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**Canadian Agri-Food Policy Institute (CAPI) Remarks to  
The Senate Standing Committee on Agriculture and Forestry  
October 28, 2014**

**“Canada’s Trade Future –  
Taking a Strategic, Systems-based and Long-term Approach”**

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## “Canada’s Trade Future –

### Taking a Strategic, Systems-based and Long-term Approach”

- Thank you for inviting the Canadian Agri-Food Policy Institute (CAPI) to present to you on your first day of hearings on international market access priorities and their implications for Canada’s agricultural and agri-food sector.
- CAPI is an independent, non-partisan and non-government think tank dedicated to the future success of Canada’s agri-food sector.
- We’re focused on the following question: How can Canada's agri-food sector best position itself in a world of increasing globalization of food production and supply?
- Answering this goes well-beyond securing trade agreements. It’s about linking policy, supply chain strategies and marketplace foresight. We present five principles to help make this point.
- Our comments are based on a paper we published last month, entitled *Leveraging Trade Agreements to Succeed in Global Markets*. We would like to acknowledge the other co-authors: John Weekes, Bennett Jones, and Al Mussell now with Agri-food Economic Systems. We will have more to add when our deep dive into trade strategy is completed in early 2015.
- Turning to the principles:

**Principle 1:** Export success depends on the timely negotiation of “preferential trade access”.

- Canada is working hard to expand market access for its agri-food sector. But, in a world of “competitive trade liberalization”, countries are competing with each other to be the first to secure free or at least preferential access to the world's major markets.
- We’ve long understood this. For much of the 20<sup>th</sup> century, Canada enjoyed preferential access to a major part of the trading world under the British preferential tariff. After that was lost, we gained access to the U.S. under CUSFTA and later NAFTA. These were periods of great expansion for our agriculture and food processing industries.
- While Canada is now securing a trade deal with South Korea, the bilateral agreement between the U.S. and South Korea was negotiated first. This has been costly for Canada. We made a tactical decision and did not follow through on our trade deal opportunity back in 2008, or so.

- On the other hand, Canada beat the U.S. to strike a deal with the EU. One benefit is that this may help to attract new investment as food companies can establish and expand in Canada and have both EU and NAFTA access.

**Principle 2:** Winning preferential access depends on isolating a country’s core food preoccupation and building in a “win-win” trade advantage with this in mind.

- Take Japan. “Food security” is viewed as a critical issue for that country. Japan’s food self-sufficiency has fallen from over 70% before 1970 to less than 40% today. Aging farmers (demographics), the prevalence of small-scale farm operations and decreasing agricultural production are the main reasons.
- Reducing tariffs and improving access are the desired outcomes of any negotiation. But, the longer term strategic objective is – or should be – about positioning Canada as a major reliable food supplier to the Japanese market.
- Japan should be very interested in this longer-term supply solution.
- This requires fully aligning our supply chains in response, such as Canadian input-providers, producers, processors, distributors and the necessary support sectors to make this possible.
- A bilateral deal with Japan that adheres to this principle can shape how we proceed with the TPP.

**Principle 3:** Export success requires deeply understanding the foreign consumer.

- Many consumers shop for their food on the basis of price. But, consumers are also expecting something else that is transforming global supply chains and food practices here and abroad: “trust”.
- Increasingly, consumers want to know: “what’s in my food?”, “is it good for me?”, “is my food safe?”, “how was it produced?”, “does its production cause harm to eco-systems?”, “how are animals treated?” and “where does my food come from?”. In certain market segments, these factors easily trump price. Figure 1 (as circulated and in the appendix) represents these pressures.
- Individual companies and producers are promoting these attributes. Supply chains are establishing global and domestic standards from field (and ocean) to fork on quality, ethical and environmental sustainability requirements. Governments are responding, such as the EU’s restriction on growth promotants, and the actions to reduce trans-fat and sodium.

- All this requires traceability and good governance practices. Canadians should be among the best at this. And, we can strategically negotiate such protocols into trade agreements. For instance, Canada has mandatory traceability from ranch to slaughter. The Americans don't.

