THE CANADIAN AGRI-FOOD POLICY INSTITUTE

The CPTPP and CANADIAN AGRICULTURE

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President & CEO, CAPI

U.S. and Canadian Perspectives on Trans-Pacific Trade

At the National Press Club

Washington, D.C.

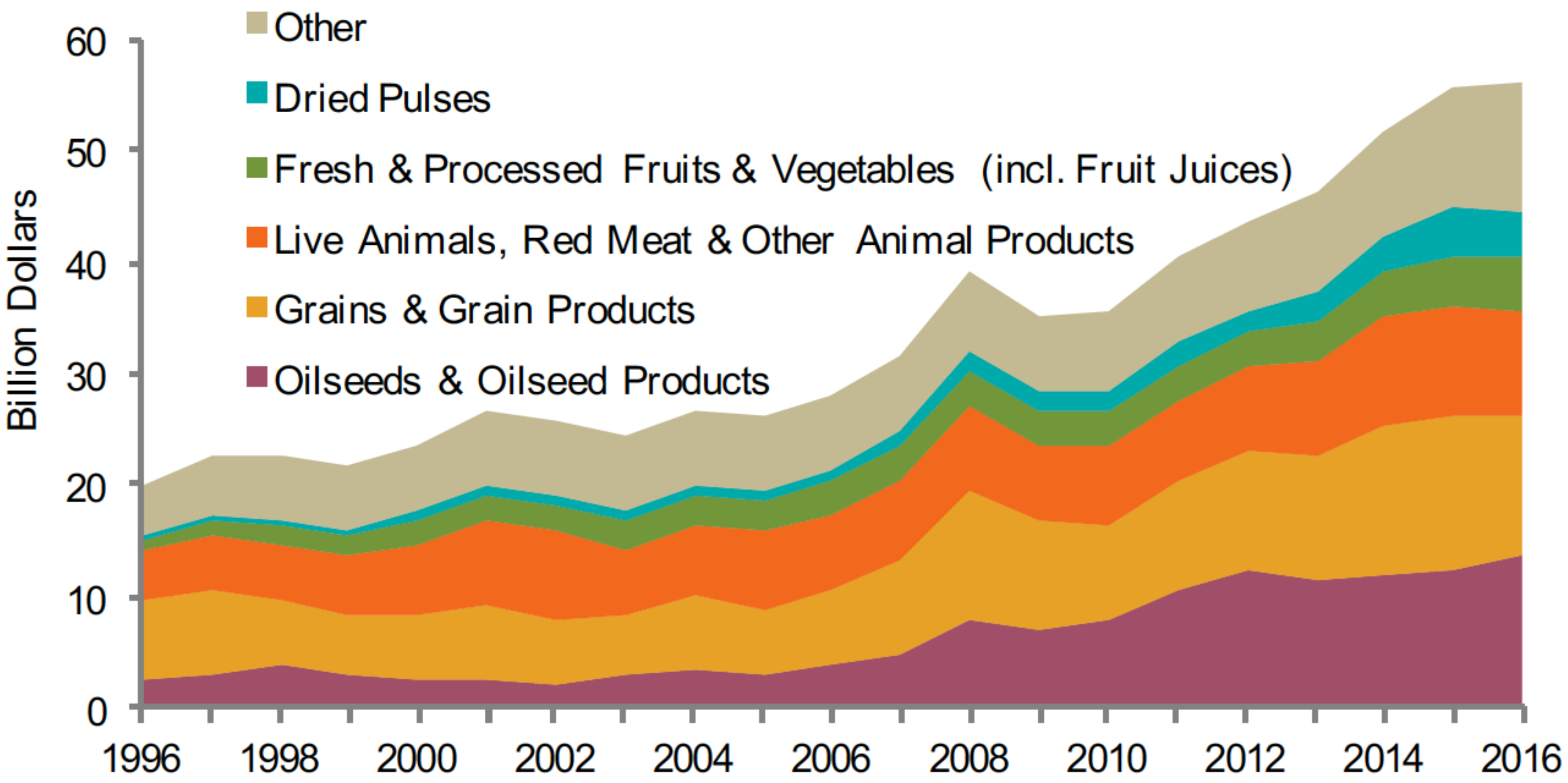
MONDAY, MARCH 4, 2019

Canada is proud of its national food icons…

And of its international stars…

Canadian agriculture and trade by product

Export of Canadian major crops by year by value



Source: Agriculture and Agri-Food Canada and Statistics Canada, 2017

Total Canadian agriculture and food trade

Imports and exports in Canadian agri-food (total CDN$ million)

Trade	2014	2015	2016
Agri-Food Exports:	51,604.069	55,636.356	55,977.755
Agri-Food Imports:	39,461.804	43,515.143	44,522.798
Agri-Food Trade Balance:	12,142.264	12,121.213	11,454.957

Source: Agriculture and Agri-Food Canada and Statistics Canada, 2017

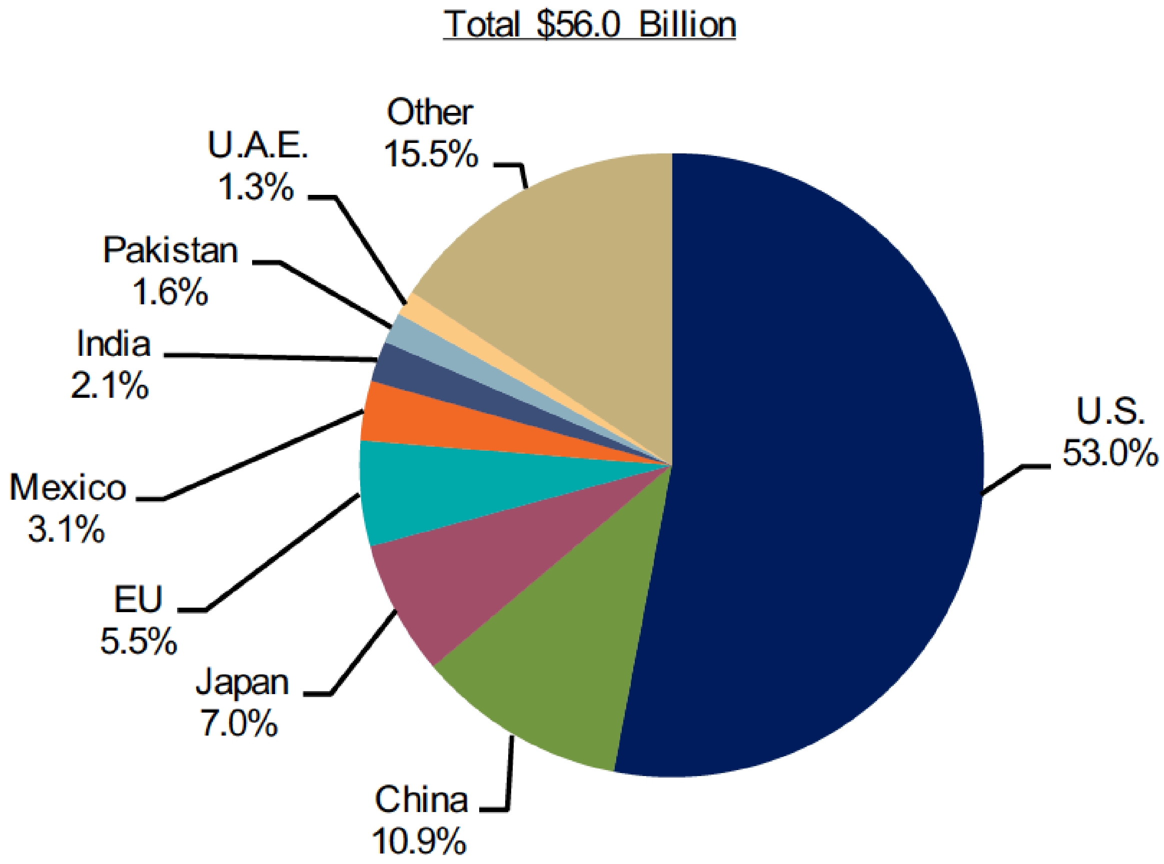
Canadian ag & food trade with the USA

More flowing north than south … ($2.2 Billion USD in 2016)

Source: Agriculture and Agri-Food Canada, 2016

Canada's ag & food trade partners

Canadian agri-food exports by country of destination (2014)



Source: Agriculture and Agri-Food Canada and Statistics Canada, 2017

Canada’s agenda for trade diversification

2017 - Canada saw a need for a growing global trade network for ag & food products to broaden trade reach to achieve 50% more exports by 2025 (Barton Report).

