.

The corn performance is similar. Iowa's yields suffered in 2012 and 2020. Nebraska's suffered in those two years as well as in 2002. Canada's were rising and close to normal in all three.

The soybean performance is a little different than the others. Canada's yields have generally been more stable than the US. They also have not increased as fast since 2016. This likely reflects their spread to Western Canada where they add profitability and diversification to farmers' alternatives. These factors fundamentally support the risk management argument because there is a stable supply that is growing as more acres are sewn.

Moreover, Iowa and Illinois both had three dips in average yields in 2002, 2012, and either 2019 or 2020. Canada's yields in all three were relatively high, thereby supporting the risk management argument.

The two countries are major producers of a wide range of agricultural products. Both are generally regarded as breadbaskets. Because they are geographically contiguous, they are both competitors and customers/suppliers of the other. Burdening them with high tariffs will force producers to export to more distant markets that are more costly to service, and risky to maintain. The result is higher costs, and increased rivalry between Canada and the US. And this is in addition to the previously mentioned challenges – from food security risks to commodity price volatility, increased costs of evolving contractual agreements, and the potential reputational hit of being labelled an untrustworthy supplier during droughts, floods, or other natural disasters.

How does this qualify as sensible? It's more logical and much more efficient for Canada and the United States to act as a united North America, with similar agrifood policies that encourage productivity and environment stewardship.

Potash

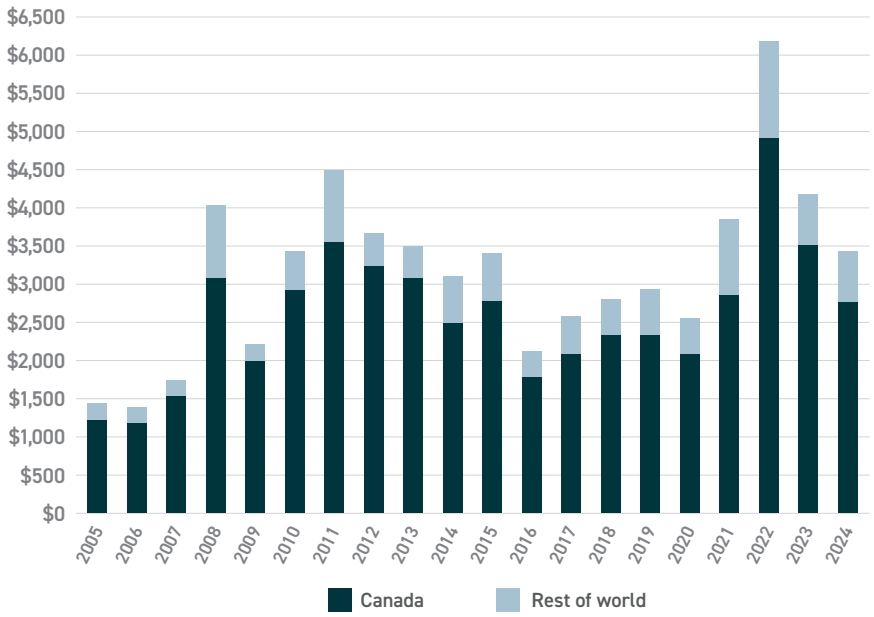
Potash is one of the primary nutrients required for plant growth and health. Fertilizers are sold with a nutrient analysis of nitrogen (N), phosphorus (P), and potassium (K), which refers to the percentage of each in a particular fertilizer blend. Pure potassium is not water soluble, so compounds of potassium salts, known as potash, are used for fertilizer. If the label on a fertilizer is 24-15-10, it means that the contents are 24 per cent nitrogen, 15 percent phosphate, and 10 percent potassium. Other more minor nutrients are also shown elsewhere on the label, but these three majors are almost always emphasized.

