



**Canada's Agriculture and Food Trade Policy:  
Leveraging Canada's Agri-Food Successes and Moving beyond the Status Quo**

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**Introduction**

With the conclusion of the recent federal election resulting in a new Conservative Party majority, it may be assumed that Canada's trade policy will continue in place as is. This trade policy maintains the initiatives undertaken by the past four federal administrations and the current Harper administration. This stability in Canada's trade policy will be applauded by some.

However, unlike a number of other domestic economic sectors, the outlook for Canada's agri-food sector in the near and longer term is dramatically more positive with significant opportunities for gains. Given these new global market opportunities, Canada must break out of the status quo. Canada needs to be bold, ambitious and focus its limited resources on key emerging markets. With this bolder initiative Canada can be better prepared to take on its competition, both in the global and domestic markets. Canada must be prepared to more effectively involve all segments of the national agri-food sector in these negotiations, and be more realistic about the potential gains and trade-offs that it must contemplate.

The global outlook for most food products is buoyant. The increasing personal incomes and rising GDPs in many emerging markets bode well for major upward shifts in global demand for fresh and processed foods. History has shown that this will translate into shifts in consumer diets in a number of emerging market jurisdictions. For example, the most recent FAO-OECD outlook envisions significant increases in both consumption and price of major products. As shown in Appendix 1, large percentage increases in both consumption and world prices of coarse grains and livestock products are forecast for 2011-2019. This significant prosperity boost coupled with the relatively large and growing populations in those markets will sustain a rise their food consumption patterns-domestically and globally.

Simultaneously, Canada's competition in this global agri-food market is getting stronger. Canada's export and import sensitive sectors will face improved global competition, including new aggressive competitors in our home and global markets. A number of Canada's competitors are facing resource, financial or food quality constraints which could limit their future ability to compete as effectively as in the past. Other major competitors such as Brazil and Chile are undertaking initiatives to ensure their farm and food sectors can be even more competitive in these improved value-added markets. Canada's natural resources and developed infrastructure puts it in an increasingly unique position to produce, process, and market sustainable, high quality, safe, and consumer friendly food products or services for domestic and global consumption. This capacity can be further enhanced with appropriate public policy support and private sector initiatives and investments.

This special report will frame the rationales for a bolder, more ambitious Canadian agri-food trade policy. Canada faces a tremendous opportunity to serve a more prosperous, hungrier global market. Canada's current agri-food policy has not been focused on capitalizing on these new market opportunities. Canada has been caught in its "balanced" position which reflects past market perceptions, fears of existing domestic/trade policy trade-offs and limited resources to effectively seize current and anticipated trade opportunities. A bolder strategy but practical one may move Canada's agri-food sector to a far more prosperous future. This is discussed below.

### **Say Goodbye to the Status Quo**

Since the earliest days of the colonization of Canada, agriculture and food trade has played a key role in the economic development and evolution of the nation, its economy and its physical and political infrastructures. Since the end of the Second World War, Canada has been able to successfully grow its domestic economy, and simultaneously participate effectively in the global marketplace for its agri-food products and services.

Canada's agri-food exports have grown from \$13.1B in 1990 to \$39.2B in 2010<sup>1</sup>, while Canada's agri-food imports have also grown from \$8.73B to \$29.9B<sup>2</sup> over the same period. This occurred as more prosperous Canadian citizens diversified their appetites to a wider range of foods and beverages, and Canada's agri-food export capacity grew with world demand. (See Appendices for detail). A major factor has been the past growth of the US markets, but the Canadian agri-food industry has also recognized the need to move beyond its past dependence on US markets. This shift has been accomplished, to date, without sacrificing Canada's strength in those US markets. It is a balance that must be sustained, but with increased efforts to pursue more global agri-food opportunities.

Despite each government's attempt to paint themselves as different on trade policy goals, directions and practice, the overall focus for most federal, provincial and territorial governments has remained one of rational self-interest. This has also been true for the Canadian farms, food firms and organizations involved in both import and export. With the ongoing limited progress in the Doha Round of the World Trade Organization, Canada has moved beyond its key trade agreements, CUSTA and NAFTA, to a number of bilateral and now regional trade negotiations. Over the last number of years, Canada has signed 10 trade agreements, and is in process of negotiating 12 other agreements. As is suggested below, the overall impact of these efforts on the national agri-food sector has been modest.