2018 - Ministry of Trade Diversification created and Minister appointed

Currently – Canada has 14 free trade agreements (3 plurilateral and 11 bilateral)

- FTA/ NAFTA/ CUSMA
- CETA (Canada-European Comprehensive Economic and Trade Agreement) and
- CPTPP (Comprehensive and Progressive Trans-Pacific Partnership)

Total current ag & food trade partner countries = 51

Noodle Bowl of Existing FTAs in TPP zone

	Canadian FTAs	FTAs amongst CPTPP Members	FTA's with key non-members
Canada	NAFTA/CUSMA		EU
Mexico	NAFTA/CUSMA	Chile, Peru, Australia, Japan	EU
Japan		Australia, Mexico, Brunei, Malaysia, Singapore	EU
Peru	Canada-Peru	Mexico, Singapore	US, EU, China
Chile	Canada-Chile	Mexico, Australia, Malaysia, Vietnam, Brunei	US , EU, China
New Zealand		Australia, Singapore, Brunei	China
Australia		Japan, New Zealand, Singapore, Chile, Malaysia, Brunei	US , China
Brunei		Australia-New Zealand, Japan, Chile	
Vietnam		Chile	EU
Malaysia		Japan, Australia, New Zealand, Chile	India
Singapore		Australia, New Zealand , Japan, Peru	EU, US, China, India

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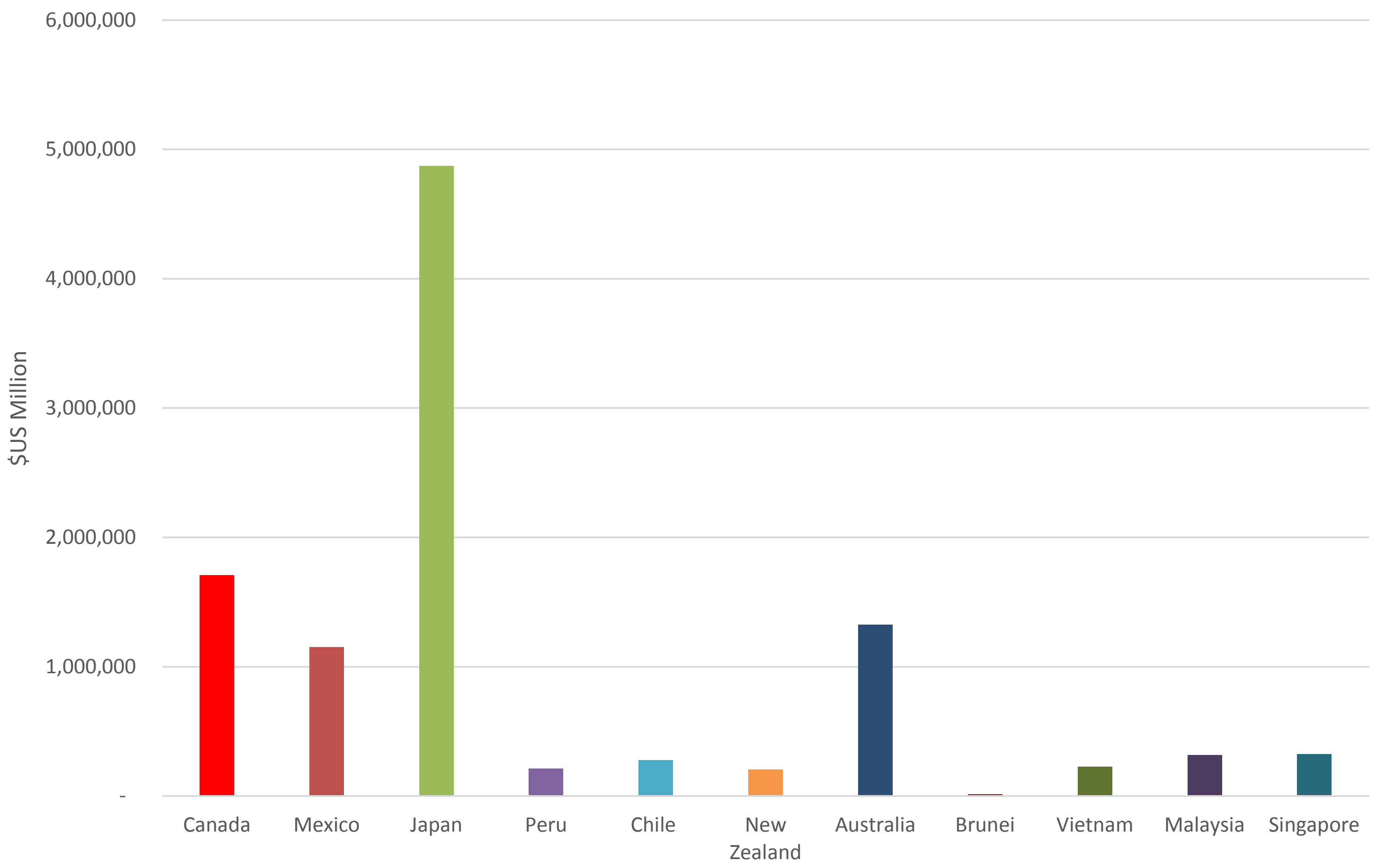
Understanding the CPTPP

