

Canadian Agri-Food Trade When Global Trade Policy is Dominated by Politics

Independent Agri-Food Policy Note

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The Issue

The environment for global agri-food trade policy has shifted dramatically in a short period of time; many factors have been contributors. Tensions have built over time between the US/western market economies and China, following China's accession as a member of the World Trade Organization. The US and other WTO members have clashed over the WTO Dispute Settlement Understanding (and specifically over the Appellate Body), leading the US to nullify the Appellate Body by blocking the appointment of panelists.

In early 2017, the US exited the Trans-Pacific Partnership (TPP) negotiations, only to later re-engage with Japan in the 2019 US-Japan Agreement in which the US obtains substantively the same access to Japanese agri-food markets that it would have obtained under TPP, but without ceding any comparable US market access to Japan.

In 2018, the US initiated action against a number of countries on steel and aluminum (including Canada) using Section 232 tariffs. The principal target of this action was China, which responded with retaliatory tariffs against the US- notably on soybeans, pork, and a range of other US agri-food products. This precipitated a cycle of retaliatory and counter-retaliatory moves by both countries throughout 2019. The apparent resolution of US-China tensions came about through the US-China Agreement in early 2020, committing China to major purchases of farm and

food products sourced from the US (and thus to the exclusion of others).

Nonetheless, there was a return to significant and (apparently) ongoing agricultural support in the US over and above programs established in the Farm Bill through the Market Facilitation Programs (2018 and 2019) and Coronavirus Food Assistance Programs (2020).

Moreover, the US-China Agreement is unlikely to satisfy the standards of a trade agreement as defined under GATT Article 24,¹ as it focuses on agriculture and on a narrow set of other industrial/service sectors, similar to the US-Japan Trade Agreement. Tellingly, the US-China Agreement is described as a "Phase 1" agreement, and the US looks to expand US-Japan to additional economic sectors (implying that not all are covered).²

In the intervening period, NAFTA was replaced with CUSMA- only marginally different than NAFTA, but with significant concessions on behalf of Canadian dairy and poultry.

In 2020, the WTO ruled on matters involved in the Canada-US softwood lumber case, in favour of Canada. The US appealed, illustrating that with no WTO Appellate Body functioning, the case is essentially shelved and the dispute left unresolved. In a seminal September 2020 decision, a WTO panel ruled in favour of China in a case brought against the US over Section 301 duties taken by the US against China. The

¹ GATT Article XXIV requires that for a member country to provide preferential access to another, it must have a customs union or free-trade area that encompasses "substantially all trade"

https://www.wto.org/english/tratop_e/region_e/region_art24_e.htm

² According to US Trade Representative "The United States looks forward to further negotiations with Japan for a comprehensive agreement that addresses remaining tariff and non-tariff barriers and achieves fairer, more balanced trade", <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2019/september/fact-sheet-us-japan-trade-agreement>

US responded with disappointment to the ruling, and can be expected to appeal the decision- leaving the dispute unresolved, the US having blocked appointments to the WTO Appellate Body.

Elsewhere, China has launched trade investigations against Australia on barley (with 80% dumping duties recently enacted), a new investigation against Australian wine, and a suspension in place for products from several Australian beef plants. The actions on wine and beef, and the dumping finding on barley, occurred following remarks by the Australian Prime Minister requesting an international investigation of the origin of the Covid-19 pandemic.

The Australian situation appears eerily familiar to the Canadian experience regarding the suspension of canola exporters by China following the detention of Meng Wanzhou in Canada, and the suspension of selected Canadian meat exporters- some still in place-based on technical criteria.

There are other issues that also present broader trade problems distinct from the narrow perspective of the US-China tensions in agri-food and the associated effects on Canada. Dramatic changes in trade have occurred due to the African Swine Fever (ASF) outbreak in China; these are being exacerbated by the pork trade restrictions now facing Germany due to its recent cases of ASF. The return of hoarding of foodstuffs by countries complicates the situation.³

Other events/changes are also shifting the focus of trade. Agri-food trade is the go-to place for trade retaliation. In the Uruguay Round of trade negotiations, agriculture was a centerpiece, a *sine qua non* for a deal. Since then, trade in services has become far more important in trade than commodities/goods, and other issues such as

corporate taxation of technology firms, etc., are of greater importance. Difficult negotiations between the UK and the EU could lead to a “no-deal” Brexit and the associated disruption of UK-EU trade; in turn, this will affect prospective UK-Canada and UK-USA trade agreements. Disparate economic growth patterns and a “K-shaped recovery”, with differential prospects for wealthier versus lower-income households and countries arising from Covid-19, is increasingly being discussed, with potentially long-term implications.⁴

There are thus far wider issues in trade than a narrow focus on agri-food that cannot be overlooked since all of these other issues have two effects: (1) they deflect attention away from agri-food issues, and (2) agri-food becomes isolated from finding solutions in the wider context of trade agreements.

The growing list of trade developments and the contexts in which they have arisen points toward a clearly discernable and concerning trend- the trade policies of the largest economies are increasingly transactional in nature, and essentially political. These are emboldened by the lack of an effective dispute resolution mechanism to provide certainty and protection from the use of leverage in international trade. It is a throwback to the international great power politics of the late 19th and early 20th centuries- long before the ubiquity of international agri-food supply chains, and also long before Canada emerged as a major export supplier of agri-food products.

The purpose of this policy note is to explore further the evolving agri-food trade policy environment and to suggest adjustments in agri-food policy that Canada can adopt to survive and prosper in this new (and likely a more unstable) environment.

