

# Current Trade Issues for Canadian Agriculture

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**FarmSmart** - January 2018



# Institute for the Advanced Study of Food and Agricultural Policy

**Primary focus:** *attract competent students to the food and agricultural sectors.*

**Secondary focus:** *inform policy by providing a conduit for food and agricultural economics and policy research to industry and government.*

<https://www.uoguelph.ca/fare/institute/advanced-study.html>

# Institute Activities

- weekly price forecasting (cattle, hogs, lambs, skim milk powder)
- on-farm production efficiency bench-marking tool (dairy)
- risk analysis and trade-off tool (sheep)
- market models for “what-if” type questions like NAFTA gone
- conferences
  - Current Issues Facing Canadian Agriculture: Trade, BRM, Changing Climate, and Food Security; Ottawa (2018)
  - Big Data, Changing Climate, and Agriculture; Guelph (2017)
  - Is Production Agriculture Headed for Another Farm Financial Crisis; Guelph (2015)
- outreach presentations over the last couple of months
  - Trade: Canadian Dairy Commission; Ottawa Ontario.
  - BRM: Risk in Agriculture Conference; Winnipeg Manitoba.
  - BRM: OMAFRA, Guelph Ontario

# Institute: FARETalk (Professor Brady Deaton, FARE)

## Podcasts

- GM Crops and Twenty-First Century Agriculture
- Wind Turbines and Property Values in Ontario
- Tenants and Landlords: Who Benefits from U.S. Agricultural Subsidies
- The Food Police: A Well-Fed Manifesto About the Politics of Your Plate
- Does Dutch Disease Explain Canada's Manufacturing Woes
- Food Prices
- Understanding Rural Canada: Terms, Trends, and Policy
- First Nations Land and Economics
- The Softwood Lumber War
- The Future of Food

# Institute: FAREShare (Professor Getu Hailu, FARE)

## Trump and Trade Special Issue

- Canadian Agriculture and NAFTA Re-negotiation
- Likely Effects of a Trade War for US Agriculture? Sad!
- Trump and Trade: Implications for Canada's Agri-Food Sector
- Trumped up NAFTA: Will rhetoric translate into actions that harm Canadian agriculture?

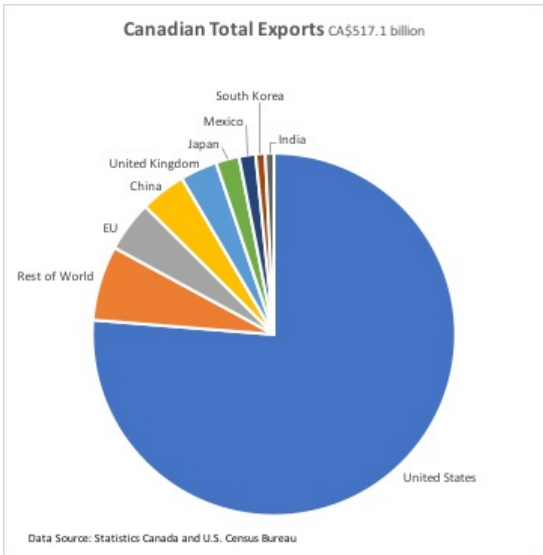
## Other Topics Covered in Recent Issues

- Do consumers save when oil prices drop?
- Canadian food manufacturing competitiveness
- Changing face of Canadian farms

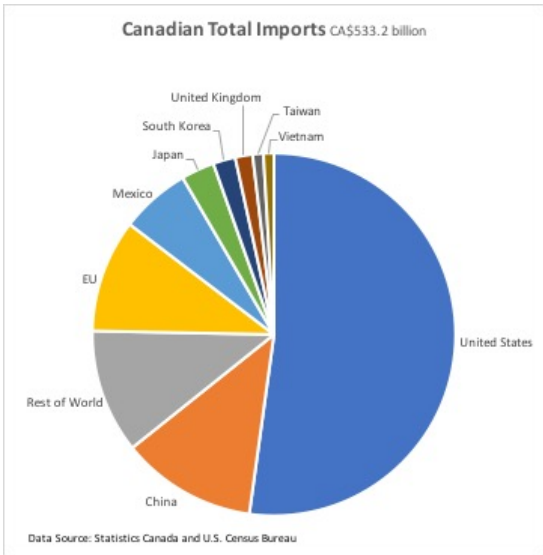
# Outline

- 1 Current Trade Landscape
- 2 NAFTA
- 3 Trade - Domestic Support Programs - BRM
- 4 Other
- 5 Conclusions