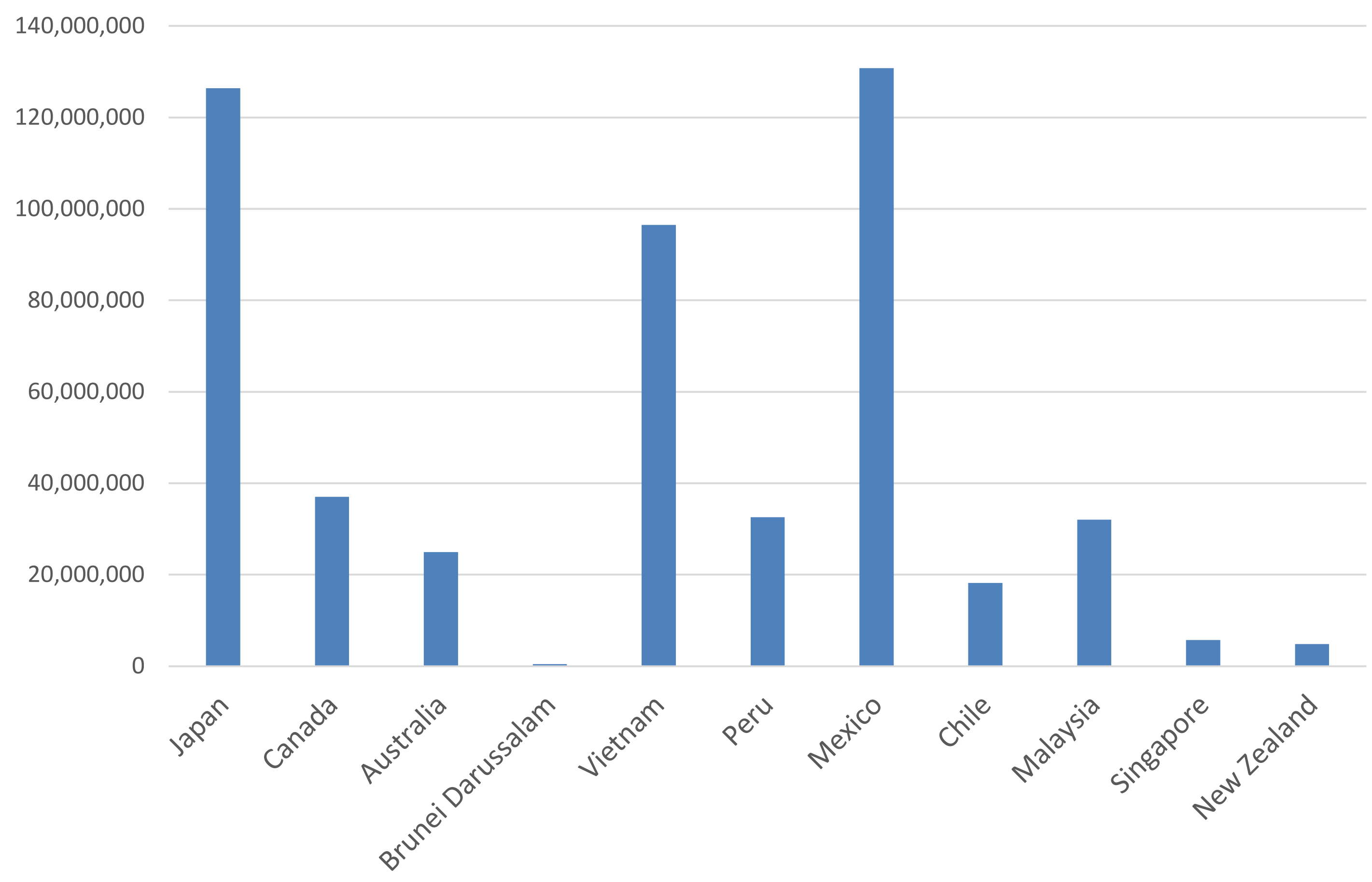
- 11 Pacific rim countries
- Canada, Mexico, Peru, Chile, New Zealand, Australia, Malaysia, Vietnam, Brunei, Singapore, Japan
- Ratified by Canada, Australia, Japan, Mexico, New Zealand, Singapore, Vietnam and entered into force for them on December 30, 2018
- Japan is easily the largest economy; followed by Canada, Australia, and Mexico
- Many members had bilateral Free Trade Agreements (FTAs) with other member countries prior to CPTPP, or are part of other regional agreements

2017 GDP, CPTPP member countries



Source: World Bank

Access to Larger, Faster Growing Populations (Population, 2018)



Source: United Nations Population Division. World Population Prospects: 2017 Revision

Basic Analysis of Prospective Opportunities

- Benefit of CPTPP and ↓ tariffs and/or ↑TRQ's is incremental, given:
  - Existing arrangements with member countries
  - Existing tariff levels
  - Market size
- For countries with whom we already have FTAs with similar access, already have very low or zero tariff rates on products we can export, or are small markets, incremental benefit of CPTPP is low or zero
- New/meaningful access has value

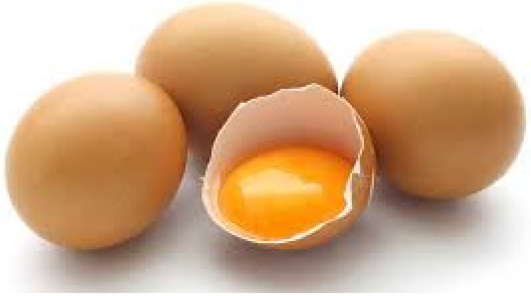
Approach

- What barriers to trade currently exist?
- Understand the size of CPTPP country markets, role of imports
  - What share does Canada have under existing access?
  - Who are the competitors?
  - What access do competitors have?
- What will change under CPTPP?
  - How will Canada's access change versus key competitors?
- Filter/focus on products/markets
  - Canada on "offense" and on "defense"
  - Where change in access is material
  - Where preferential access versus competitors can be identified

Indicator Agri-food products for Canada

- “On Offense” Interests
  - Pork
  - Beef
  - Wheat
  - Canola
  - Soybeans
  - Potato products

- “On Defense” Interests
  - Dairy
  - Poultry and Eggs



Some initial observations

- Some CPTPP members have MFN tariffs on agri-food products of zero (or very low)- regardless of CPTPP
  - Singapore, Chile, Australia and New Zealand- radically open economies
  - Developing members dependent upon imports to upgrade diets- e.g. Brunei
- Some have non-tariff barriers not analyzed here
  - e.g. Food safety/disease measures- Australia and New Zealand
  - Barriers targeting more processed vs. farm products
- Canada already has free trade with others
  - e.g. Mexico, Chile

Canada “On Offense”

- Key markets with significant barriers, material in size, in which Canada has no existing preferential access
  - Japan
    - Pork, beef, wheat
  - Malaysia
    - Beef, pork
  - Peru
    - Pork