³ “Countries Rush to Hoard Food as Prices Rise and Covid Worsens” Bloomberg News October 14, 2020
<https://www.bloomberg.com/news/articles/2020-10-14/a-just-in-case-world-is-rushing-to-hoard-food-as-prices-rally?sref=ZcpONEpZ>

⁴ See for example CNN coverage
<https://www.cnn.com/2020/09/30/economy/k-shaped-economic-recovery-trnd/index.html>

The US Agri-food Trade Agenda

The broad US trade agenda is heavily influenced by the persistent perception that the US has been victimized and/or treated unfairly by others under past trade arrangements, and that US trade policy needs to be adjusted to correct for these failures and inequities. The issues range from the domestic politics of “offshoring” and the workforce left behind, to the alleged compliance gaps of trading partners with the terms of trade rules. In the current environment, elements of both Democratic and Republican parties carry the protectionist view that trade is somehow not working or not fair to the US interests.

On a different front, the US has expressed frustration with the perceived overreach of the WTO Dispute Settlement Appellate Body- specifically on the use of precedents in making rulings, on the time lag in reaching rulings, and more fundamentally on the interpretation of existing rules for a specific situation vs. tailoring new rules to fit. There is also frustration with the WTO system in relation to China- relating to implicit domestic support, state trading enterprises, and differential preference. China is a developing country from a WTO standpoint, yet it has grown to the world’s second largest economy. Many of the concerns held by the US regarding trade with China are shared by other countries.

As the US has unilaterally engaged China in a trade war and partial settlement through the US China Phase 1 Agreement, followed by the Covid-19 pandemic, it has had to wrangle with lower farm prices. These have motivated large-scale *ad hoc* farm subsidies, which now have political momentum and will be difficult to bring to an end, independent of the changes in the conditions that motivated them.

⁵Measured in tonnes, for 2017. See “The New Trade Economy of Food Security: Repositioning Canada”, Independent Agri-Food Policy Note, April, 2020

⁶ No. 1 Central Document of the Central Committee of the Communist Party of China on Increasing Efforts on Major

Regardless of the outcome of the November US elections, the victor cannot appear soft on China, WTO reform, nor easily retreat from *ad hoc* farm subsidy payments, without risking political backlash.

However, the current actions and directions by the US are transactional, dealing only with symptoms and denying more fundamental changes in many policies that are necessarily multilateral in nature. Examples include domestic support/nationalized aerospace industries; e-commerce taxation; pandemics, personal protective equipment, and vaccines; and animal and plant diseases. The prospect for renewed multilateral participation and leadership by the US would seem much more likely with Democratic victories in Presidential and Senate elections than under Republican victories.

The Agri-food Trade Agenda of China

The motivations and actions taken by China in agri-food trade are more complex. China is among the largest producers of most farm products, yet it is also a leading importer of a broad range of agri-food products. When China’s net agri-food trade (exports-imports) is related to its production, it is 18% deficit.⁵ Indeed, food security is an increasing concern in China, recently highlighted by losses of pork production due to African Swine Fever. Yet, China has taken unilateral trade actions to block agri-food imports and threaten others.

It is becoming increasingly evident that China has long-term, protracted concerns with its food security, or is at least taking preemptory measures to mitigate that prospect. This can be inferred from the most recent edition of China’s agricultural policy planning “No. 1 Document”.⁶ Another illustration exists with

Work Concerning Agriculture, Rural Areas and Rural People to Ensure the Goal of Building a Moderately Prosperous Society in All Respects is Achieved on time. Translated and published by the USDA-FAS:

food waste directives from the highest levels of leadership given to Chinese citizens (Clean Plates Campaign).⁷

The No. 1 Document acknowledges food security as a top priority, and the need to support as priorities the production of rice and wheat as food grains- but not feed grains (such as corn or barley). This is consistent with the limits of China's agricultural resource base and capacity to increase either food and feed grain production (but not both), and the need to prioritize between them. Consistent with this, Chinese corn imports from the US are up significantly in fall 2020, perhaps in response to an estimated decrease in storage stocks of about 9 million tonnes⁸- but with Chinese corn stocks still at around 200 million tonnes- just short of its annual corn production in recent years. This also fits with the aspirations of the US-China Agreement, and with the relative lack of Australian imported barley from Australia, given the dumping duty invoked by China

Figure 1 provides an overview of China's agri-food imports for selected two-digit HS groupings from 2015 to 2018; these exclude horticultural products as well as sugar, cocoa/chocolate and coffee/tea. China's leading agri-food imports have been oilseeds, meats, and cereals. However, even in the four years represented in the data, a broadening range of exports is evident in the processed food category. Growth in import value, 2018 versus 2014, was 65 percent for prepared meats, 74 percent for processed cereal products, 60 percent for processed vegetable products, 82 percent for other processed foods, and 50 percent for beverages and spirits. Meat and dairy

product imports also increased by 62 percent and 69 percent, respectively, but the remaining large import categories (e.g. oilseeds, cereals, and food industry wastes/residues/livestock fodder) experienced low or negative growth.