# Canadian Exports by Destination

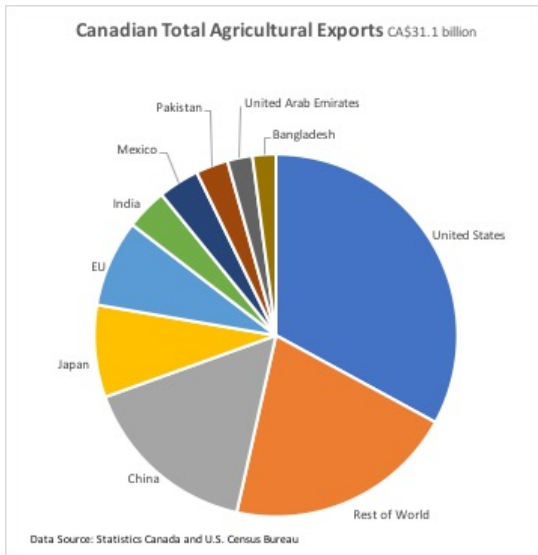


# Canadian Imports from Origin

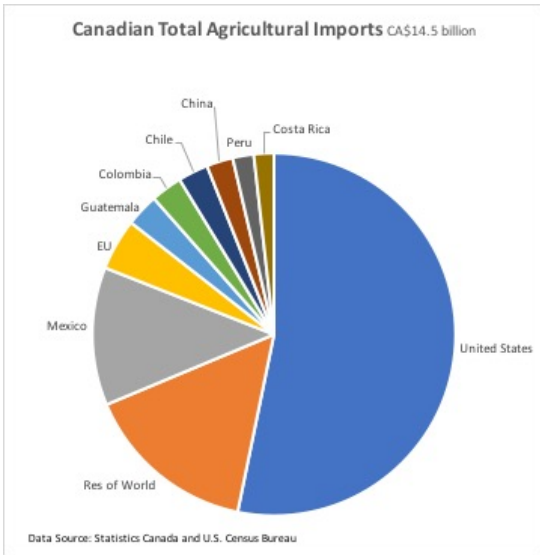




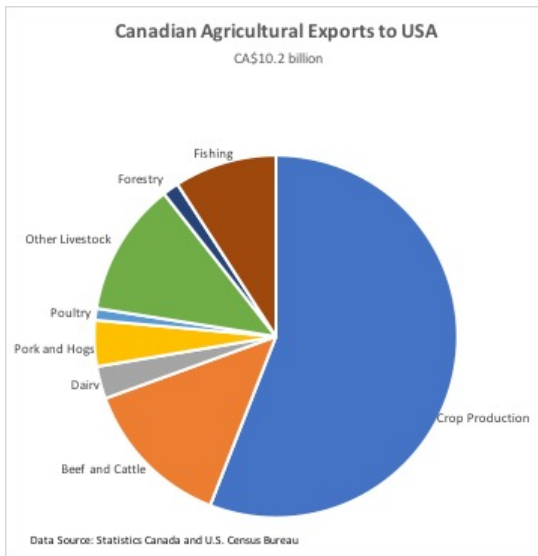
# Canadian Agricultural Exports by Destination



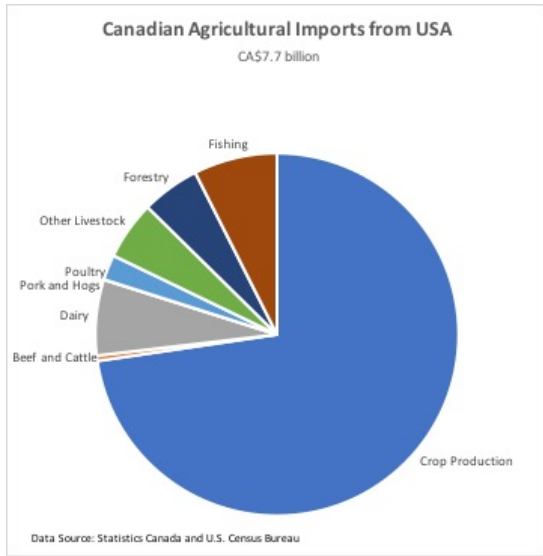
# Canadian Agricultural Imports from Origin



# Canadian Agricultural Exports to the US by Commodity



# Canadian Agricultural Imports from the US by Commodity



# NAFTA

- World's largest free trade agreement with over 474 million consumers
- Since 1994, trade among the NAFTA partners has roughly tripled
- NAFTA facilitates over \$1 trillion in trade between Canada, US, and Mexico
- In 2016 Canada and the US traded US \$635.1 billion in goods and services, in which the US ran a slight surplus of US\$8.1 billion