Canada has participated in all the major trade negotiations since the Second World War, often as a major player. This can be seen across all goods and services, as well as within the agri-food sector. Over time, Canada's capacity to play a lead role has ebbed with changes in domestic markets and policies and the improved trade capacity of emerging markets. This has meant an increasingly more complex and dynamic trade negotiation process, both in bilateral and multilateral negotiations. The string of limited FTAs with a number of smaller jurisdictions is being surpassed with much larger trade negotiations underway including the Canada – EU Comprehensive Economic and Trade Agreement (CETA) and the Canada-India negotiations. There are also important multilateral trade agreement negotiations going on right now that Canada is not a part of. The Trans-Pacific Partnership is a multilateral free trade agreement that aims to integrate the economies of the Asia-Pacific region. The agreement came into force in 2006 between Brunei, Chile, New Zealand and Singapore. Currently Australia, Malaysia, Peru, US

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<sup>1</sup>Industry Canada, Trade Data On-line

<sup>2</sup>Industry Canada, Trade Data On-line

and Vietnam are negotiating to join the group. Canada has expressed interest in joining TPP but it is purportedly being blocked from negotiations by the US and New Zealand due to Canada's policy on dairy<sup>3</sup>.

The impact of these agreements varies significantly. For example, the FTA between Canada and the European Free Trade Association<sup>4</sup>(EFTA) has had a small impact on Canada's agri-food trade, estimated at 0.33%<sup>56</sup>. Currently Canada exports 6.7% of its agri-food exports to the EU<sup>7</sup>, therefore the potential within the CETA negotiations could be much higher. Canada is expending considerable policy capacity on each of these trade negotiations, several of which have modest impacts. As noted above, with much larger negotiating partners, Canada and its agri-food industry partners will need to prioritize and strengthen the scarce human resources involved in these new rounds of negotiations and choose the appropriate FTAs to go after accordingly.

Even the smaller agreements consume Canada's limited human resource capacity for such negotiations and for implementation. Yet, the awareness and comprehension of the benefits and costs of such negotiations and the eventual agreements are not well understood or accepted in detail by most Canadians- including Canada's agri-food sector. Improved analyses and communication of the gains and trade-offs, the expectations versus the market realities, and the underlying importance of Canada's full participation in such negotiations will improve the effective participation in determining which negotiations are appropriate to sign. It is equally important to know when to cease negotiations or reject an unfavourable agreement.

Most critically, as Canada evolves from the status quo it must be willing to fully participate in the various multilateral and regional trade negotiations. Concerns over the domestic impacts should be heard, analyzed and understood. But no matter which sector may be perceived as vulnerable under the negotiations, such as the supply managed industries, Canada must be prepared to at least participate fully. Canada's participation should not be seen as 'giving away' the local food market or domestic policy initiatives. It would be difficult, if not irresponsible, for any federal, provincial or territorial government to explicitly accept such perceptions. Instead, participation must be viewed from the positive, such as improved market innovations, improved market opportunities, and given Canada's agri-food competitors, increased quality competition for our internal markets.

Such impacts and resulting policy accommodations are well within the realm of domestic policy. These are domestic policy decisions, not international ones. No government can, or will want to, be seen to be coerced into a major economic loss without corresponding major economic gains, and without suitable adjustment measures and policies to mitigate real or perceived economic losses. Avoiding some agri-food trade negotiations due to internal domestic concerns can only assist Canada's competitors as they clearly identify those "weak spots" in Canada's negotiating stance and can argue for less economic benefits for the broader Canadian agri-food industry.