It is in this context that China has increasingly taken aggressive and defensive positions on agri-food imports, as evident with actions taken against Canada on canola, pork, and beef, and against Australia on barley, beef, and wine. Waldron (2020) makes reference to a prospective "hit list" of Australian agri-food products that China may have established that it intends to target with future trade actions.⁹

The apparent contradiction between food insecurity and an importing interest versus trade actions to obstruct imports relates to the following. First, trade policy measures that constrain imports have the effect of increasing domestic prices, and thereby supporting increased domestic production- consistent with China's food security objectives to be more self-sufficient, and with the evidence of dampened imports of bulk and intermediate products.¹⁰

Secondly, by taking trade actions against its foreign suppliers, China may hope to gain leverage for the extension of Chinese control into exporting countries. China needs the capacity of agricultural systems elsewhere to support its food security objectives, and its preference is for direct control over these supplies. The financial pressure on foreign companies exerted by trade actions could serve to facilitate greater influence by China over these suppliers. In a market economy with firms engaged in exporting to China,

<https://www.fas.usda.gov/data/china-chinas-2020-agricultural-policy-document-stays-course>

⁷ "Xi Makes a Political Gamble by Telling Chinese to Clean Their Plates" Bloomberg News August 14, 2020

<https://www.bloomberg.com/news/articles/2020-08-14/xi-gambles-with-third-rail-of-china-politics-the-dinner-menu?sref=ZcpONEpZ>

⁸ USDA World Agricultural Supply and Demand Estimates, October 2020

<https://www.usda.gov/oce/commodity/wasde/wasde1020.txt>

⁹ Waldron, Scott. 2020. *The exposure of Australian agriculture to risks from China: the cases of barley and beef*. Asian Cattle and Beef Trade Working Papers No. 4. ISSN: 2209-8402. Available at www.asiabeefnetwork.com

¹⁰ Imports of feed grains and protein meals decreased in 2018 due to reduced pig feed demand with African Swine Fever, distinct from the trend in greater domestic production

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trade actions raised by China reduce revenues and impair the capitalized value of exporting firms. This creates an environment in which these firms can then be more easily targeted for investment or acquisition by Chinese firms and their output more directly secured for import by China.

It is also clear that trade actions in agri-food are closely aligned with China's geo-political and foreign policy interests. This manifests itself in two ways. First, as situations present themselves China acts opportunistically to pursue its broader political objectives with rivals or adversaries. For example, in choosing to retaliate against the US on soybeans in 2018, China focused on a segment of sensitivity in the US, knowing that it needed to import fewer soybeans due to sharply reduced feed demand due to the African Swine Fever outbreak, and that it could otherwise call on ample supplies of soybeans from South America. Similar tactics have been applied when the logistical network was tied up, such as the limitations on shipping containers and port congestion during periods of the Covid-19 pandemic in China. With respect to opportunistic trade actions and the Australian experience, Waldron suggests that "industries chosen are most likely to be in an industry or in a market cycle, where the measures would benefit, or minimize costs to China. Measures are most likely to be those that can be taken in a flexible and low-cost way and where plausible deniability can be maintained (for example, certification, labelling and dumping)".

Secondly, agri-food trade actions are influenced by broader tensions in China's foreign politics. Canadian market access to China for canola was targeted following the detention of Meng Wanzhou. Trade action against Australian beef and wine was initiated

following Prime Minister Scott Morrison's request for an international inquiry into the cause of the Covid-19 pandemic. Dzedzic (2020) notes that "When Norway awarded a Nobel Peace Prize to Chinese dissident Liu Xiaobo, the authorities in China slapped fresh import controls on one of its iconic exports, Norwegian salmon. When South Korea angered Beijing by installing a US missile defense system, one of its major supermarket chains suddenly found most of its Chinese branches shut down over 'safety violations'".¹¹

Nonetheless, there remains significant confusion regarding the state of Chinese food security. For example, selected official statements suggest that China intends to be self-sufficient in pork.¹² It is unclear how this could occur sustainably, given policy planning documents acknowledging the need to choose between production of food grains and feed grains. Moreover, questions have been raised regarding Chinese official agricultural statistics. Shao *et al* (2020) note that "since 2014, China's hog inventory data has experienced an abnormal decline that contradicts price and consumption trends"; using a machine-learning technique, they estimate that "hog inventory decreased by 3.9% from November 2013 to September 2017, instead of the 25.4% decrease in the reported data".¹³

Finally, the agenda that China has with Canada extends beyond bilateral relations. If China sees its principal adversary as the US, an approach consistent with this is to target traditional US allies and weaken these alliances. Pickford and Collins note this motivation for Chinese foreign policy, "Canada is viewed [by China] as an offshoot of the United States and a vulnerable entry point into North America...This divide-and-rule approach would

¹¹ Stephen Dzedzic (2020) "China's meat import suspension a reminder of Beijing's ability to inflict economic pain"
<https://www.abc.net.au/news/2020-05-13/china-import-suspension-reminder-beijing-inflict-economic-pain/12243560>

¹² See Bloomberg reporting September 28, 2020
<https://www.bnnbloomberg.ca/china-wants-to-rely-almost-entirely-on-pork-produced-at-home-1.1500312>

¹³ Shao, Yongtong, Minghao Li, Dermot Hayes, Wendong Zhang, Tao Xiong, Wei Xie. 2020. *China's Missing Pigs: Correcting China's Hog Inventory Data Using a Machine Learning Approach*. Center for Agricultural and Rural Development Iowa State University. Working Paper 20-WP 607

reduce a formidable alliance of democracies to individual nations each pursuing their own short-term national economic goals. This approach can be seen in the way [China] has been leveraging significant two-way trade volumes with Australia.”¹⁴

Canada's Position

Canada has been the beneficiary of strong international alliances- historically the British Commonwealth, NATO, and an especially a close economic-diplomatic-security relationship with the US. Today these are frayed as the US has significantly stepped back from its leadership role in multilateral organizations. The legacies framing Canada's past alliances- the British Commonwealth, and with the US and others as one of the victors of the Second World War- are fading into history, and Canada needs a new logic for its international partnerships and alliances.