**Principle 4:** Export success also requires the constant pursuit of “differentiation”.

- This principle is linked to the last point – we can differentiate ourselves on governance practices. It also extends to our brand.
- Japan and South Korea are seen as a premium markets for our food/ingredient exports. So our reputation for clean water, open spaces, good soil and nutritious ingredients should have value.
- The task is systematically supporting such brand attributes. Our R&D capacity has a role here, such as demonstrating the nutritiousness of our ingredients or that it contains less residues than other agricultural producers.
- Canada's trade strategy needs to be about differentiating ourselves from the Americans – and to offset their scale advantage. We want foreign consumers to seek out our ingredients and food because of what it offers.

**Principle 5:** Being competitive in this changing trade world requires taking a systems view.

- We present a diagram to help make this point (figure 2, as distributed). It provides an integrated view of trade, domestic policy and business strategy considerations.
- Eliminating tariffs gets much of the attention. Yet, securing a trade agreement is only one step. Firms must also deal with non-tariff barriers, other regulatory, policy and legal requirements and supply chain standards, as noted above.
- Plus, export success requires knowing how to target the right consumer market segment with the right product.

**Conclusion:**

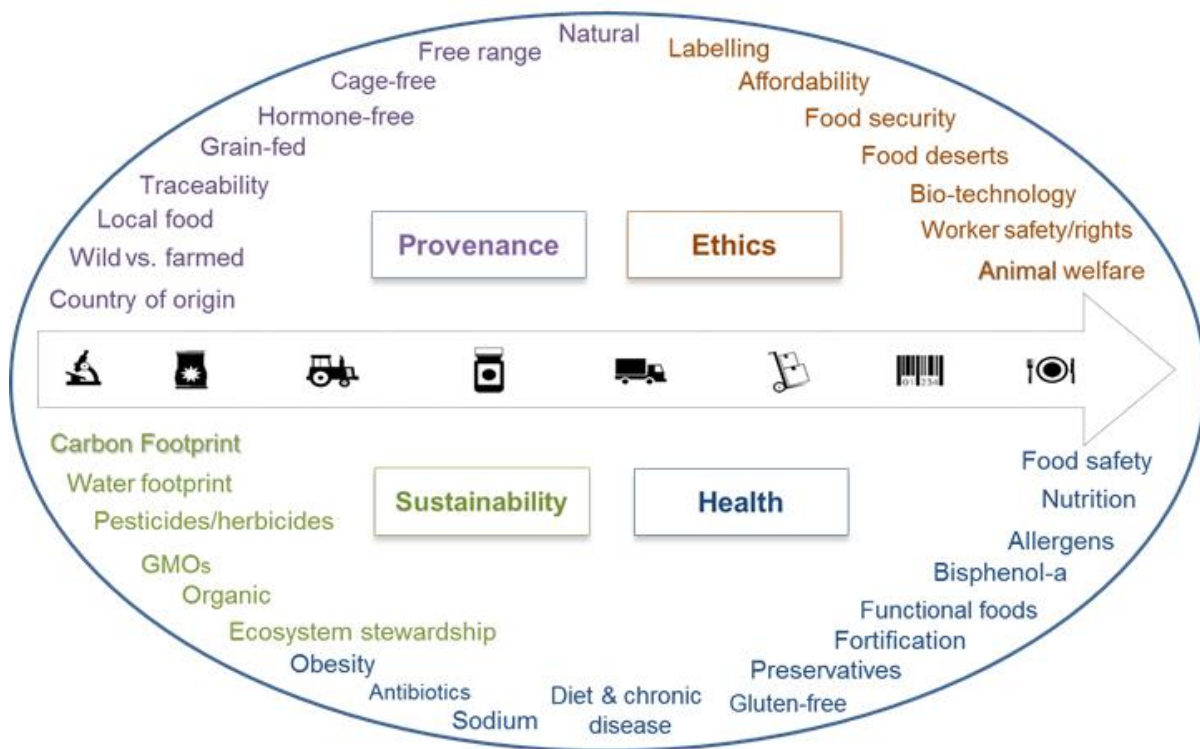
- In short, positioning Canada in a world of increasing globalization of food production and supply requires an integrated and strategic approach.
- We would like to close our comments by also making an additional point. We also need to take a long-term view.