Base Rates, Indicator Products

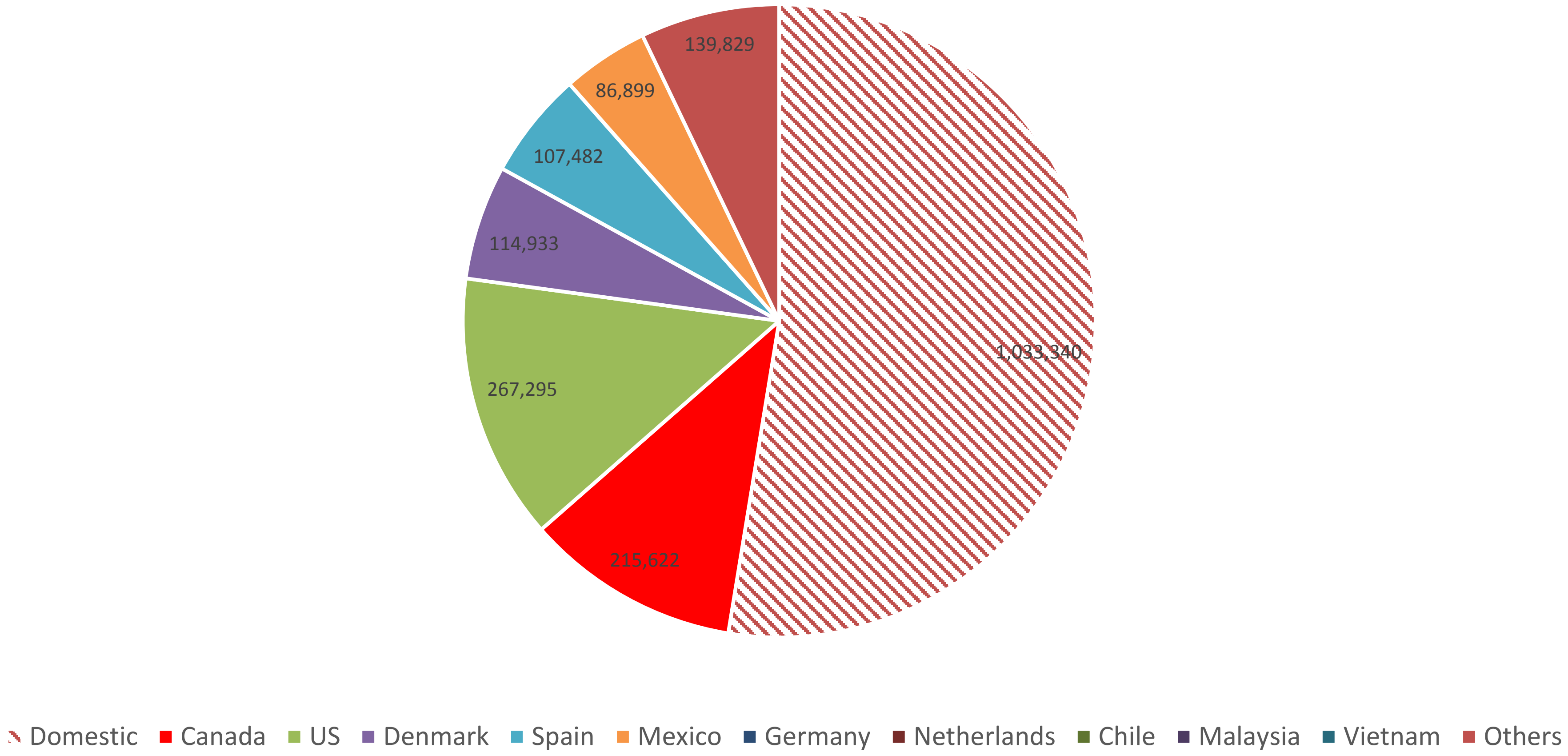
	Australia	Brunei	Chile	Japan	Malaysia	Mexico	New Zealand	Peru	Singapore	Vietnam
Pork	0	0	6%	Safeguard ¥361-482/kg	TRQ on half carcasses, 25% in quota 50% over quota, 0 NES	0	0	6%	0	15-27%
Beef	0	0	6%	38.50%	TRQ on half carcasses, 25% in quota 50% over quota, 0 NES	0	0	11%	0	15-31%
Wheat	0	0	0	¥55/kg	0	0	0	0	0	5%
Canola	0	0	0	0	0	0	0	0	0	5%
Soybeans	0	0	0	0	0	0	0	0	0	0
Potatoes	0	0	0-6%	3-4%	0	0	0	9%	0	20%

Tariff Reduction Commitments, Indicator Products

	Australia	Brunei	Chile	Japan	Malaysia	Mexico	New Zealand	Peru	Singapore	Vietnam
Pork			0 on EIF	↓¥93.75-125 on EIF	TRQ phase out Year 16			0 by year 11 (some less)		0 by year 9 (some less)
Beef			0 on EIF	9% by year 16	TRQ phase out Year 16			0 by year 11 (some less)		0 by year 4
Wheat				CSQ, ↓in quota tariff to ¥16.1				0		0 on EIF
Canola								0		0 on EIF
Soybeans								0		0
Potatoes			0 on EIF	0 on EIF				0 on EIF		0 by year 4

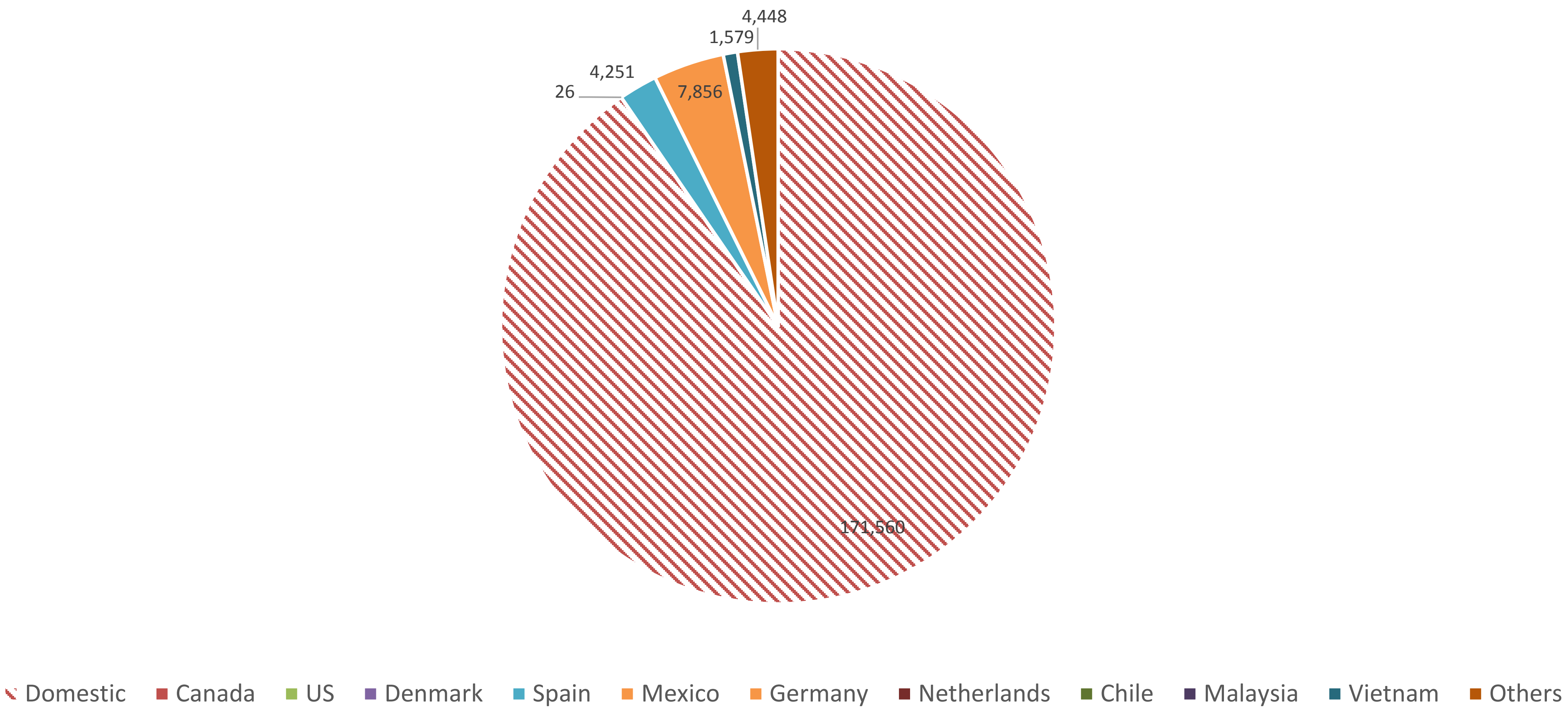
(EIF- Entry into force)

Sources of Japanese Pork Consumption 2017 (tonnes)

