



**CAFTA ACCA**

Canadian Agri-Food Trade Alliance | Alliance canadienne du commerce agroalimentaire

## Canadian Agri-Food Trade Alliance (CAFTA) presents a

### 2017 Report Card on Trade

Canadian agri-food trade was highlighted more in 2017 than in recent memory. While getting the attention was a good thing, the industry's reaction to Canada's agri-food trade agenda in 2017 was largely a matter of lowering expectations.

All eyes were on Donald Trump, the most protectionist president since the Great Depression, when he pulled the U.S. out of one massive trade deal, the Trans-Pacific Partnership (TPP), and forced the renegotiation of another, NAFTA. The provisional application of the Comprehensive and Economic Trade Agreement (CETA) with Europe was marked with little fanfare and was offset by the rocky discussions around NAFTA, and uneven results in the Asia-Pacific region.

Here is a month-by-month synopsis of what happened – and didn't happen - last year.

#### January 2017: U.S. pulls out of TPP

President Donald Trump signed an executive order to withdraw the U.S. from the Trans-Pacific Partnership (TPP), the most ambitious free trade deal in decades. The 11 other countries that had negotiated the pact were left wondering if the TPP could be saved. That's when Japan stepped up. Throughout 2017, Japan made it clear that it wanted the TPP to become a reality and took a leading role in trying to salvage the deal.

*Impact: A TPP without the U.S. would bring even greater benefits for Canadian agri-food exporters because they wouldn't have to compete with the U.S. in the large, high-value Japanese market.*

#### February 2017: Canadian agrifood exporters back CETA – with conditions

The European parliament approved the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and Canada followed suit in May. CAFTA expressed support for CETA given the huge potential in Europe for Canadian agrifood exporters. However, sticking points remained, especially regarding Europe's treatment of crop input products and Canadian meat processing systems that still needed to be addressed before the agreement could deliver its full potential.

As a result, CAFTA backed CETA but called on the government to commit to an advocacy strategy and implementation plan that will deliver real, commercially viable access to Europe for Canadian companies.

*Impact: Potentially big wins, but more needs to be done. See September.*

#### March 2017: Federal Budget commits to growing Canada's agri-food exports to \$75 billion by 2025

The 2017 Federal Budget turned a spotlight on Canadian agriculture and food, focusing on it as one of three industries that will kick-start economic growth, and one of six that could sustain long-term growth. The government recognized this export-oriented sector as a key area for expansion and job creation and set targets to increase agri-food exports from \$55 billion in 2015 to at least \$75 billion by 2025.

The attention was well-deserved, and acknowledged the significant accomplishments of Canadian agriculture and food businesses who have increased exports over the last 10 years by 103 per cent.

**Impact:** *Good. Positive recognition of the work done by industry to make exports an economic powerhouse. Reaching the \$75 billion goal must entail eliminating tariffs and non-tariffs barriers through FTAs such as the TPP and a Canada-China FTA.*

#### **April 2017: Possible Canada-China Free Trade Agreement?**

The federal government launched public consultations on a potential free trade agreement with China, which is Canada's second-largest trading partner after the United States.

CAFTA urged the federal government to pursue the deal with China, a market that accounted for \$6 billion in Canadian agri-food exports in 2016. CAFTA also released a comprehensive report entitled "Chasing China - Expanding Canada's Agri-Food Exports to China", which outlined the barriers and opportunities for supplying the Chinese appetite for healthy, safe Canadian food. In its submission to the consultation, CAFTA called for eliminating Chinese tariffs on agri-food products, which are nearly double those applied to other goods.

**Impact:** *Hopeful. Canada needs to be more engaged with China, not less.*

#### **May 2017: Trump sends NAFTA renegotiation notice to Congress**

While his campaign promise was to terminate the agreement, President Trump settled instead for renegotiating its terms, after encountering strong criticism and phone calls with both Prime Minister Trudeau and Mexican President Nieto.

A 90-day consultation period was set in motion, putting the deadline for beginning the talks with Canada and Mexico in August. Many U.S. agriculture organizations were vocal in showing their support for the Canada-U.S. relationship and NAFTA as well as their opposition to withdrawing from the agreement. The U.S. has long been Canada's single largest trading partner, with 52 per cent of Canadian agriculture and food exports going south of the border in 2016.

**Impact:** *Some relief that the agreement wasn't terminated, but uncertainty and instability while talks continued.*

#### **June 2017: Push ahead with TPP-11**

Since the U.S. pulled out of the TPP in January, its status had been in flux. But there were encouraging signals from the remaining countries to keep it alive. Canada held a round of talks with the remaining TPP members and discussions continued ahead of a Ministers' meeting.