- For many good reasons, Canada's agri-food sectors will be highly motivated to solve their immediate respective market access challenges of the day. But trade policy has a multigenerational effect. Today's deals will set the rules for decades to come. So, we need to be very clear about our long-term objectives.
- We believe that there will be increasing global interest in Canada's agri-food sector.
- Countries and global supply chains will increasingly want to lock-in reliable sources of food and value-added ingredients.
- We don't have the answers today but we will need to decide how to fully leverage our own productive capacity going forward. This needs to be part of the dialogue.
- Thank you.

**Appendix**

**Figure 1:**

**THE PROFOUND IMPACT OF RISING SOCIETAL EXPECTATIONS ACROSS THE FOOD SYSTEM<sup>1</sup>  
CONFRONTING HOW WE THINK ABOUT “TRUST”, “TRANSPARENCY” AND “AUTHENTICITY”**

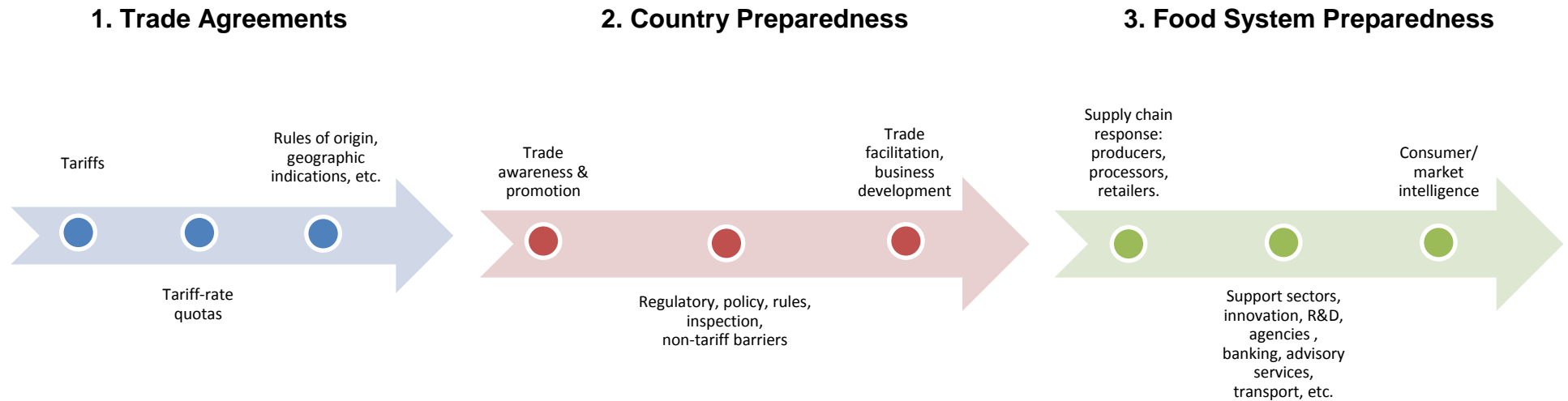


A representation of consumer and societal food issues and perspectives.

<sup>1</sup> Differentiate to Compete: The Consumer Perspective, CAPI, May 2014.

Figure 2:

## INTEGRATED VIEW OF TRADE, DOMESTIC POLICY, AND BUSINESS STRATEGY<sup>2</sup>



Once the Agreement is finalized, this is about the specific and direct terms of the Agreement and its implications for Canadian trade.

Governments respond by promoting the Agreement, helping firms to export (e.g., trade commissioners, etc.) and address domestic issues stemming from the trade initiative. Governments have a role in enabling companies to respond to foreign market and access conditions. This includes understanding and responding to non-tariff barriers; private sector standards – while not set by governments – are part of meeting requirements to do business in a country/region. Actions and dialogue here enable the agri-food sector to act on trade developments.

Individual companies and their supply chains, and related organizations, develop their strategies and plans to compete, respond to opportunities and address new competitive threats. They do so by working across the food system, such as the innovation community, banking, legal advisory services, and many others. Clearly, understanding market opportunity requires insights into consumer segments, trends and behaviours, societal expectations, demographics and retail practices. Actions and dialogue here connect back to how government supports the agri-food sector.

<sup>2</sup> *Leveraging Trade Agreements to Succeed in Global Markets: A Discussion Paper*, CAPI, July 2014.