As it happens, the US has a very small natural endowment of K, while Canada's, especially Saskatchewan's is large. Figure 2 below (Paulson et. al. 2025) shows that the value of US imports has varied between US$1.5 billion and US$6 billion since 2005 and never less than US$2.5 billion since 2020. Since that year, USDA reports that this amounts to between 6.5 and 9.5 million tons of potassium fertilizers per year. As a result, 90 per cent of the K used in the US is imported, with Canada providing 80 percent of it. In other words, Canada supplies more than 70 per cent of the total K used by US farmers. Significantly, the next three exporters after Canada are Russia, Belarus, and China – three nations not generally regarded as close allies of the US.

Originally, the Trump administration announced tariffs of 25 per cent on all imports from Canada with some exceptions for energy, which, alongside potash, was to be tariffed at 10 per cent. Facing pressure from American farmers, the Trump administration relinquished and exempted potash from tariffs, though he is currently threatening to reimpose them.

One can easily understand why the farmers objected after viewing the analysis by Paulson and his colleagues. What would be the impact on farm costs in the US if importers of K faced a 25 percent tariff? Basic economics teaches that the price effect of a tariff depends on how sensitive the product's demand is to a change in its price: if it is not sensitive, it is said to be "inelastic," and "elastic" if it is sensitive.

FIGURE 2: Potassium (K) Fertilizer Imports, 2005–2024,in $ million



Note: Includes products under HS codes 3104 and 283421; 2024 is through November.
Source: Paulson et al. 2025.

Inelastic demand occurs when the product is critically needed and has few substitutes. Potash is fundamental to producing good crop yields – there are no natural substitutes and, as previously discussed, other sources carry the cost of transportation from very distant suppliers who are not particular friends of the US.

In fact, US demand for potash fertilizer is quite inelastic, and any tariffs would inevitably be passed through to US farmers (Paulson et. al. 2025). At the time of writing this paper, potassium fertilizers were priced at US$450. Paulson et. al predicted that a 25 per cent tariff would increase prices by at least US$100/ton. At the US$450 price, a 10 per cent tariff would result in an increase of approximately US$45/ton.

Any tariff placed on this product would place a substantial extra cost burden on US farmers. It would also give Canadian and other farmers a cost advantage in this area, which would help Canada to expand its offshore markets.

Canada's vast potash reserves are essential for ensuring food security in both the United States and Canada. Without potash, American crops can't grow as bountifully. As part of a Grand Bargain, Canada could offer the United States guaranteed access to its vast potash wealth, thereby providing American farmers with a stable, reliable supply.

In general, Canada has leverage in critical minerals at the trade table, but potash is unique: it supports the prosperity of American farmers while also keeping food affordable for consumers.

Supply Management

The United States regularly condemns the protectionism of Canada's supply management programs for dairy products, broiler chicken, table eggs, hatching eggs, and turkey. This is a highly complex issue, especially in the case of dairy, which is the primary irritant for the US.

Canada's supply management system is administered by a combination of provincial and national producer marketing boards. Because Canada's Constitution makes agriculture a shared jurisdiction between federal and provincial/territorial governments, bureaucracies such as these are needed to establish any national initiative. In the case of supply management, these boards are specifically exempt from Canada's *Competition Act*, which makes collusion and price fixing illegal.

The general approach taken by these boards, made up almost exclusively of farmers who produce the dairy or poultry products, has the following elements:

- They fix minimum prices that first buyers (usually processors) must pay farmers and pool those prices within each province. Prices are based in large part on "cost of production" surveys of farmers.
- National boards determine the amount of production that will be sold in Canada at the prices that they fixed. National boards allocate this total amount to the provincial boards,

who then allocate them to individual producers. Provincial allocation is based primarily on historic market shares. The individual producers have quota, the amount of which was originally determined by their historic production patterns.