In agri-food Canada is structurally exposed to risks associated with trade because its natural resources support agricultural output that greatly exceeds its domestic market. Virtually all farm products that are not supply managed are oriented toward exports, face competition from imports, and use price mechanisms based on global/North American supply and demand conditions.

The current situation thus leaves Canada with multiple, deep concerns. Effectively, Canada (along with other small/mid-sized economies) has lost its recourse in trade disputes with the sidelining of the WTO Appeals Panel as the final arbiter of rules-based trade

In key markets, Canada faces a managed trade situation with arbitrary, preferential trade access allocated to larger economies. The clear case in point is the US-China Agreement, significant both because Canada is now a second-tier player to the US in the

Chinese market, and because the volumes committed to the US for import by China justify very high levels of US production (especially pork, soybeans, and corn) with the imminent risk that a sudden shutoff by China would divert displaced supplies to Canada or third country markets it supplies.

Moreover, the US-China Agreement is only for two years. The Trade Promotion Authority of the US President only runs to mid-year 2021, and the process seeking renewal of this authority to negotiate trade agreements would need to be initiated in early 2021. Overall, this leaves open the question of whether US-China will/can be renewed, and where the US will market its past China export volumes if the agreement is not renewed for 2022.

Historically high levels of production of many farm products in the US are buttressed by ongoing *ad hoc* support programs. If these continue beyond the periods of adversity they are intended to address they will increasingly underwrite existing or even higher levels of US production, eventually weighing in on lower prices received in Canadian agriculture.

Canada cannot simply ignore the Chinese agri-food market; it is simply too dominant globally, and a key customer for some products produced in Canada but with little demand in Canada and elsewhere. China needs Canada as an agri-food supplier, yet Canada stands to be targeted by China; perhaps there is a Canadian agri-food “hit list” of products that are sensitivities to Canada and/or that China can press, or temporarily do without. It is not in the Chinese interest to erode Canadian agri-food capacity, but it is in Chinese interest to gain greater control over it and integrate it into its supply network.

Figure 2 below provides an overview of China's imports from Canada from 2014-2018 using the same set of categories as Figure 1. What is immediately

¹⁴ Pickford, Andrew, and Jeffrey F. Collins. 2020. *Hard Choices: Why Canada Needs a cohesive, consistent strategy towards Communist China*. MacDonald-Laurier Institute

https://macdonaldlaurier.ca/files/pdf/20201006_Hard_Choices_Pickford_Collins_PAPER_FWeb.pdf?mc_cid=f3188db50e&mc_cid=8e9e9afc4b

evident is that a very high proportion of Chinese imports from Canada are in the largest categories- oilseeds, cereals, meats and food industry wastes/residues/livestock fodder. Chinese imports of processed food from Canada appear almost negligible. Canada has been a supplier in the components of Chinese agri-food imports that are the slowest growing and tend to be most dominated by commodity products- and much less present in rapidly growing markets in processed food products.

Figure 3 presents US agri-food imports from Canada using the same set of product categories, for 2015-2019. It has a much more balanced product mix compared with Figure 2, consistent with mostly free trade between the US and Canada, and the extensive integration in food supply chains between the US and Canada. One illustration of the latter is that the largest two US import categories are meat products- both the processed and non-processed versions- yet Canada is in a trade deficit position to the US in prepared meats (Thompson *et al*, 2020).¹⁵

Nonetheless, to a significant degree, Canada is a supplier of bulk and intermediate products to the US, with the resulting consumer-oriented product brought back to Canada from the US.¹⁶

Dilemmas facing Canada

Without the recourse to clear and enforceable trade rules, Canada must now chart a course in which dispute avoidance and soft power are core elements to its trade and foreign policy. This should start with consideration of China and the US as the two largest economies, very large agri-food importers, and countries with whom Canada has both complex and intimate relationships.

Canada's agri-food trade with China has been out of synch with the key trends in Chinese agri-food imports. Essentially Canada is an exporter of commodity agri-food products, especially canola, soybeans, cereals, pork, and beef. Without data for 2019 or 2020, the effects of the African Swine Fever outbreak in China and the US-China Agreement are not reflected. Yet, it can be anticipated that these effects will only deepen the existing structure. The vast share of Canada's bulk (and minimally processed) exports offshore are limited to only five or six commodities; a very narrow foundation for exports compared to US agri-food exports and Chinese imports. This also creates a vulnerability for Canada since a major importer can easily target any one of these and cause considerable damage to Canada.

When Canada is free of technical restrictions, with a very large pork supply gap in China remaining, China will continue to import pork and beef from Canada. As livestock feed demands recover with hog numbers in China, imports of canola and soybeans from Canada will increase- where Canada is free of technical restrictions. Under the US-China Agreement, these developments will now (2020-2021) occur with the US as a preferred supplier to China, and with the US essentially capable of supplying China with anything that Canada can (and more).

The concentration of China's imports from Canada is in oilseeds, primary meats, and cereals. To a large degree, these are commodity categories in which product is exchanged on spec under price arbitrage, substitution between supplying countries/firms occurs freely, and there is a very limited opportunity for origin or a brand to stick with the product as it moves through the supply chain toward consumers.

¹⁵ Thompson, Shelley, Ted Bilyea and Margaret Zafiriou. 2020. *Canadian Agri-Food Processing Competitiveness, Quality Growth and Global Opportunities: A Snapshot of Current Trends*

Key Findings. The Canadian Agri-Food Policy Institute, March, 2020.