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<sup>3</sup><http://insidetrade.com/Inside-US-Trade/Inside-U.S.-Trade-10/22/2010/tpp-countries-say-canada-not-ready-to-join-talks-press-vietnam-to-decide/menu-id-710.html>

<sup>4</sup>This includes Iceland, Norway, Switzerland and Liechtenstein

<sup>5</sup>The percentage of total agri-food exports to from Canada to that area in 2010

<sup>6</sup>Industry Canada, Trade Data On-line

<sup>7</sup>Industry Canada, Trade Data On-line

Worse, by standing aside until late in the process, a weaker bargaining position for Canada will result. This weaker bargaining position can result in a loss of expected positive gains from a negotiation. Standing aside from any negotiation must be seen as a failure to recognize the opportunities in the changing global agri-food markets, technologies, and flows of capital/resources. This could lead to the worst of all scenarios: no gains/all losses as other competitors succeed in markets without Canada's agri-food sector having the same market access opportunities.

### **Beyond the Status Quo: Playing to Win**

Canada's agriculture and food industry faces a considerably improved and profitable set of markets domestically and globally. As noted above, resource limitations are not as binding on Canada's future market capacity in comparison to some of its existing competitors. In turn, Canada cannot rest on past laurels given the capacity improvements undertaken by other agri-food competitors. It is also clear that with appropriate public and private sector initiatives these market opportunities do not have to be a zero sum game for Canada's agri-food sector.

A series of public policy and private sector investments in both policy and human resource capacity can improve these opportunities and mitigate downside risks. The following are a number of ideas to implement this policy direction:

- Canadian governments and their agri-food industries must do more to analyze and clearly enunciate the real gains/losses from increased trade and market accession for the national, provincial and regional agri-food sectors. This means a more well-articulated vision for Canadian agri-food trade. Modest advocacy or analysis may not arouse opposition to increased trade, but modest efforts also fail to widen the understanding of how a bolder, ambitious, national agri-food trade policy can provide substantive net benefits for those in this sector, and in the wider national community. Such efforts must reflect the realistic expectations for growth, and for changes in the status quo-while recognizing that for some they may be comfortable with the status quo in their segment.
- Canadian governments and the agri-food industry must increase the quality and level of resources allocated to the existing and pending trade negotiations-notably for CETA, Canada-India, Canada-Japan, and to participate formally in the Trans Pacific Partnership. These negotiations, if successful, would lead to agreements that would cover a significant percentage of Canada's 2010 agri-food trade. There are definite potential gains, and there are opportunity losses if Canada does not participate or is not successful. This means prioritizing human resource capacity and policy capacity to negotiate, analyze, and determine real market opportunities and costs. This means moving the economic analyses away from just tariff reduction impacts, to real impacts from reduced non-tariff barriers and improved trade rules to secure new market access. It also means realistically examining Canadian agri-food industry capacity to fulfil these new market access opportunities, and what domestic policies or industry initiatives will have to occur to better enable the Canadian farms and food firms to meet these realistic expectations.
- Importantly, difficult domestic policy and stakeholder discussions must occur with those domestic industries which are not focused on external opportunities and will see such initiatives as threats to their domestic markets. Canada must not shy away from such policy awkwardness. Federal, provincial and territorial governments and the entire Canadian agri-food sector should be prepared to participate in such new trade policy initiatives, without fear that participation

alone signals acceptance of any real or perceived losses. Moving beyond the status quo will mean developing the capacity to creatively examine domestic policy solutions to help mitigate such losses (if these occur) and to creatively develop acceptable solutions to take advantage of improved market access, if such negotiations are successfully completed.

While it may be comforting to some segments of Canada's agri-food sector to stand aside from such trade policy discussions or to immediately eliminate some topics from any negotiation, this fails to recognize that most international trade pressures will occur over time. Value trends (sustainability, organics, local) and technology and market preference shifts will proceed over time moving across borders regardless of policy constraints. Reduced competitiveness over time even within a more secure domestic market will shift capital, resources and talent away from those sectors. Effective participation by all groups in the agri-food sector will assure the sector of transparency, of fair treatment, and of maximizing the prosperity gains over time for the whole sector and wider Canadian community.

Finally, and most pragmatically, if Canada is going to succeed in such bolder, ambitious negotiations to meet both increased global and domestic market competition, then the national agri-food sector has to be much better prepared to participate in the eventual agreement if signed. This will mean increased private and public sector resources for improved analyses of real market access gains; improved talent to lead such market access opportunities; better preparation to compete in new/expanded foreign markets, improved capacity in our own market when facing enhanced competition, and the ability to better defend Canada's market access gains from future shifts in policy by our competitors who will want to "protect" their internal markets with similar creativity as Canada has employed in the past.