- Quota holders can buy or lease quota from others, with rules and constraints that vary by province and commodity. Many of the original quota holders, especially in dairy, sold quota as an exit strategy. So, the number of dairy producers is much smaller than when the system started. Buying quota has been part of both an entry strategy for new producers and an expansion strategy for those who want to grow. The cost of quota is an added expense for Canadian producers (not included in the cost of production formulas), as is the cost of financing quota purchases.
- The implication of the foregoing is that Canadian farm prices for these products are usually higher and more stable than in the US and much of the world. Higher prices can only be sustained if imports are controlled. While not directly controlled by the marketing boards, the federal government in its World Trade Organization (WTO) and regional treaty negotiations has built a protective wall around these products. They are protected by tariffs of 150 percent for some of the poultry products to 300 percent (butter) for dairy. To be clear, a tariff of 150 percent means a product that arrives at the border at a cost of $10/unit incurs a tariff of $15 (normally paid by the importer), making its cost $25 in the importing country. Whether tariffs are 150 percent or 300 percent, they generally make importing and exporting prohibitively expensive. Also, because they are percentages, the taxes are highest when a product is most expensive, which is when it is in shortest supply. High tariffs are most punishing when there is scarcity.
- Canada (and other countries) adopted a tool in WTO negotiations to reduce protection, called a Tariff Rate Quota (TRQ). A TRQ allows a defined amount of a product to be

> imported at no or very low tariffs, but when the limit of the TRQ is reached, then the tariff is levied on any remaining imports. So, if the TRQ for butter is 5 percent of domestic consumption, that amount can be imported with no tariff. Once the quota is filled, additional imports pay 300 percent. Clearly, TRQs become valuable assets around which much considerable drama can unfold.[1]

A particularly important aspect of dairy is that there are separate markets for the non-fat solids (protein, carbohydrates, minerals) and butterfat. While some of both go into many products, the non-fat component tends to go into fluid milk, yoghurt, some cheese and skim milk powder. Butterfat tends to go into butter, ice cream, and rich cheeses. Because of this distinction, the components are treated separately in a number of areas, including the fact that there are separate TRQs for butter, cheese and skim milk powder (Mussell 2025).

Oddly enough, the US's dairy trade policy bears many similarities to Canada's, while there is little US protection for poultry products. Like Canada, the US supports domestic milk prices (with a different mechanism than Canada's) and has high tariffs and TRQs. Interestingly, their high tariffs are relatively unimportant because the US food safety system does not give equivalence to Canadian milk, so it is a very effective non-tariff barrier. In fact, Mussell shows data from USDA and Statistics Canada that concludes that the US market is more protected than Canada's, as measured by the total amount of TRQ as a percentage of domestic consumption of dairy products in the two countries. For butter, the US TRQ is 2.4 percent of domestic consumption vs. 8.0 per cent in Canada; for cheese the US TRQ is 1.0 percent while Canada's is 5.3 percent; and for skim milk powder the US TRQ is 3.0 percent of domestic consumption vs. 45.8 percent in Canada.

The United States regularly condemns the protectionism of Canada's supply management programs.

The Conundrum

In addition to Mussell's conclusion that the facts don't warrant the US complaints, the situation is a major conundrum if Canada actually wants to reform its system. A number of people inside and outside Canada have called for that nation to end supply management. There are several reasons to do so, starting with the fact that it is a constant irritant in trade negotiations, not only with the US, but also other countries.

Second, there are strongly held perceptions that Canada's stance in protecting supply management impairs progress in gaining export market access for other products. This starts from the seemingly illogical policy adopted by Parliament that Canada's trade negotiators are forbidden to make any concessions in negotiations on dairy and poultry. The logical fallacy is obvious; how can negotiators win access to other countries' markets for other products if Canada is unwilling to even consider giving up something where Canada has its greatest protection?

In putting this in place, Parliament is responding to supply management's pleas to support the system. But one has to wonder how meaningful it will be if there is a real turning point in negotiations. Will Canada really maintain supply management at the cost of market access to the rest of agriculture, steel, automobiles, forestry, etc.? One supporter of supply management likes to argue that he can't believe a major trade agreement would not be made simply because dairy and poultry, an extremely small portion of Canada's economy, does not want to go along. Of course, the other side of that argument is it's hard to believe that a country ***would allow*** an extremely small portion of the economy to ***stop a major agreement*** from going forward.