¹⁶ Mussell, Al and Douglas Hedley. 2017. *Agri-Food Trade: Is the US Really a Victim of NAFTA?* Independent Agri-Food Policy Note- March 2017

This is an environment in which Canada is imminently vulnerable to sudden market access interruptions due to technical trade barriers- as China pressures for more control over foreign supply chains, or projects geo-political tensions into agri-food trade. Canadian commodity products previously imported by China can be blocked and provided by competing suppliers. By definition, this inflicts more pain on the exporting firms/countries than it does on the importer. It is only when alternative supplies are insufficient that it can backfire on the importer, and China seems to have been adept at anticipating and planning for this.

Moreover, under the current structure of agri-food trade with China, Canada has been missing the growth segments, which are processed foods- meats, cereals, vegetables, and others. Instead, Canada has (mostly) been growing in a declining market segment.

Processed foods can also more easily be differentiated, carry the Canadian origin through to recognition by Chinese consumers, and present the opportunity for branding. This by itself is something of a hedge against arbitrary market access stoppages, as it presents the prospect of developing a domestic Chinese customer constituency to advocate for products they have come to enjoy, or complain if the product becomes no longer available. This does not occur for commodity products.

With the risks of trade interruptions acknowledged, ultimately Canada has the natural resource base, and agri-food products to sell that China needs to address the high priority it places on food security.

US situation is very different. The likelihood of political opportunism manifesting itself as technical barriers leading to sudden stoppages in market access is quite low; many of the technical standards are harmonized or are the subject of well-established equivalency agreements.

Rather, the worry for Canada with agri-food trade with the US is of imports being viewed as disadvantaging US industries or regions unfairly. In the upheaval of the current US political environment, there is almost no downside to initiating a trade dispute on the basis of defending America against unfair foreign traders. Potentially all it takes is a little too much product exported to the US at the wrong time to trigger a dispute- and an application of dumping, countervail, or security-based protection instruments. And the risk is not exclusive to agri-food products, as retaliation by the US in trade cases unrelated to agri-food commonly occurs on agri-food products. Canada can also be drawn in by US trade actions aimed primarily at others.¹⁷

Yet, the reality is that Canada and the US are 30 years into major economic integration, especially in agri-food. Even as elements of the US-Canada relationship fray, the reality is that much of the Canadian food industry is dominated by US consumer brands, Canada heavily depends on certain imports from the US (especially off-season fruits and vegetables) and the US depends on Canada as a supplier of raw products for its food processing industry.

Alternatives for Canada

To navigate this precarious situation, Canada must be prepared to enlist a policy approach that discriminates between the risks posed by agri-food trade with China and those posed by the US and in so-doing, avoid having trade policy dominated solely by the US-China dichotomy.

With the structure of its existing trade with China, Canada is vulnerable to future stoppages in trade by China predicated on the rubric of technical specifications, but driven on political grounds far beyond agriculture. It is a function of trade based largely on undifferentiated commodity products easily substituted from other suppliers.

¹⁷ The most recent target is blueberries, with Mexico the primary target. See “US Trade Hawks Eye Berries”

<https://www.castanet.net/news/Canada/312517/U-S-trade-hawks-setting-sights-on-foreign-berries-produce>

An approach to this problem is to shift Canadian agri-food exports to China downstream to more processed products, better able to signal Canadian identity or brands at the consumer level- and resist trade interruption. Further processing and value-adding is usually conceived from an economic development perspective, but in the current environment it is also defensive- an investment in market access protection. Practically speaking, as product origin or (better yet) brand becomes recognized, it becomes more difficult to unilaterally stop imports, as the product gains an awareness and consumer constituency for itself.

Consider the analogy in technology- the US has censured aspects of Huawei technology. China could have retaliated against the US by placing Apple on its “Unreliable Entities” list and prohibited Apple product imports. However, the Apple brand is highly regarded in China, and prohibiting Apple could upset many Chinese consumers. Thus, there must be hesitation on behalf of the Chinese government in censuring Apple, even though it would be damaging to Apple and to the US.

Canadian agri-food policy can facilitate investments in marketing and trade advocacy for Canadian processed food products in China, and in assisting with investments in processing assets where this is required. In the context of the Chinese market for processed foods, Canadian supplies could only ever constitute a small share of the Chinese market. It would be prudent to target these toward high quality niches, or to a specific region, to focus the consumer awareness and interest in imported Canadian products.

Some will argue that processing Canada’s agricultural production in Canada was always a good idea for economic development and the current situation does not change this. But this misconstrues the gravity of the situation we now face, and underestimates the challenges. In the absence of reliable rules-based trade the interest in processing in Canada is also defensive and a means of protecting market access

versus export of bulk commodities which are more readily substitutable.

The policy challenges in encouraging food processing investment in Canada are several. The ownership structure of our food processing industry is heavily non-Canadian, with investment decisions made elsewhere and not solely on conditions in Canada. More fundamentally, what policies are needed to encourage investment in food processing in Canada, when the private sector is holding back on making investments to minimize risk in an unstable environment?

A second policy approach that acknowledges the prospective targeting of Canadian agri-food products with technical barriers is renewal of precision in systems management, and patience to wait out trade interruptions when they occur. In a politically charged environment, small errors like mistaken entries on an export certificate present an opportunity to halt exports and pressure Canada. Assistance to upgrade compliance can minimize the likelihood of this. Secondly, if these barriers arise, provision can be set aside to support storage and/or alternate marketing of displaced product. This recognizes the fact that barriers erected by China against Canadian imports are ultimately transitional and temporary, and that Canadian production/processing capacity must be secured.