At a time of tighter fiscal constraints on public bodies, prioritizing resources to assist Canada's exporters to be better able to participate in foreign markets (building on past successful practices and efforts, and developing new initiatives as required) would seem an obvious step. This would aid in efforts to make the expectations from new trade agreements, particularly those which have been aggressively pursued, match the practical realities of Canada's agri-food industry capacity. In these future rounds, both multinational and SME food firms/farms have the opportunities to make considerable gains, or suffer losses.

## **Conclusion**

In summary, Canada's agri-food sector has a new and exciting set of global and domestic market opportunities and challenges. These will require a far more aggressive set of trade policies and activities. Canada must better prioritize its human and policy resources, undertake improved analyses of real market gains, identify the real capacity to meet market expectations, and identify the real losses- if agreements are reached. These will also be required if it is determined not to proceed to an agreement. Canada has a unique opportunity to play for much higher stakes but to be successful, it must play hard, it must play with discipline, and it must play to win. This is the time to undertake and lead a bold, ambitious agri-food trade policy and not continue comfortably with the status quo.

Canada's existing "balanced" position is a safe one for some agri-food participants. Yet, it is not a realistic one given the market opportunities facing this sector globally, and domestically. It is not a realistic one given changing global competition. It is not realistic given effective use of limited human resources for such trade negotiation. It is not realistic for sustainable use of natural and capital resources for a prosperous Canadian industry.

A bolder, more ambitious and more practical agri-food trade policy can be achieved with acknowledgement that trade policies alone need not drive domestic policy choices. A bolder, more ambitious Canadian agri-food trade policy would analyze and recognize that the latent gains from trade liberalization and losses to import sensitive sectors are important to sustained economic development across Canada, and to the future of Canada's agri-food sector.

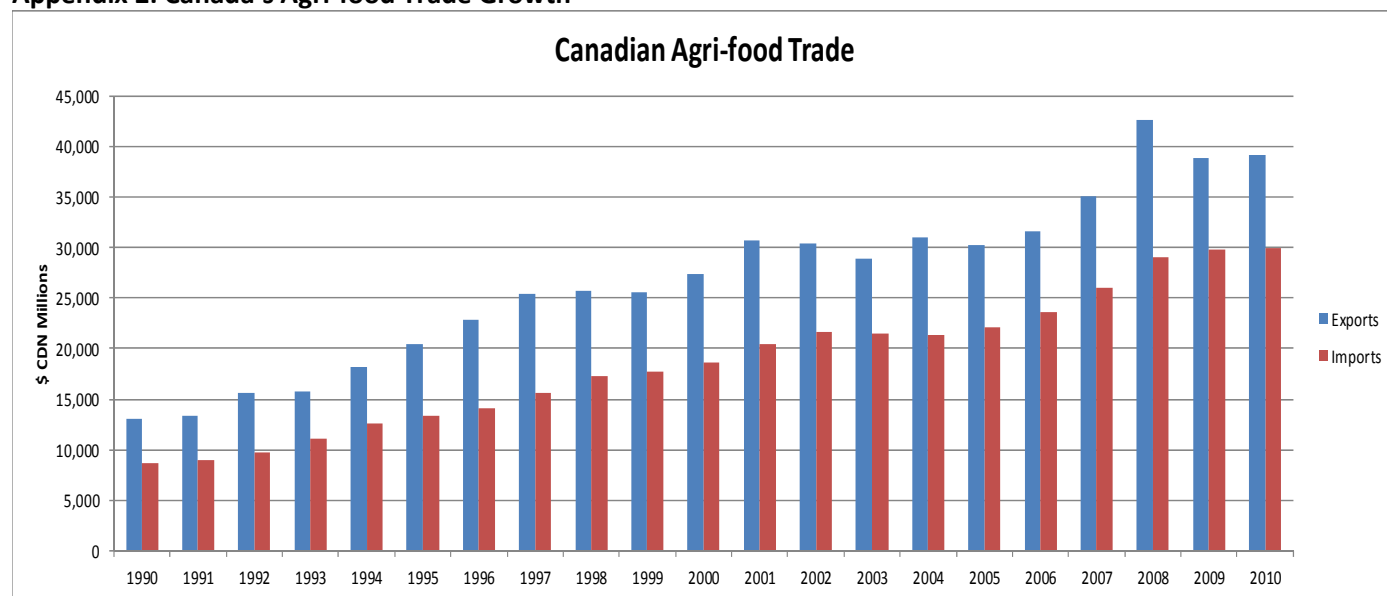
**Appendix 1: Past Annual Average and Forecast Annual Average World Consumption and World Price, Major Farm/Food Product Categories**