Third, though not directly a trade issue, it is highly likely that the benefits of supply management contribute indirectly to higher costs of other products in Canada. In many conversations with grain, oilseed, horticulture, beef or hog farmers, we have heard them say "when land comes up for sale in our area, the local dairy farmers will get it if they want it." In other words, because those in supply management obtain

economic benefits from controlling supply and fixing prices (not to mention subsidies to compensate for lost TRQ, as explained below), they have additional funds to invest in land thereby competing with those in grains, oilseeds, horticulture, and red meat. Over time, this obviously raises the price of land for others, and their resulting production costs.

If supply management hinders other agriculture sectors from gaining market access and raises their costs, then it is in Canada's interest to phase it out.

The fourth element of the conundrum is that farmers' economic benefits of supply management have created a high-cost industry structure in Canada, for two reasons. First, benefits are bid into quota values. Quota values for milk ranged from C$24,000 to C$56,800 in February of 2025 (Agriculture Canada 2025). This approximately represents the cost of procuring the production rights for one cow who produces 10,000 liters of milk per year.

After more than 50 years of supply management, its benefits have become built into the cost of farms, raising the price of land and quota. Restrictions on movement of quota in supply management has also constrained adjustment – to larger farm sizes, movement across provincial boundaries, and sometimes between farms within a province. As a result, many farms can't get big enough to fully benefit from economies of scale, which puts them at a cost disadvantage. Most Canadian farms strive for efficiencies created by genetics, nutrition and husbandry practices, so the issue is not one of operational efficiency, rather it's a structural one.

The foregoing issues have tremendous implications both for reforming supply management and for not reforming it. If there is no change, the obvious outcomes are:

- Canada will continue to face trade conflicts with the US and other countries on dairy and poultry.
- If the criticism is correct that Canada's position on supply management limits acquiring market access for other products, then Canada will continue to have internal conflict between producers of supply managed and open market products.

- Cost capitalization will continue to accumulate.
- Protection of the US dairy market will not be reduced in any way.

There are several elements to Canada's dilemma in reforming supply management without major reform of US dairy policy:

- Reforming Canadian to end production – and price-fixing by the supply management boards – would create a problem for protein-oriented milk products because the US market would continue to shut Canadian products out.
- Since Canadian producers bought quota on the assurances from government that the system would remain in place, and since Canadian financial institutions provided them loans in good faith, any move that would result in rapid declines in prices would likely mean devastating shortages in cash flow needed for debt servicing. It could easily be a bloodbath. Financial institutions would have little recourse but to call loans for farms with high levels of debt for quota, and likely for land.
- Purchasing quota is a long-term investment decision: it has substantial value because quota gives its owner access to markets whose profitability is enhanced by price fixing and supply control over a long period of time. Producers who bought quota 20 years ago had two decades to reap those benefits. Those who bought quota last year have the cost and, usually debt service requirements, but have not reaped the benefits. Those who bought it 7, 12, or 15 years ago have reaped some, but not all, of them.
- Sudden loss of protection in the chicken, egg, and dairy markets would likely mean a dramatic drop in Canadian production because of the vastly different industry structures in the two countries. In the US, chicken and egg production is often controlled by integrators – feed companies, processors, and a few large independent farmers. Farm production is done with highly automated facilities, under contract to

these integrators, often by small producers who are willing to work for a relatively low return on investment. Sudden loss of Canadian protection, especially if it happened during a low-price period in the US, would swamp the Canadian market. This may be the case even if protection is phased out over time.

Suggestions to Address the Conundrum

Many of these complications could be solved with a phased-in process that has the following elements.