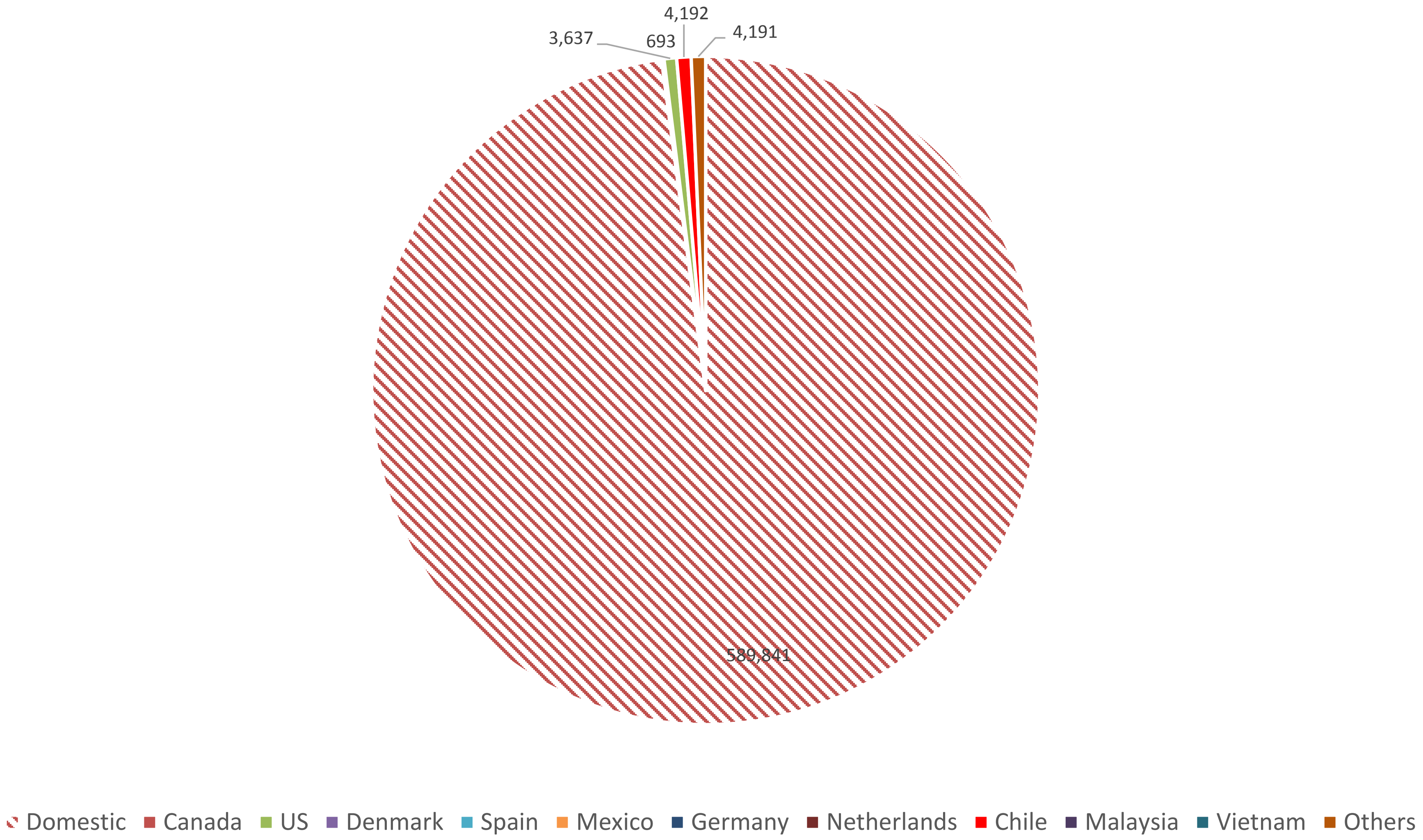


Sources for following pie charts - UN Comtrade, OECD data

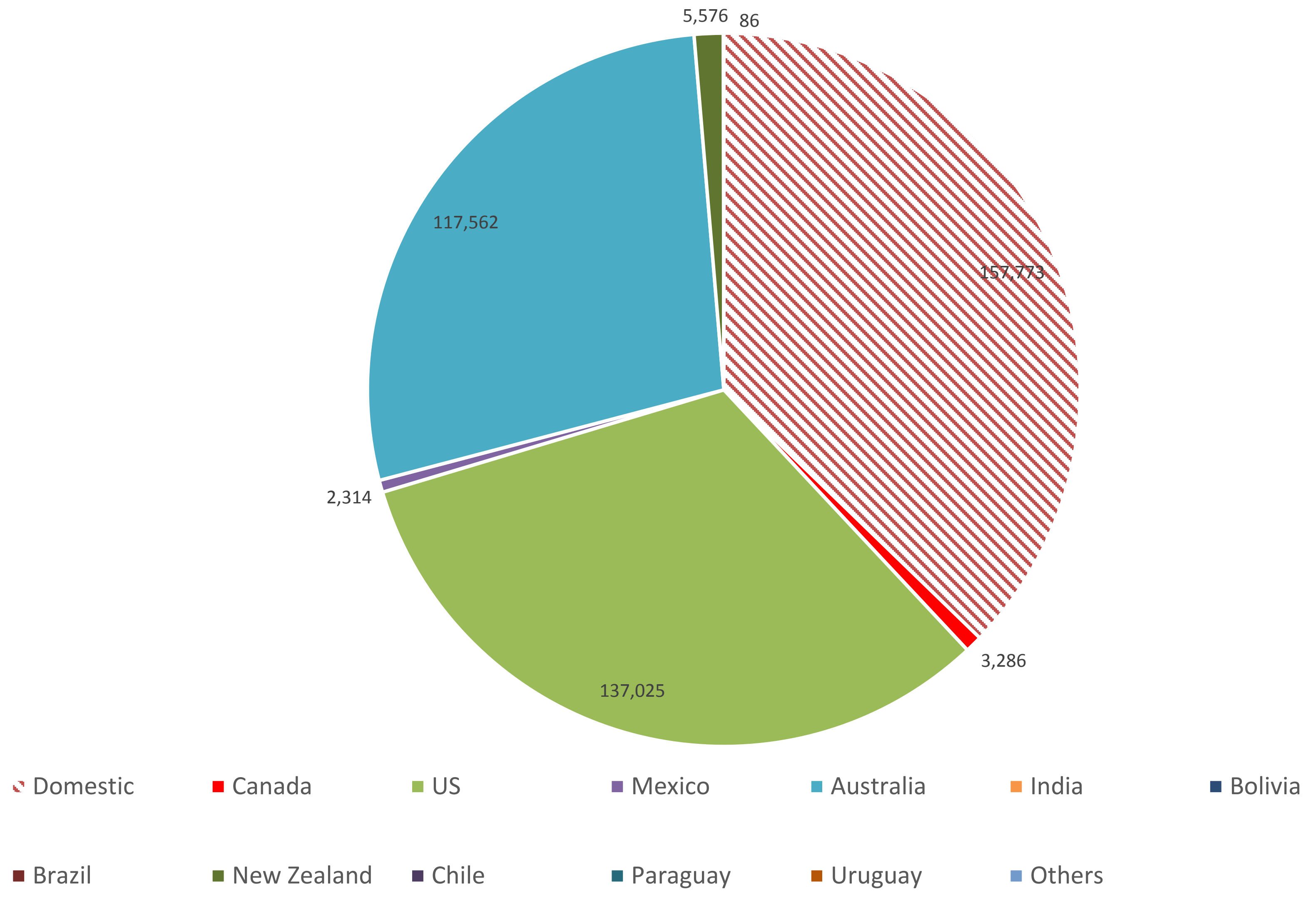
Sources of Malaysian Pork Consumption 2017 (tonnes)