	Consumption, thousand tonnes			Prices \$US/tonne		
	2002-2010 Average	2011-2019 Forecast Average	Forecast Change	2002-2010 Average	2011-2019 Forecast Average	Forecast Change
Coarse <sup>1</sup> grains	1,030,413	1,230,793	19.4%	150.05	190.63	27.0%
Pork	99,585	118,538	19.0%	Not available	Not available	
Poultry meat	85,233	106,313	24.7%	1302.69	1636.22	25.6%
Beef	62,441	68,818	10.2%	Not available	Not available	
Cheese	18,480	21,516	16.4%	1673.56	3369.60	101.3%

<sup>1</sup>Coarse grains include maize, barley, oats, sorghum and other coarse grains. Coarse grain export prices based on Number 2 Yellow Corn.

Source: OECD-FAO Agricultural Outlook 2010-2019

## Appendix 2: Canada's Agri-food Trade Growth



Source: Industry Canada, Trade Data On-line, Department of Foreign Affairs and International Trade, 2011.

## Appendix 3: Agri-Food Trade by Trade Agreements and Agreements being negotiated

**Table 1: Canada's Exports**

Trade Agreements	Canadian Dollars (thousands)						% of Total Agrifood Exports (2010)
	Date Completed	2006	2007	2008	2009	2010	
Canadian Agrifood Exports to:							
Panama	May-10	15,719	24,444	27,767	25,124	24,956	0.06%
Jordan	Jun-09	138,941	214,729	211,300	246,463	276,878	0.71%
Colombia	Nov-08	135,073	140,362	156,685	238,714	239,902	0.61%
Peru	Aug-01	11,737	11,015	11,203	11,120	11,271	0.03%
EFTA	Jul-09	86,785	116,177	106,420	102,558	129,874	0.33%
-Iceland, Norway, Switzerland and Liechtenstein							
Costa Rica	Nov-02	19,784	22,519	31,001	29,079	39,534	0.10%
<b>Ongoing Negotiations</b>							
Turkey		56,131	42,472	333,728	191,480	245,668	0.63%
Morocco		125,285	206,040	234,319	267,720	146,390	0.37%
Ukraine		27,675	25,601	50,512	48,415	51,368	0.13%
Andean Community		355,752	465,646	481,057	621,111	647,460	1.65%
-Bolivia, Colombia, Ecuador and Peru							
CARICOM		167,855	215,705	231,648	177,735	183,712	0.47%
-Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Lucia, St. Kitts and Nevis, St. Vincent and The Grenadines, Suriname, Trinidad and Tobago							
Dominican Republic		30,939	37,645	47,299	50,375	51,786	0.13%
Central American 4		98,067	77,814	78,153	116,006	96,581	0.25%
-Honduras, El Salvador, Guatemala and Nicaragua							
Singapore		32,805	60,092	49,177	52,723	63,155	0.16%
EU		2,373,169	2,479,263	2,727,420	2,512,571	2,619,349	6.69%
Korea		451,774	379,541	445,128	391,089	544,369	1.39%
India		395,602	474,674	430,664	543,766	427,587	1.09%

Source: Industry Canada, Trade Data On-line, Department of Foreign Affairs and International Trade, 2011.