Fair access: Any trade agreement would need to include measures that give access to each other's dairy markets. This means that the US would need to grant "equivalence" to Canadian milk and its products, thereby removing one of the world's most substantial non-tariff trade barriers. The US would also need to bring its tariff and TRQ policy into alignment with Canada's. Without this intent, and follow through, Canada can't possibly consider substantive changes to its internal policy.

Phased-in changes: Any agreement would need to be phased-in over time. Phasing-in recognizes that industries need time to adjust. There is much precedent for phase-in periods in both the original Canada-United States Free Trade Agreement (CUSTA) and in all WTO agreements where substantial change was included.

In CUSTA, when the US wanted the very opposite of what Trump is now espousing – i.e. lower tariffs – several components of the Canadian agrifood sector (particularly horticulture) were protected by substantial tariffs. They were reduced by 10 percent per year over a 10-year period. By the end of year 10, there was very little comment about the final loss of tariff protection, and neither country lost significant industries. There were, in some cases, very substantial adjustments with the shuttering of some small, relatively high-cost processing plants and substantial new investment in others.

Compensation for "unrealized" value: Dairy and poultry farmers should be compensated for "unrealized" value of quota. As explained above, the value of quota comes in large part from the monopoly benefits conferred to the marketing boards. These benefits accrue over many years – 20 to 25 years is the normal long-term budget period we see most producers use when they are considering the purchase of quota.

We use 20 in the remainder of this section to illustrate. Also as explained above, if a producer purchased quota 20 years ago, he/she has had time to realize those benefits and doesn't require compensation. One who purchased it more recently has not, but clearly much more would have been realized for someone who purchased it 18 years ago as opposed to 5 years ago. This means that the longer a person has held quota, the lower the compensation required.

There has been debate for many years about whether and how to compensate quota holders if supply management is ended. The range is from none to the full value of quota. The answer likely falls between the extremes.

As explained above, quota has value because of the extra revenue it provides above what would come from the market. It is also a long-term investment. An approach to the question of compensation is then to calculate the net present value (NPV) that a farm would receive from the rights to the remainder of a quota's benefit. For example, if a 500-cow dairy operation is deemed to be representative and it bought quota 8 years ago, the net present value of the expected additional profits for the next 12 years could be calculated based on the costs of a 500-cow budget.

Similar calculations could be made for other periods of time to represent different ownership periods. Similarly representative farms for broilers, turkeys, eggs and hatchery eggs could be done to calculate appropriate compensation for them. Using this approach would ensure that compensation would be unique to each type of farm and would recognize the fact that those who invested in quota at different times would have received different amounts of benefit.

How could government decide what compensation should be for quota held for different periods?

Gradual tariff reductions: The rate of "phase in" would be led by reductions in tariffs for both countries. The tariff reductions over time could go to zero or to some agreed-to percentage at the end of the phase-in period. For example, if the phase-in was 10 years, the two countries could agree to take it to 10 percent or 20 percent in year 10 year. This means that in addition to the US granting equivalence status to Canadian milk products, it would also need to agree to reduce its tariff protection.

In several recent trade agreements, Canada provided increased market access to foreign dairy and poultry by increasing the amount of TRQ. To illustrate, before the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) agreement, Canada's TRQ for chicken was approximately 5 per cent of Canadian production. This was raised to approximately 7.5 per cent. What effect does this have? First, after the adjustment, imported product increased its share of the Canadian market by 2.5 per cent with no tariff. Second, domestic production was reduced by an equal amount. In essence, 2.5 percent of the Canadian market is granted to outside producers with no possibility or incentive for Canadian producers to compete for it. In a stable market, it also increases Canadian producers' cost of production because they have the same overhead costs but produce fewer units.

Any agreement on supply management would need to be phased-in over time.