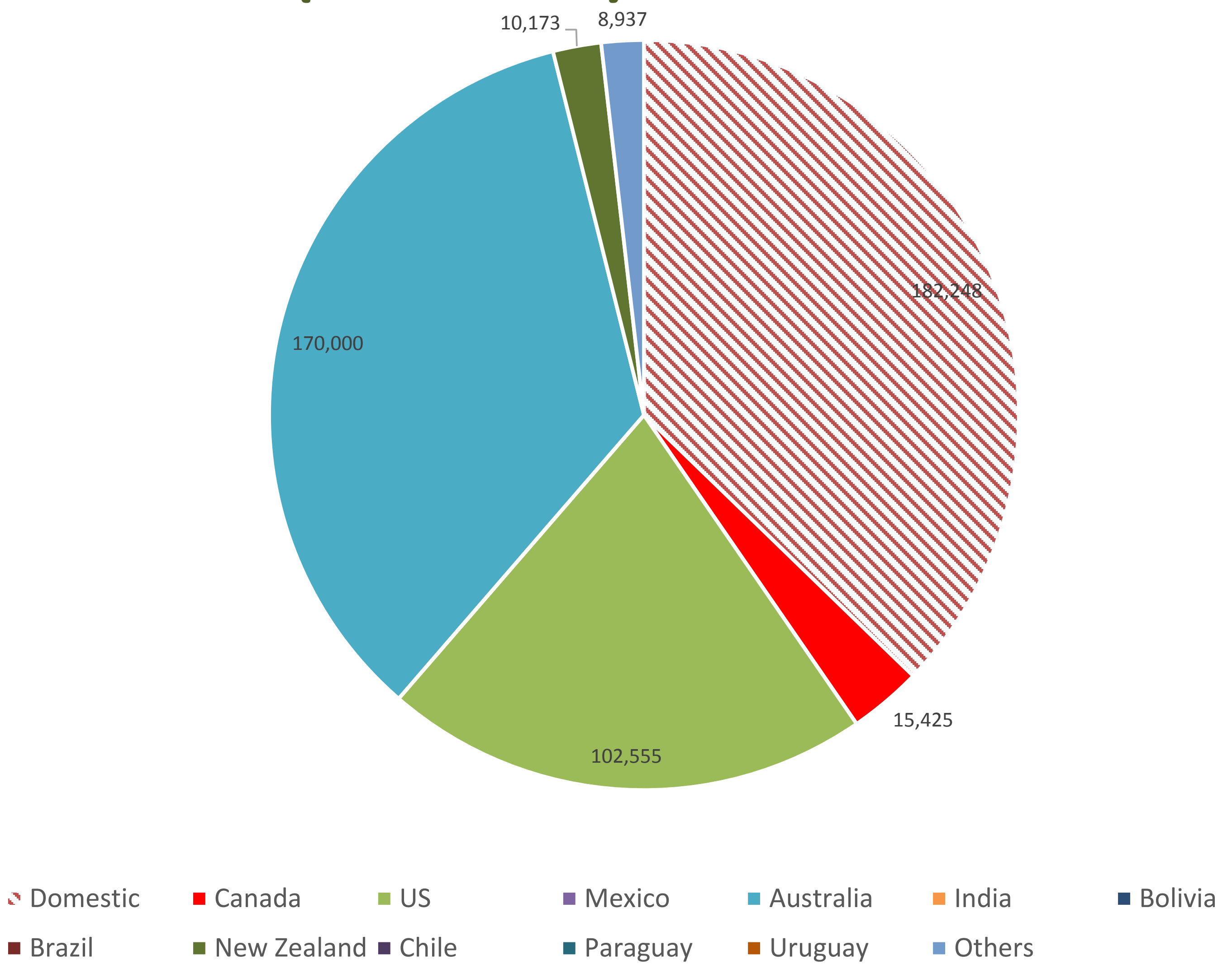
Sources of Peru Pork Consumption 2017 (tonnes)



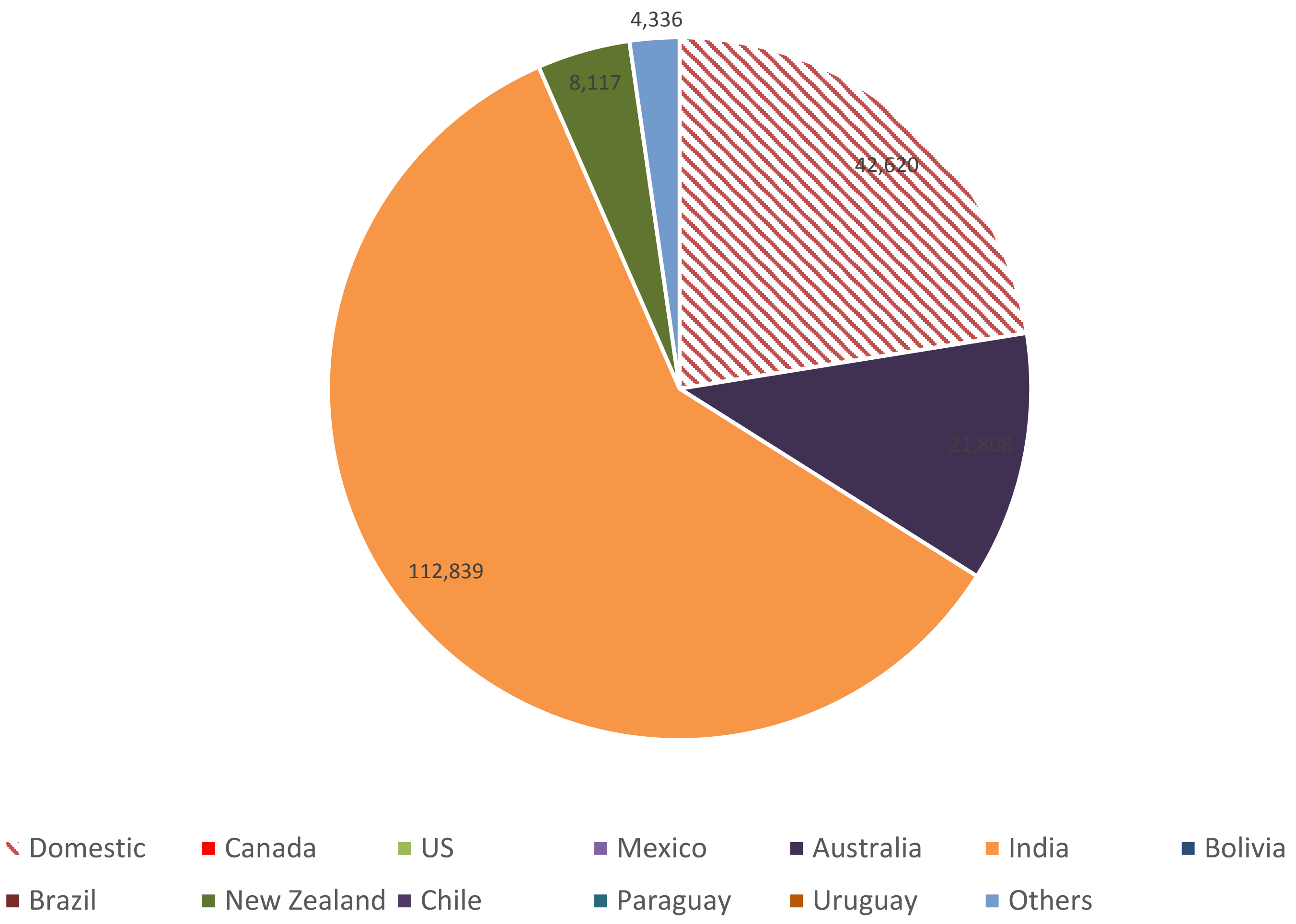
Sources of Chilled Beef, Japan, 2017 (tonnes)