The prospect of technical barriers imposed by China that injure affected exporting firms, bundled with a targeted foreign investment strategy cannot be ignored. It is in China’s interest to obtain greater control over agri-food assets and capacity in exporting countries like Canada. However, this is not in Canada’s interest, as it must be assumed that the acquired capacity would be managed for the benefit of China’s food security; in some cases this could undermine aspects of Canadian food security. Acknowledging this, a logical response for Canada is to establish an appropriate review process focused on proposed foreign acquisitions and investments in

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Canadian agri-food companies, apart from the existing foreign investment review process.

An essential strategy to address trade relations with the US is to leverage existing supply chains. Working within existing agri-food supply chains and building Canadian exports organically minimizes the prospect of allegations of dumping or sudden surges of volume triggering safeguard measures. Another aspect of Canada-US supply chains involves the mobilization of support from American supply chain partners to renew efforts at multilateralism. Major segments of US agriculture are supportive of renewing the WTO, as evident in a recent letter from US agri-food groups to the US Trade Representative.¹⁸ Canada can use its US partners to advance issues it has in common.

With the imminent risk of trade disputes with the US, Canada needs an avoidance strategy. However, it can also benefit from an assertive strategy that closely monitors US agricultural policy and the transgressions of firms/segments in the US agri-food system, and demonstrates a willingness to use bilateral trade remedies to address these- dumping, countervail, and safeguards- in the absence of effective WTO dispute resolution mechanisms.

The US has dramatically increased its domestic support, probably in excess of its WTO caps on most distorting support. The US is engaged in a dramatic ramp up of export to China under US- China; the agreement runs until through 2021. Recent *ad hoc* payments provided to US agriculture will support existing production levels that feed these exports, or further expand US production. But following 2021, the risk exists to Canada and others that the US production previously exported to China is re-routed to other markets if US-China arrangements are not renewed. In that event, Canada is at risk of being swamped by excess US production diverted from export to China to Canada, or exported to third countries, fueled by US subsidies to offset low prices.

Canada should prepare with trade remedies appropriately.

Canada has agri-food market access under its trade agreement with the EU (CETA) that has been underutilized in a number of respects, influenced by a range of non-tariff barriers enacted by the EU, with the agreement as a whole put in flux by Brexit. Efforts to address these issues should be redoubled, and engagement of a Canada-UK agreement pursued considering how Canada can be an agri-food solutions provider to the UK.

Another alternative is increased/enhanced trade with African nations. This provides an agri-food export market for products that relates to the upgrade of basic diets, heavily weighted toward bulk products.

Finally, Canada's focus diplomatically and in agri-food trade has been multilateral. This has shifted slightly to be more plurilateral, the best example being the Ottawa Group of countries that have pursued renewal of the WTO and agreed on interim measures among group members for dispute resolution.¹⁹ But with the 13 countries forming the group including significant agri-food exporters (e.g. Canada, the EU, Australia, New Zealand, Brazil, and Chile) and major importers (e.g. Japan and the EU) the group could do more. Some of its members have been the subject of sudden trade interruptions on technical grounds. Among its members, agri-food trade could be coordinated based on the interests of its members, and avoid or mitigate the risk of sudden trade stoppages on technical grounds. Canada could take the lead in exploring this.

Conclusions

The fall of 2020 is shaping up as a pivotal moment for Canada. A second wave of Covid-19 is upon us, and even with the benefit of experience from the first wave it threatens elements of the agri-food supply chain. The US presidential election is short weeks

¹⁸ <https://corn.org/world-trade-organization-letter-sign-on/>

¹⁹ <https://www.canada.ca/en/global-affairs/news/2019/05/ottawa-group-and-wto-reform.html>

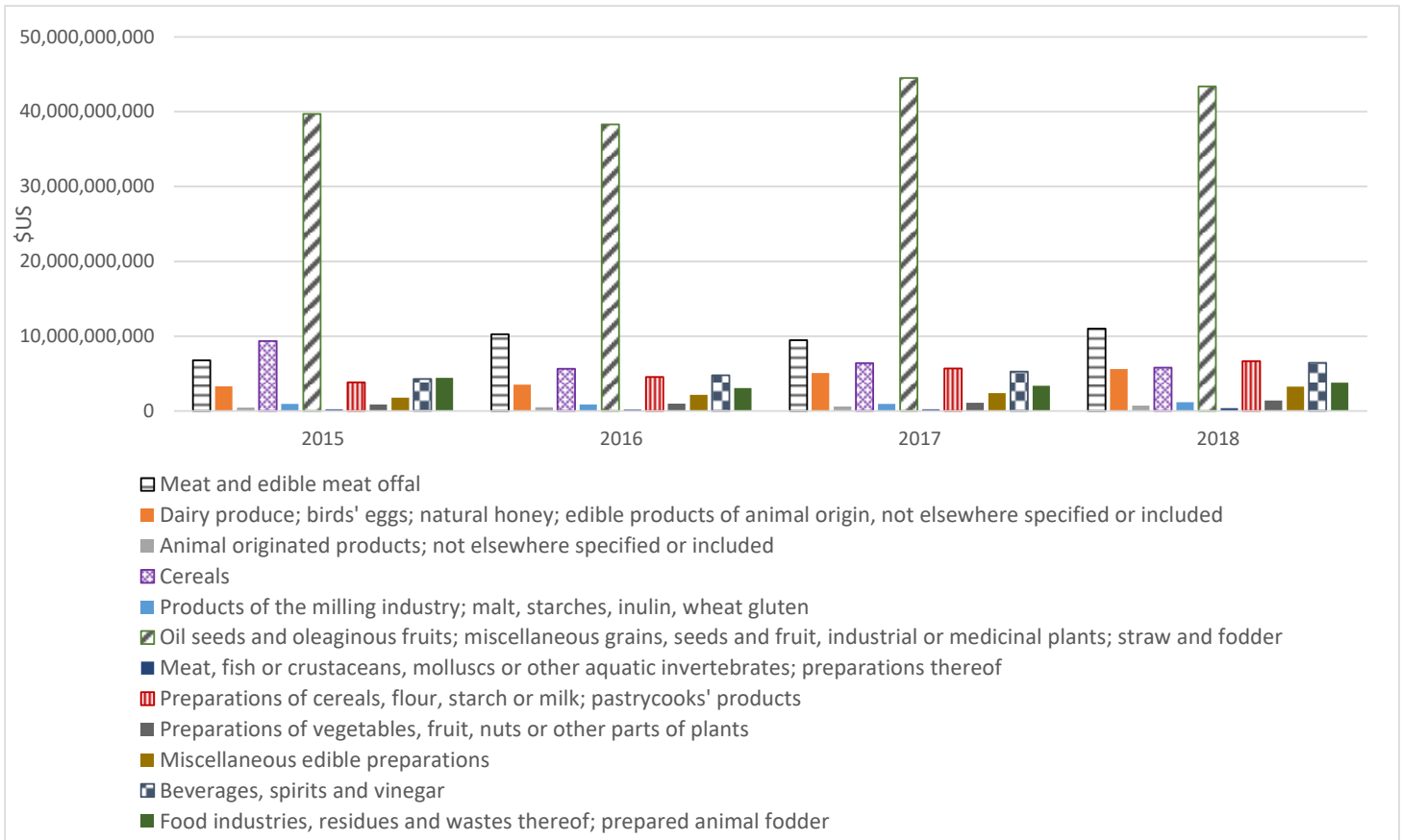
away with the prospect of delays and uncertainty in determining the victor, and an intensely political period prior to November 3rd in which trade looms large, and the prospect of a rapid sequence of US regulatory and policy changes to entrench a Trump legacy if the US elects Biden.