The latter point leads to the third consequence: governments are called upon to compensate the producers for their loss of market share. Which of course, occurred with the CPTPP. Is it possible to think of a more inefficient process and poorer use of public funds? Canada gives away a chunk of its market to foreign countries and spends public funds with no intention to do anything but "compensate" – no need to invest in anything that would improve productivity and no constraint on investing in something that would likely capitalize the compensation into costs – like land.

The phased-in alternative suggested above gives a predictable path of adjustment in the policy environment because farmers and processors would know the rate at which protection is declining in

both countries. This would give them the opportunity to assess market opportunities. It would give them and financial institutions time to determine what opportunities could be profitable. Compensating for recent quota purchases, which could flow through operations that see the opportunity for future profitability in a less protected market, would provide protection from short-term price declines while simultaneously providing cash flow and security for new investment. Clearly, it would also provide cash flow for those who choose to exit.

Harmonization of Health and Safety Approvals and Regulations

Both Canada and the US claim to have the safest food in the world (as do many other countries), but both have different inspection systems and separate systems for approval of products that can be used to protect human, plant, animal, environmental, and soil health, products that can be produced or used and sold for human consumption, and how products are labeled. We are not aware of any research that confirms the claim that one or the other is safer, but many partisan speakers are not hesitant to make the claim that their country is the safest.

Separate systems and different standards have important implications:

- Costs of entry into each other's market are high because a company must incur the costs of compliance with both countries' systems even though no research shows one is significantly safer than the other.
- Costs are higher for companies in both countries who want to trade with each other and third-party countries.
- The flip side is that these differences between countries can actually block trade. They act like hidden obstacles – non tariff barriers – that make it harder for foreign companies to complete. In other words, the rules or standards in each

country protect local businesses by keeping out products or companies from other countries.

In Canada's case, much research has shown that its product approval system is done at extremely high costs to the industry because it is capriciously inconsistent, slow to make decisions, and arbitrary. Brethour et al. provide detailed examples of these problems in the case of animal health products and note that Environmental Commissioners' reports show the problem is widespread in reviews of plant health products, and in reviews of consumer (companion animal) products (Brethour et al. 2004).

They further conclude: "When one views the entire product approval system, one is left with the impression that it is out of the control of Parliament. The legislation and regulations have been developed piecemeal. There is no – or very little – reference to any economic or trade objectives of the legislation. Product reviewers, therefore, do not balance the narrow concept of risk prevention with the promotion of innovative advancements in health methodologies and products. By the same token, there is very little in the legislation that allows the public, through Parliament and its organizations such as the Auditor General, to hold regulators accountable for the economic consequences of their decisions-or non-decisions."

Canada's regulatory system is in dire need of reform.

Similarly, in a study of human food regulations, Stiefelmeyer et. al. concluded: "Canada is not competitive; our food regulatory system is far behind those of the leading nations of the world"; "Canada's regulatory system needs to be brought into the 21st century"; and "the costs associated with Canada's lagging system are very high and far-reaching" (Stiefelmeyer et al. 2008).

All of this is to say, Canada's regulatory system is in dire need of reform. Ways to achieve this will be addressed in the future publication of the Grand Bargain series. However, suffice it to say, there are plenty of opportunities to improve the harmonization of the Canadian and United States systems – that is, if the two countries wanted to co-operate to strengthen their ability to compete globally. Doing so would provide both nations with a plethora of benefits.

Under CUSTA, the two governments agreed to meet to find ways to harmonize their systems. In some areas, the two dove-tail. For example, beef, after many years of conflict, now has substantial equivalence between the US Prime, Choice, and Select grades and the Canadian AA, AAA nomenclature (Riz Global Foods 2025). Despite these examples, there is little evidence that any systematic effort was undertaken to harmonize the two.

Criticism of both the Canadian Food Inspection Agency in Canada and the US Food and Drug Administration has risen recently for various reasons, but especially for inefficiency and ineffectiveness in facilitating trade and business opportunities (Miller 2024; Zienkiewicz 2025). Under these circumstances, the timing may be right for both countries to re-examine their institutions and processes**.** No one should be naïve enough to think there could ever be complete harmonization. However, it is worth investigating – and the benefits could be substantial from even partial harmonization.