## NAFTA: What Canada Wants

- enhance environmental provisions to ensure no NAFTA country weakens environmental protection to attract investment
- freer market for government procurement
- easier movement of professional labour
- preserve NAFTA's anti-dumping and countervailing duties provision which excludes supply management
- maintain binational panel in dispute settlement mechanism (DSM)

# NAFTA: What US Wants

- reduce trade deficits with NAFTA countries
- reduce non-tariff barriers inhibiting American exports (ie. Canadian Supply management)
- eliminate the Chapter 19 Dispute Settlement Mechanism
- develop a mechanism to quickly resolve non-science based barriers to food and agricultural exports - incorporate an expanded version of WTO's Sanitary and Phytosanitary Agreement that reduces unwarranted safety barriers

# NAFTA: What Mexico Wants

- ease movement for professional labour
- reduce barriers to trade such as duties and tariffs
- maintain dispute settlement mechanism
- allow for greater integration of supply chains
- update provisions to allow greater access in energy, digital products, financial services, and telecommunications
- update intellectual property rights provisions to balance benefit to innovators and consumers



# My NAFTA Position Sept 2017 - NAFTA will remain



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## NAFTA talks: Seeing the benefits through the bluster



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# My NAFTA Position January 2018 - No Clue

Landscape appears to be highly volatile

Some people with money on the table are writing contracts with provisions for the elimination of NAFTA

## Strong US Support for NAFTA in Some Circles

- American agricultural and manufacturing organizations have issued strong support for NAFTA with over 80 organizations having penned a letter to the Trump administration, including National Cattlemen's Beef Association and the National Milk Producers Foundation.
- There is strong support for NAFTA from both Democrats and Republicans in the Senate, Congress, and the House. There have been 2 notable letters to the Trump administration one from 3 Republican Senators criticizing the administration's handling of negotiations, and the other from over 70 Republican and Democratic House of Representative signatories

# US Withdrawal from NAFTA

- If the US does withdraw from NAFTA it is unclear about what will come after.
- CUSTA may come back into effects as it has never been repealed from Congress. Rather its regulations were merged into NAFTA, whereby there may be minimal effects to Canada US trade.
- Legal scholars are unsure if this will take effect.
- Further it may be that the formal withdrawal may be done by the President but that the regulatory impacts must be ratified by Congress before the formal withdrawal from NAFTA effects trade policies.

# NAFTA Dispute Settlement Mechanism (DSM)

- Under NAFTA's current Chapter 19 if a country believes that AD/CVD are being unfairly applied to their exports, a formal complaint under the DSM before or alongside a formal WTO complaint may be made.
- The complaint goes to a third-party arbitration system to judge whether punitive duties were being applied unfairly. This third-party arbitration system is composed of an independent bi-national panel that reviews the judicial determination of domestic rulings.
- All rulings of the independent, bi-national review panel are binding. Under extraordinary circumstance a challenge/appeal on a ruling can be made if it is believed that a panel member was affected by a conflict of interest.
- The DSM requires a final decision within 315 days of request for review.

# NAFTA Dispute Settlement Mechanism

Domestic rulings are made;

- In Canada by the Canada Border Services Agency (CBSA), which makes dumping and subsidy determinations and the Canadian International Trade Tribunal (CITT) which conducts injury inquiries as to whether or not the dumping or subsidy has caused or is threatening to cause injury to the domestic industry.
- In the USA, it is the Department of Commerce, International Trade Administration, which makes dumping and subsidy determinations, while the United States International Trade Commission conducts injury inquiries.
- In Mexico, it is the Secretaria de Economia, Unidad de Practicas Comerciales Internacionales that makes both the dumping /subsidy and injury determinations.

# Trade Agreements (WTO) and Domestic Support

Currently there is a BRM review going on: **type of programs very much constrained by WTO commitments.**

- National Panel put together by AAFC
- Ag-Growth Coalition
- Ontario has a panel
- likely many of the other provinces are doing one.

# Current BRM Programs

- AgrilInvest (small losses) - investment matching
- **AgriStability** - net margin, tax, farm not commodity level
- AgrilInsurance - traditional crop insurance, 60% premium subsidy
- AgriRecovery (catastrophic losses) - government triggered
- funded through a 60-40 split between federal and provincial governments
- BRM programs add *unnecessary* uncertainty
- US programs more lucrative; unit basis,  $\max(E(P), HPO)$



# WTO Constraints

## Category: Green Box

- exempt from bound support
- minimally trade distorting

## Examples

- domestic food aid
- research and development
- decoupled income support; do not to produce to receive payments
- **income insurance and income safety net - with parameters**

# WTO Constraints

## Category: Blue Box

- exempt from bound support
- distorts less than amber box
- requires producers to limit production

## Examples

- direct payments under production-limiting programs
- such payments are based on fixed area and yields; or
- such payments are made on 85% or less of the base level of production
- livestock payments are made on a fixed number of head.