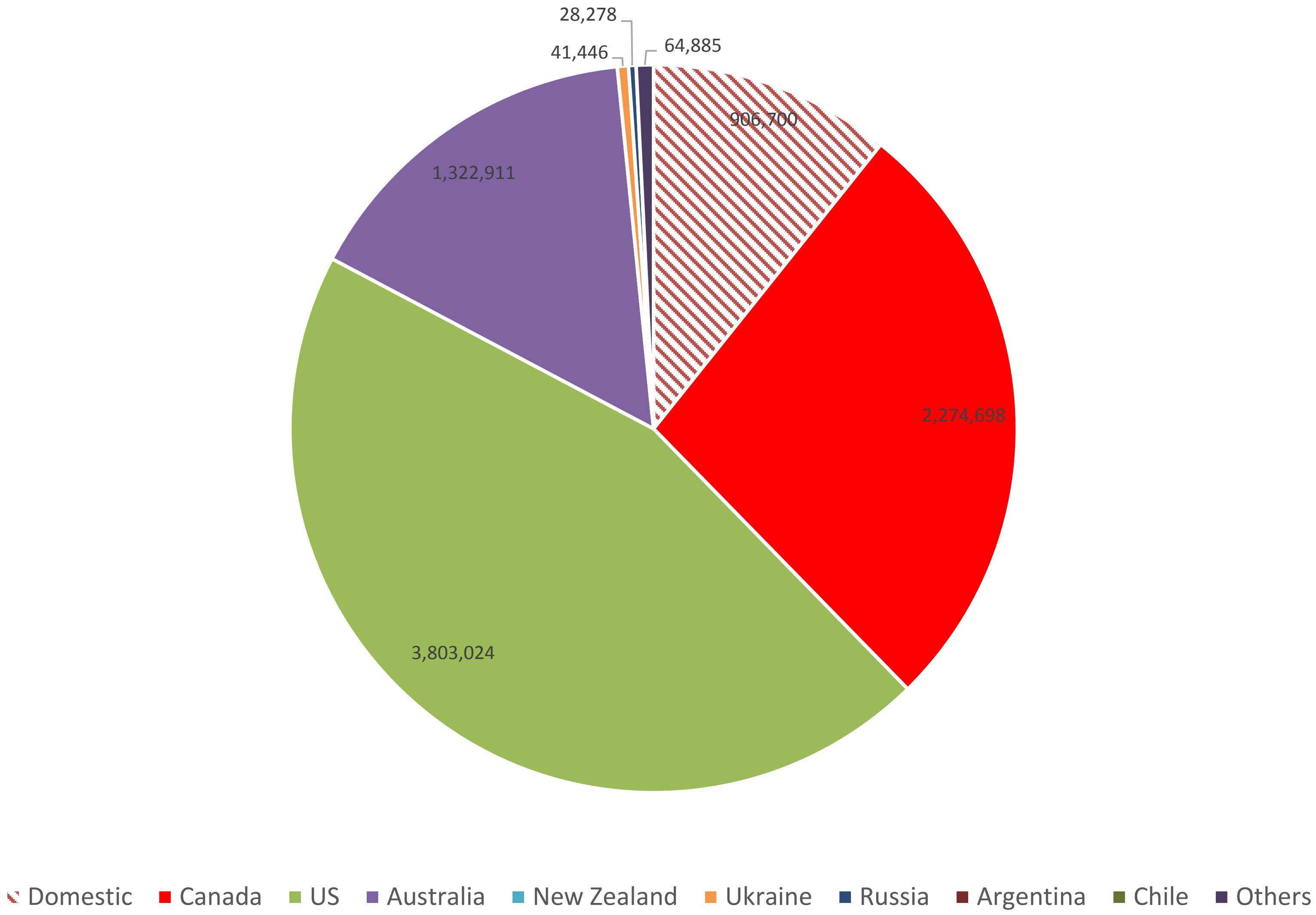
Sources of Frozen Beef, Japan, 2017 (tonnes)



Sources of Frozen Beef, Malaysia, 2017 (tonnes)



Wheat Supply, Japan, 2017 (tonnes)



Observations

- Real focus of opportunity for Canada is pork, beef, and wheat in Japan
  - Greater opportunity may exist in value-added products made from these
- Opportunity to leverage preferred market access versus U.S. product, front loaded access, existing market presence
- U.S. is the key competitor in Japan, but now odd one out vs. Canada, Australia, and New Zealand
- Important challenge for Canada is managing capacity and positioning of small country in a large market
- Elsewhere, competing with domestic product or imports occurring on a different quality spec, more deferred basis- Malaysia, Peru

Canada "On Defense"

- Access granted to Canadian dairy market in CPTPP, CETA, CUSMA through TRQ's (about 10% total new market access from the 3 agreements)
- Industries perceive cumulative effects of these trade agreements taken together
- Some CPTPP access anticipated U.S. membership; without U.S., it will likely reduce TRQ fill rates
- Access to others granted to Canada in agreements faces serious obstacles
  - Ban on subsidized export within trade agreements (dairy)
  - Forthcoming full implementation of Nairobi Declaration in 2021 (dairy)
  - Prospect of NTB issues- NZ and Australia (poultry and eggs)
  - Domestically focused marketing system (all)
- Access granted under CPTPP not sufficient in magnitude to undermine operation of supply management systems in Canada

Conclusions – CPTPP a winner

(1) Canada has secured a significant competitive victory with rates of preferential access vs. the U.S. in CPTPP, especially in Japan

(2) Estimated benefits from the Canadian Agri-Food Trade Alliance in new export market access under CPTPP

- Pork- exports expected to climb by over Can$ 200 million
- Beef- expected increases in exports by almost $Can 600 million
- Oilseeds and vegetable oil export value to increase by almost $Can 18 million
- Fruits and vegetables- expected increases in exports of Can$ 345 million
- Processed foods- expected to increase by Can$ 237 million
- Overall, agri-food sales are expected to rise by a total of **Can$ 1.84 billion/USD$ 1.38 billion**

(3) Challenge will now be to effectively utilize and build capacity to expand market share and value

(4) Market access allowed under CPTPP is damaging to Canada's supply managed industries, but not fatal

(5) In a global context with multilateralism under WTO weakened, CPTPP assumes a greater significance

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Curious for more?
Ask me. Thanks for your attention.

