

## **“Managing Trade in an Increasingly Chaotic World”**

### ***SYNTHESIS REPORT AND KEY RECOMMENDATIONS FROM FOUR CAPI TRADE DIALOGUES***

#### **BACKGROUND**

Even prior to the devastating impacts of COVID-19 on global agri-food supply chains and trade flows in early 2020, the global trading environment had been shifting rapidly, with increased uncertainty, subsidies, protectionism, bilateralism, trade barriers, tariff wars and retaliation, while multilateralism has faltered.<sup>1</sup> This underlines a disturbing drift from a rules-based trading system established by international negotiations to a power based one, dominated by the influence of two large trading countries – the United States and China.

The result has been major disruptions in agricultural markets and trade, with potential impacts on natural capital and resource use. With these recent trade disruptions, markets have become more volatile and unpredictable. These trends have been further aggravated by rising U.S. domestic subsidies, leading to shifts in trade flows and the suboptimal use of natural capital, particularly water and land. These developments highlight the importance of multilateral institutions and trading rules for global food security and sustainable food production in the future, and for Canadian agriculture.

In an effort to consider possible responses to these changes, the Canadian Agri-food Policy Institute (CAPI) and the U.S.-based Farm Foundation joined forces to organize three dialogues with issue experts from agri-food supply chains and the policy community, academia, and NGOs from the US, Canada, the EU and Australia. CAPI held an additional conversation with Canadian government and industry stakeholders as well. The objective was to identify multilateral strategies for sustainable trade in agriculture and agri-food products and to discuss specific solutions to ongoing disruptions in global trade.

[The first dialogue](#) held in Chicago, Illinois in July 2019 focused on how trade and sustainability are interconnected through the goal of identifying optimal strategies for ensuring trade leads to sustainable outcomes. The second dialogue, held independently by CAPI in Toronto in November 2019, focused on the state of trade in light of recent developments in China-US trading relationships, tariffs, retaliation and the resulting strains on the rules-based multilateral trading system.<sup>2</sup> [The third dialogue](#) held virtually in July 2020 focused on the future of the multilateral trading system and how to make it more resilient. [The fourth dialogue](#) also held virtually in July 2020 focused on sustainability and efficient trade and on how new environmental standards and sustainability initiatives can be brought into multilateral trade agreements to reduce the risk of restrictive trade actions and to ensure global supply chains operate efficiently.

#### **CAPI’S KEY TAKEAWAYS**

- Major elements of a stable, secure trade and geopolitical environment under rules-based trade which governed global agricultural policy since the 1990s have now shifted. As a result, prospects for the future sustainability of the agriculture and agri-food sector are being impacted by recent trade disruptions, increased uncertainty, new global players, a changing climate and evolving global demands.
- Sustainability is a global issue that is best addressed with solutions at the regional or local level, by farmers and ranchers who have the most direct control over natural resources. Solutions must be based on science and measures that harness the forces of liberalized trade and investment, while contributing to the global commons.

- An important role for governments is to facilitate open markets and trade, invest in public research, and motivate industry players to deliver environmental goods and services (EGS).
- Canadian agriculture policies should not just respond to the challenges with increased ad hoc support and higher domestic subsidies, but rather through incentives or mechanisms that reward farmers for the value they deliver in terms of EGS to reduce mitigation costs and preserve the sector's competitiveness.
- The importance of domestic policies and regulations for addressing sustainability has been recognized in recent trade agreements, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) with standstill provisions and separate environment and investment chapters, which can serve as a foundation for future agreements.
- Canada's comparative advantage in sustainable use of natural capital and its net export position should be used as leverage to negotiate and develop new approaches for trade and potentially nudge trade policy with a view to using this advantage as "soft power" in dealing with trading partners.
- Increasingly, private companies (e.g. Maple Leaf Foods) and industry associations (e.g. United Soybean Board) are developing environmental standards, certification procedures and labelling their products as sustainable and carbon neutral as market-driven solutions and in an attempt to gain market share, maintain social license and monetize carbon mitigation. While these actions can lead to higher costs for consumers and potentially hurt firms' bottom lines, which are difficult to recoup if externalities are not priced and if consumers are not willing to pay for these added attributes, there are also costs associated with inaction, related to climate change and risks associated with the spread of animal disease and their impacts on human health and the economy.
- For Canada as a small exporting country, product differentiation for sustainability attributes is key to being able to compete in premium markets. This will require internationally recognized metrics and standards, which in turn requires a strong multilateral system.
- Most agree the WTO requires reform, but this will require consensus, which is hard to achieve, without leadership. The current lack of leadership impacts the ability of the biggest players (i.e. U.S., China, EU) to work together for reform. China cannot replace the U.S. in its leadership role given its lack of transparency and tendency to not play by the rules.
- Rules-based multilateralism has served the world well and is the best friend of small countries like Canada since it protects them against discrimination. Second best are pluri-lateral agreements, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) or bilaterals (CUSMA) which do have potential since they allow for side agreements and trade facilitation to address concerns of individual countries.
- The Dispute Settlement Mechanism (DSM) as the crown jewel of the WTO, resulting in binding decisions based on evidence, has served both small countries, like Canada, and big countries, like the U.S., very well, but is now ineffective given the lack of quorum. A solution such as that offered by the Ottawa Group is a solution that is only temporary where a longer-term solution is needed.
- The recent ramp up of domestic subsidies to American farmers, which has contributed to increased volatility and uncertainty in agriculture markets, and now exceeds U.S. WTO commitments, has been partly the result of the U.S.'s conflict with China and partly related to its response to COVID. For WTO reform to take place, the U.S. will most likely not agree to domestic support restrictions without market access concessions.