# WTO Constraints

## Category: Amber Box

- includes total aggregate measure of support and de minimis amounts
- non-exempt, subject to a bound limit
- distorts production or trade

## Examples

- all domestic support measures that distort production and trade.
- e.g. support prices or subsidies directly related to production quantity.
- includes supply management

## Failing to Meet WTO Obligations

- WTO members that export agricultural products and who do not comply with their WTO domestic support obligations run the risk of trade remedies by other affected WTO members
- Exports from such countries can be deemed as subsidized if found to be causing, or threatening to cause injury to domestic producers in the importing country per the WTO Agreement on Subsidies and Countervailing Measures (ASCM)
- The resulting trade remedy known as a countervailing duty, offsets the effect of the subsidy
- Canadian government has been and appears to continue to be very risk averse to this.

# BRM Program Design and WTO Constraints

- ensure AMS is within WTO bound limit
- do not offer commodity specific price support based on current production
- design program to within specific “green” box criteria
- ensure that programs are national in scope
- not provide sector specific programs

# BRM Program Design Constraints

- Treat all producers in all regions equally
- Have generally available programs which treat all producers in all sectors equally
- All producers are eligible regardless of what they produce
- Do not make “special” accommodations to certain sector(s) within the program
- Have parameters designed so that programs can be applied to all sectors

# What's Left: Trade and BRM

- AgriInvest
- AgriStability
- AgriInsurance
- AgriRecovery

My Opinion: maybe the parameters will change but the structure of BRM programs under GF2 will be similar under CAP because of WTO constraints (possibly perceived).

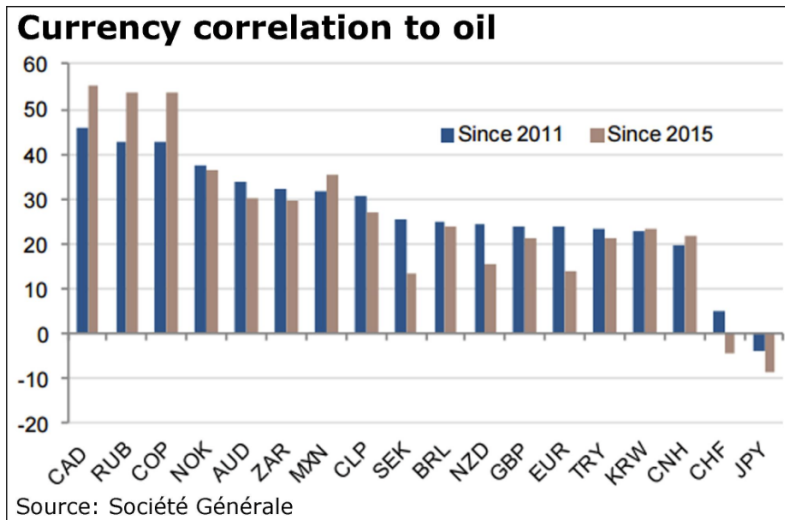
An Aside: Production risks have and will likely continue to increase over time; more from a changing technology than a changing climate.

## Other Trade Issues for Ontario Agriculture

- Canadian dollar and its high correlation with oil prices
- World demand for food products
- Disease outbreaks - regional zoning untested
- Exposition of loopholes in current trade agreements (import for export; new products)
- Trump



# Other Trade Issues for Ontario Agriculture

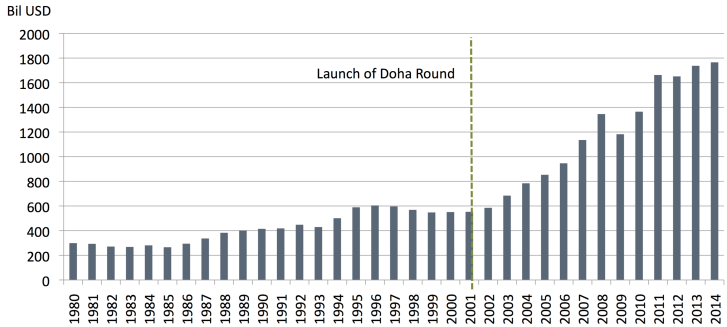


# Conclusions

## Trade Agreements

- research has generally shown agreements tend to have less effect on trade than expected/advertised
- gains/losses from inclusion are relatively small (trade creation)
- losses from exclusion are much larger (trade diversion)
- WTO commitments bind (and will almost surely continue to bind) domestic support policy (BRM) in Canada

# Global Agricultural Trade and Impact of Trade Agreements



Source: WTO