Canada has recently stiffened its tone in public dialogue with China, raising a range of issues it views as pressing with Beijing, triggering rebuke from China. The situation is not one in which Canada can bide its time. Collins and Pickford note, "Canada's relationship with [China] is at a crucial juncture. The actions that Canada's decision-makers take now will determine the nation's economic and strategic future for decades. Canada cannot afford to defer these decisions. If Canada does not act now, China will". Surely the risk of trade interruptions to Canadian export by China has increased.

The decisions facing trade policy today are not about how we get back to a world that existed some years ago, but rather how we accommodate a fundamentally different and unstable set of pressures in growth, trade, employment, equity, and hopefully without the dominating influence of a few very powerful countries setting the environment for all other much smaller players.

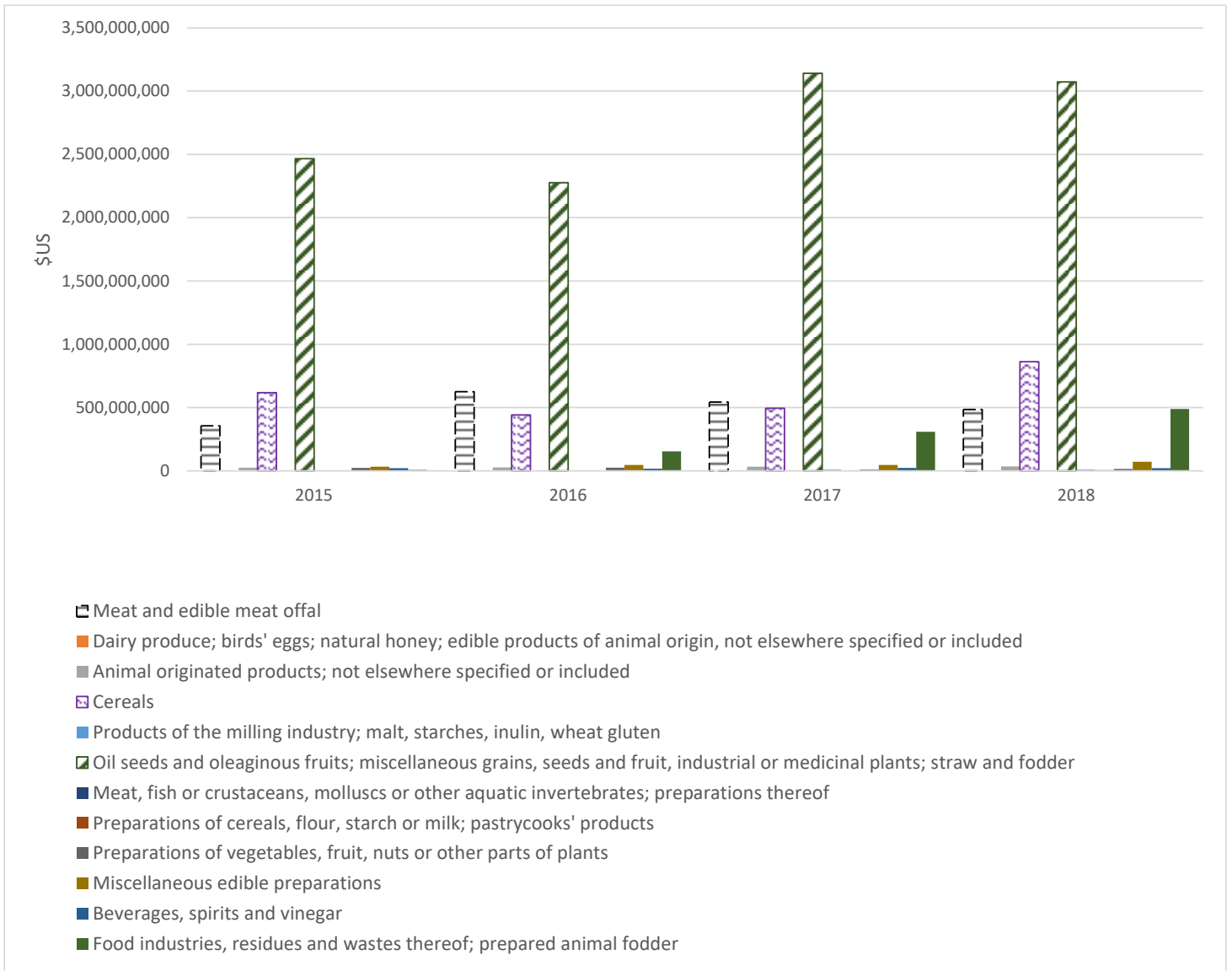
Canada now faces a crowded agenda of issues with the urgency to move decisively in multiple directions with agri-food trade policy just to retain the trade and economic prosperity we have become accustomed to, let alone grow. This is occurring in an environment of increasing concern on food security globally, including among the largest economies, and little hesitation by many countries to drive geo-politics well into the weeds of agri-food trade and technical standards. Canada needs to be prepared with bold and profound changes to meet the day.