**Table 2: Canada's Imports**

<b>Trade Agreements</b>		Canadian Dollars (thousands)					% of Total Agrifood Imports (2010)
Canadian Agrifood Imports From :	Date Completed	2006	2007	2008	2009	2010	
Panama	May-10	7,043	7,849	6,109	6,316	7,853	0.03%
Jordan	Jun-09	1,285	1,265	1,086	1,419	1,300	0.00%
Colombia	Nov-08	318,111	276,654	296,608	342,572	357,955	1.20%
Peru	Aug-01	143,657	147,177	189,465	156,514	192,759	0.64%
EFTA	Jul-09	154,656	168,091	188,778	222,559	237,309	0.79%
-Iceland, Norway, Switzerland and Liechtenstein							
Costa Rica	Nov-02	196,343	206,403	225,934	188,763	233,145	0.78%
<b>Ongoing Negotiations</b>							
Turkey		78,300	111,862	113,890	124,289	126,870	0.42%
Morocco		78,145	102,695	101,340	108,214	94,240	0.31%
Ukraine		2,544	2,461	2,779	5,770	3,654	0.01%
Andean Community		585,722	562,259	661,711	729,918	757,440	2.53%
-Bolivia, Colombia, Ecuador and Peru							
CARICOM		72,428	76,502	74,737	77,027	70,311	0.23%
-Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Lucia, St. Kitts and Nevis, St. Vincent and The Grenadines, Suriname, Trinidad and Tobago							
Dominican Republic		16,627	14,480	15,430	22,345	23,172	0.08%
Central American 4		285,464	283,954	368,897	346,785	445,497	1.49%
-Honduras, El Salvador, Guatemala and Nicaragua							
Singapore							0.00%
EU		3,068,603	3,284,093	3,534,829	3,461,652	3,507,879	11.72%
Korea		44,240	43,724	51,506	54,190	63,541	0.21%
India		201,507	191,044	229,372	248,186	252,149	0.84%

Source: Industry Canada, Trade Data On-line, Department of Foreign Affairs and International Trade, 2011.



## Appendix 4: Canada's Top 10 Trading Partners

**Table 3: Canada's Top 10 Agri-food Export Markets**

Top 10 Countries	Canadian Dollars (thousands)					% of Total Agrifood Exports 2010
	2006	2007	2008	2009	2010	
United States (U.S.)	18,887,511	19,771,576	22,580,692	20,138,300	20,184,218	51.53%
Japan	2,696,861	3,005,439	3,927,681	3,186,851	3,238,555	8.27%
China	810,863	1,151,546	1,653,020	2,575,183	2,763,883	7.06%
Mexico	1,093,489	1,298,984	1,564,768	1,202,940	1,416,387	3.62%
Korea, South	451,774	379,541	445,128	391,089	544,369	1.39%
United Arab Emirates	205,106	273,555	434,419	417,242	538,615	1.38%
Bangladesh	124,048	310,840	209,581	544,489	524,261	1.34%
Hong Kong	284,605	326,242	397,368	457,698	498,691	1.27%
India	395,602	474,674	430,664	543,766	427,587	1.09%
Netherlands	317,097	261,306	206,318	213,760	410,655	1.05%

Source: Industry Canada, Trade Data On-line, Department of Foreign Affairs and International Trade, 2011.

**Table 4: Canada's Top 10 Agri-food Importers**

Top 10 Countries	Canadian Dollars (thousands)					% of Total Agrifood Imports 2010
	2006	2007	2008	2009	2010	
United States (U.S.)	13,299,394	14,900,593	17,206,935	17,646,648	17,314,025	57.87%
Mexico	887,945	1,197,185	960,697	1,082,825	1,229,399	4.11%
China	778,825	836,882	889,313	946,461	965,698	3.23%
Italy (includes Vatican City State)	653,598	702,718	780,393	787,488	809,052	2.70%
Brazil	637,107	686,740	693,929	783,697	808,104	2.70%
France (incl. Monaco, French Antilles)	674,661	705,032	772,630	728,333	741,117	2.48%
Chile	498,669	533,704	602,284	645,713	645,839	2.16%
Thailand	423,744	493,524	565,827	589,060	589,025	1.97%
United Kingdom (U.K.)	363,826	400,689	420,053	432,189	429,632	1.44%
Australia	468,845	450,254	437,323	413,883	400,786	1.34%

Source: Industry Canada, Trade Data On-line, Department of Foreign Affairs and International Trade, 2011.