- Future multilateral agreements will need to address emerging issues such as e-commerce, data protection, digitization, security and other concerns related to health, food security and the environment. Domestic subsidies, by increasing inefficiencies in production do also increase inefficiencies in resource use, increase GHG intensity in production and negatively affect sustainable production and global commons. Also, as climate change shifts the location of production and makes imports more important for some countries, trade will become even more essential.
- It will be essential to have a functioning WTO with measures that address climate change, such as border measures and taxes/subsidies proposed by some countries to reduce GHGs, since these measures without proper oversight can serve as de-facto non-tariff barriers impairing market access and optimum resource use.
- New approaches are needed such as cooperation between countries, since going it alone, as many countries already have done with their own taxes (e.g. carbon), environmental regulations, and subsidies, risks creating multiple standards and further disruptions to trade and threats to global food security. A new strategic cooperation among like-minded countries will be essential in making progress.
- Canada, as a soft power, needs to build new coalitions and strategic alliances of exporters (e.g. CAIRNS) and work closer with countries with which we already have existing trade agreements (i.e. CETA, CPTPP) towards strengthening a multilateral system, and reducing regulatory differences across countries, with shared data, joint approvals, harmonization and mutual recognition.
- Some of the environmental language borrowed from the CPTPP, including around standstill provisions, the Montreal Protocol (ozone) and Marpole Convention (pollution from ships), was already included in the USMCA— signifying precedence in taking existing environmental agreements and putting them into new trade agreements. What will be harder to do will be to include new and emerging environmental issues that have no precedence in trade agreements.
- It was generally agreed in all four dialogues that it will be worth the effort to strengthen multilateral institutions and to ensure that the future multilateral trading system includes provisions acknowledging and valuing the sector’s contributions to climate change, and for improving environmental sustainability of agriculture and agri-food supply chains for future global food security.

Based on these findings, CAPI has the following recommendations:

### **CAPI’S KEY RECOMMENDATIONS**

Canada needs to:

1. Recognize that the multilateral rules-based trading system that has governed world trade for the past 75 years is faltering and that there is a need to develop new, concrete approaches towards renewing the trading system while addressing challenges arising from the current chaotic environment. This will require the following actions:
  - a. Forge strategic alliances with “like-minded” partners who will agree to promote rules-based trade (e.g. the Ottawa Group);
  - b. Leverage existing plurilateral trade agreements, such as CPTPP and CETA, to expand trade in agriculture and agri-food products, and negotiate new ones;
  - c. Develop sectoral trade agreements or arrangements that promote rules-based trade around specific sectors, products or services;

- d. Use Canada's comparative advantage in the sustainable use of natural capital and its net export position as leverage in negotiation of new approaches that will make use of the synergies derived from working with like-minded countries under point a. above.
2. Recognize the strong link between trade's impact on improved efficiency and hence on improved environmental outcomes once Environmental Goods and Services (EGS) are taken into account. This will require the following actions:
    - a. Ensure that future trade agreements include provisions acknowledging and valuing the sector's contributions to fighting climate change and to environmental sustainability;
    - b. Work more closely with countries with which we already have existing trade agreements (i.e. CETA, CPTPP) towards further reducing environmental regulatory differences across countries. This could involve the use of shared data, joint approvals, harmonization and mutual recognition of metrics and standards.
    - c. Resist responding to the challenges in trade with increased ad hoc support and higher domestic subsidies. Instead Canada should promote incentives or mechanisms that reward farmers for the value they deliver in terms of EGS to reduce mitigation costs and preserve the sector's competitiveness.
  3. Enhance capacity to improve understanding of the geopolitical situation in markets/regions of critical importance to Canadian agri-food interests. This will require strategic investments in intelligence gathering and analysis ranging from sustainable productive capacity to socio-economic, political and cultural trends.

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<sup>1</sup> A good description of the evolution of the trade and domestic policy environment prior to and since COVID is provided by Mussel, Bilyea and Hedley, in "New Pressures for Renewal Demand a New Agri-food Policy", August 2020.

<http://www.agrifoodecon.ca/uploads/userfiles/files/new%20agri-food%20policy%2010%20august%20ddh.pdf>

<sup>2</sup>Based on a presentation made by Mussel, Bilyea and Hedley described here:

<http://www.agrifoodecon.ca/uploads/userfiles/files/wither%20ag%20policy%20oct-19.pdf>