Figure 1: Selected Total Agri-Food Imports By China



Source: UN Comtrade; selected HS 2-digit groupings

Figure 2 China Selected Agri-Food Imports from Canada



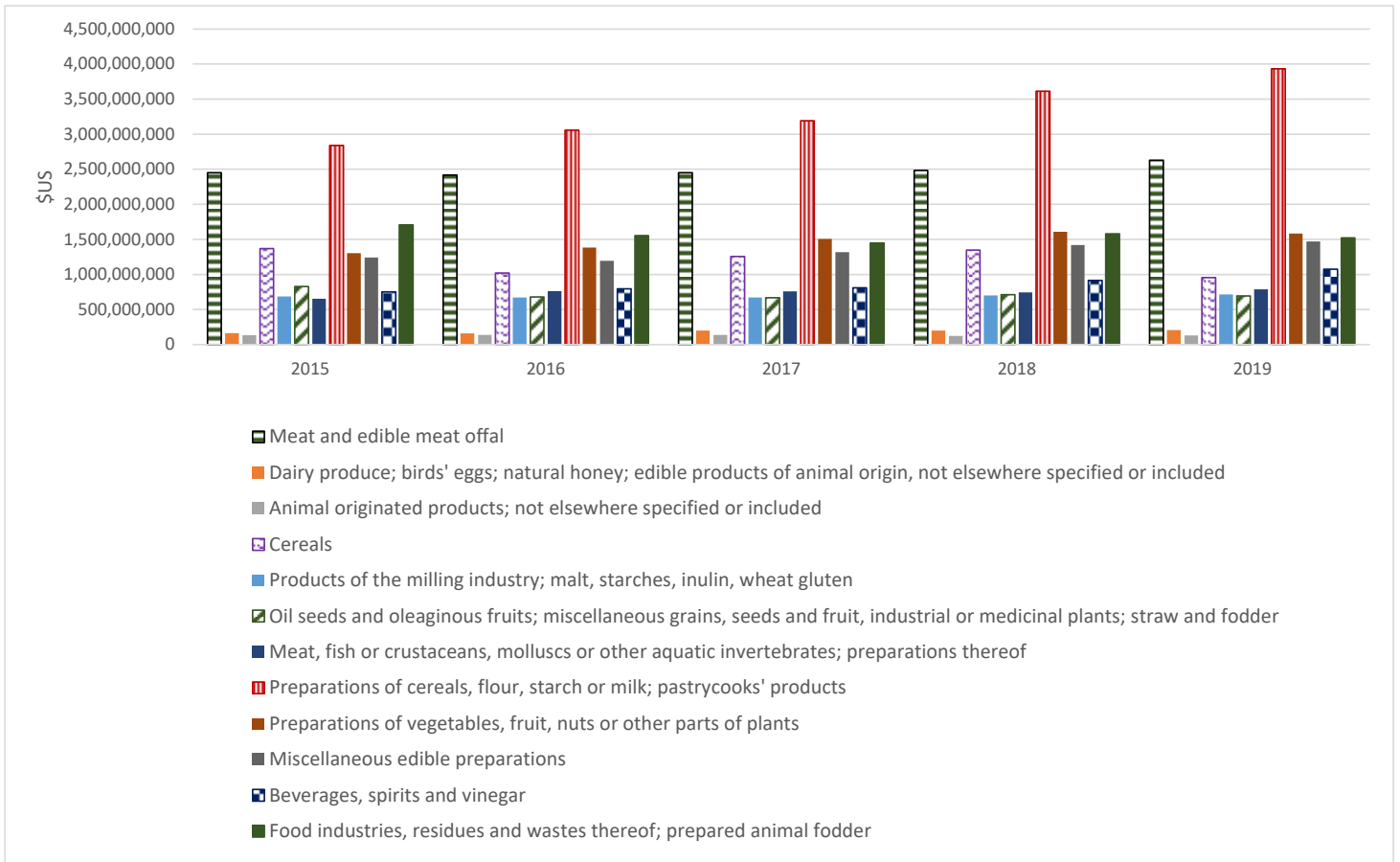
Source: UN Comtrade; selected HS 2-digit groupings

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Figure 3 US Selected Agri-Food Imports from Canada



Source: UN Comtrade; selected HS 2-digit groupings