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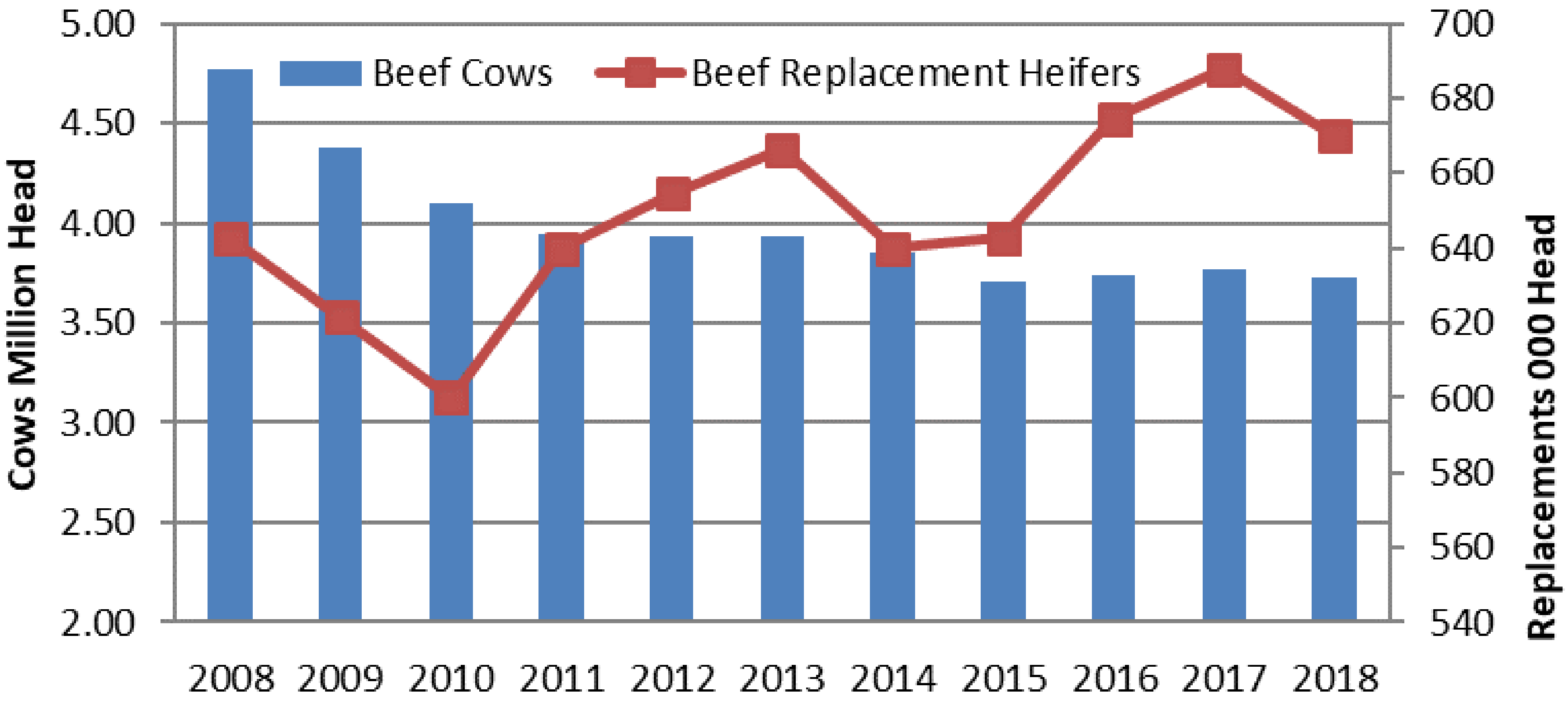
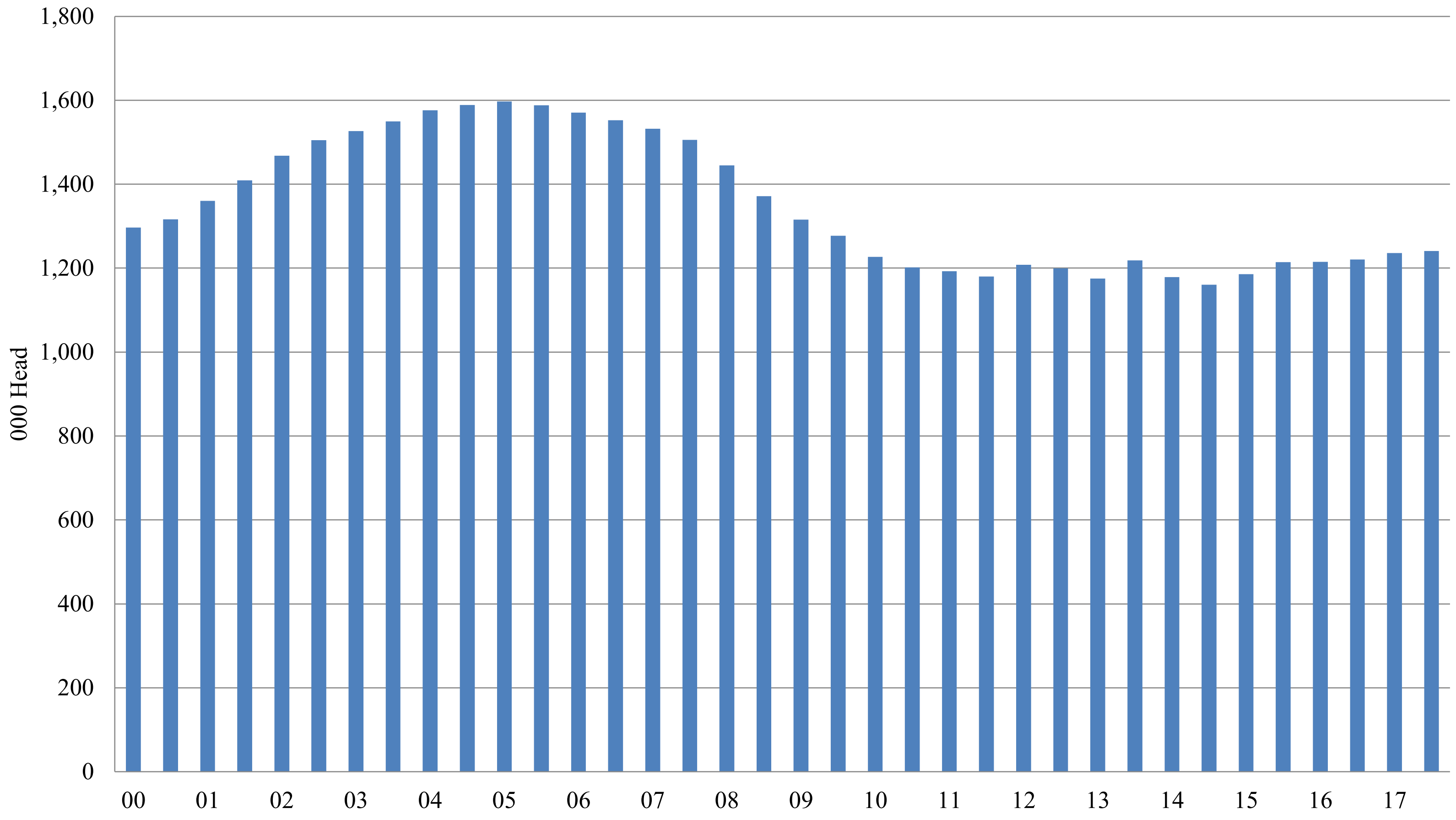
Canadian Beef Cow Inventory



Source: Statistics Canada

Canadian Sow Inventory



Source: Statistics Canada

Dairy Market Access (assuming Year 6 Implementation)

	USMCA	CETA	CPTPP	WTO-Global	Total
			Metric Tons		
Milk	50,000		50,000	64,500	164,500
Cream	10,500		580	394	11,474
SMP	7,500		7,500		15,000
Butter +Cream Powder	4,500				4,500
Industrial Cheese	6,250	1,700	7,975		15,925
Cheese all types	6,250	16,600	3,625	19,612	46,087
Yogurt and Buttermilk	4,135		6,000	332	10,467
Whey Powder	4,135		6,000	3,198	13,333
Concentrated Milk	1,380		2,000	12	3,392
Milk Powders	690		1,051		1,741
Powdered Buttermilk	520		828	908	2,256
Products of Natural Milk Constituents	2,760		4,000	4,345	11,105
Ice Cream and Ice Cream Mixes	690		1,051	347	2,088
Other Dairy	690		1,051		1,741
Butter			4,500	1,964	6,464
Cream Powder			105		105
Mozzarella Cheese			2,900		2,900

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Poultry and Egg Access (assuming Year 6 Implementation)

	USMCA	CPTPP	WTO-Global	Total Access
Chicken (MT)	57,000	23,500	39,900	120,400
Turkey (MT)	3.5% production+ up to 1000	3,500	5,588	
Eggs (Egg Equiv)	120,000,000	200,400,000	21,370,000	341,770,000
Hatching Eggs + chicks (Egg Equiv)		12,000,000	161,530,159	173,530,159