Alternatively, it may be useful to refer these issues to the Canada-US Regulatory Review Council, which was established to deal with these kinds of issues (Government of Canada 2025).

Conclusions

Considering the current US-Canada agrifood landscape, it brings to mind the image of two wrestlers who could be a powerhouse tag-team, but waste time and effort fighting each other, often with one hand bound behind themselves.

The neighboring nations enjoy low transportation costs, similar climates, legal systems, and social norms. Allies for nearly two centuries in times of both war and peace, Canada and the United States could reap an incredible bounty of prosperity and security – if only they would cease with divisive policies and instead work together for a far greater mutual harvest.

At a time when world demand for food is growing rapidly, potentially at a rate faster than production, the US and Canada have

the opportunity to ensure food security for North America, while also exporting surplus agrifood worldwide.

The two nations stand at a crossroads. One path leads to further protectionism, the other, to greater prosperity. The benefits of collaboration include:

- The evolution of an improved international trading system based on need and minimum contracts instead of tariffs and import quotas. Recognizing that climate variability can affect crop yields differently across geography, working together can manage risk of food shortages, surpluses, price volatility and provide insurance to fulfil contract requirements.
- The US can maintain a cost advantage for potash, a key input in crop production. By not taxing Canadian potash, the US can ensure that the input will remain cost competitive. Potash is just one of many Canadian goods needed by the US. Tariffs ultimately raise costs and reduce competitiveness. Ironically for the US, taxing Canadian potash ensures lower cost products for Canada and the countries it exports to. Not taxing it prevents this self-imposed wound.
- While Canada's supply management system, particularly for dairy products, remains an irritant, the US itself also has evolved a system that is high cost, arcane, and guaranteed to produce tensions and conflict. The status quo simply cannot hold. For Canada, the benefits of supply management's price and production fixing have been capitalized into costs of quota for its dairy and poultry industries and into land values for all of its agriculture. For this to change, the US will first need to grant "equivalence" status to Canadian milk and its products. Should that occur, and Canadian might finally be willing to bring its supply management system into closer alignment with the rest of agriculture. However, this will require a negotiated phased-in approach with tariffs reducing to an agreed level over time, compensation for farmers who invested in quota in recent years, and freezing of TRQs, all in an effort to give farmers and processors time to adjust to the

market. The sudden removal of supply management in Canada would be disastrous for its dairy and poultry industries.

- If Canada and the United States ever hope to create a North American agricultural powerhouse – one that can rely on each other's markets to mitigate production and price risk, then the first step must be to harmonize product approval and food safety processes where possible. Doing this will reduce costs and barriers to entry, and ultimately, enhance innovation.

For Canada and the United States, the clear answer is to create a Grand Bargain that addresses the strengths and weaknesses of each nation, recognizes their deep historical ties, and forges a new collaborative approach to a wide range of sectors, from agrifood and food systems to defense, critical minerals, forestry and beyond.

The leaders of the United States and Canada have the opportunity to create a better tomorrow for all North Americans – they just need the courage and foresight to seize it. ★

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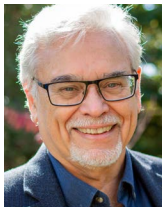

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Endnotes

1 In addition to the issues discussed in the text, TRQs also frequently present problems with definition and measurement. For example, in the case of broiler chicken, how does one handle fowl meat – i.e. meat from egg-laying hens whose egg productivity has declined, or how does one measure chicken carcasses, de-boned fresh chicken, chicken in a frozen entrée, diced chicken in chicken noodle soup, etc.? The issues are inherent in the nature of the product and market, while higher than world market prices in Canada provide an incentive for importers to be very creative in finding ways to import products. This causes the system to be costly to administer and can undermine its ability to maintain higher prices in Canada.

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