CAFTA warned Ottawa to leave the market access provisions alone in the new TPP-11 because opening them up could jeopardize the entire agreement.

**Impact:** *Good. Encouraging signs for those anxious to not lose the very important potential benefits contained in the deal.*

#### **July 2017: Canada falling behind in the Japanese market**

In July, Japan and the European Union announced that they had reached an agreement in principle, which was finalized and published in December 2017. The agreement will eliminate 85 per cent of agricultural tariffs for EU

agri-food exports to Japan. At the same time, Australian agriculture and food exporters benefitted from another wave of tariff cuts under the Japan-Australia FTA, which entered into force on April 1st.

Negotiations for a Canada-Japan Economic Partnership Agreement were put on hold to focus on the multilateral TPP, in which Japan is a member. Japan is Canada's third most important export market, which is highly valued as a reliable buyer of many Canadian agri-food exports.

**Impact:** *Not good. Reminiscent of the South Korea situation, when Canada was late getting a free trade deal and, almost overnight, lost a half-billion dollar market to competitors. The implications of Canada losing out on Japan are even more serious than they were for South Korea.*

### **August 2017: NAFTA renegotiations start off on a rough road**

The U.S. government initiated talks to adjust the terms of NAFTA, suggesting it could even withdraw from the agreement if a compromise wasn't reached by year end.

NAFTA has been an incredible success for Canadian and North American agriculture. It has allowed all three nations to take advantage of their strengths, be more competitive and encouraged highly coordinated and productive supply chains. There's an enormous potential to improve on the existing regulatory conditions and to make trade in North America easier for agri-food exporters.

But renegotiating the agreement turned increasingly acrimonious, the future still in flux.

**Impact:** *Concerning. With uncertainties surrounding NAFTA, there has never been a better time for Canada to diversify its trade, especially Asia. Canada should take a leadership role in securing a free trade agreement with the remaining 11 TPP members and to implement it without delay.*

### **September 2017: CETA serves as a landmark moment**

CAFTA participated in a celebration of the provisional application of CETA on September 21<sup>st</sup>. The day was a landmark moment for the agri-food sector, bringing with it the potential to increase exports by an additional \$1.5 billion a year.

CAFTA also urged the government to resolve outstanding issues in gaining full, commercially viable access to the EU. Progress is slow in making advances for meat processing protocols, crop protection products and the timely approval of biotechnology traits. CAFTA members are also very concerned with recent protectionist measures from European member states that are not consistent with the spirit of CETA.

**Impact:** *Hopeful, but results won't be immediate for many agri-food sectors.*

In other news in September, Canada and the Association of South East Asian Nations (ASEAN) launched exploratory discussions for a potential FTA. ASEAN is composed of Cambodia, Brunei Darussalam, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Agri-food trade with ASEAN was valued at \$1.34 billion in 2016.

**Impact:** *Still to come.*

### **October 2017: U.S. 'Poison Pills' during NAFTA negotiations**

As the fourth round of NAFTA negotiations got under way, a sense of doom was widely reported in the media. A speech by U.S. Chamber of Commerce CEO Tom Donohue actually pointed to several ‘poison pills’ that could derail the agreement. As the round wrapped up, Canadian Foreign Affairs Minister Chrystia Freeland characterized the U.S. demands as “troubling” and that NAFTA could not be updated with a “winner take all” mentality.

CAFTA was and is present at all the negotiating rounds to represent the interests of its members and stress the importance of an approach focused on modernizing the deal. The sixth round of talks is set to take place January 23 to 28 in Montreal.

***Impact:** NAFTA future looks bleak, but good that negotiations were pushed into another round in 2018.*

### **November 2017: Agreement on core elements of a Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).**

On the margins of an APEC leaders summit in Vietnam, the 11 countries of the former TPP agreed to core elements of an agreement now called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). On the positive side, there are only four outstanding issues to be resolved. On the negative side, questions remain about Canada’s engagement.

CAFTA welcomed the news, particularly the framework that keeps the gains of the former TPP agreement intact and urged Canada to take a leadership role in landing the deal.

Today, the CPTPP is the best option available for Canada to secure better access to Japan, but the window to make it work is limited. Reports in December about Japan possibly moving forward with a CPTPP without Canada are concerning, but a distinct possibility since only six of the 11 signatories are needed to make it happen.

***Impact:** Good that progress is being made but there is still work to be done. Most importantly, Canada needs to maintain the momentum and convene a meeting of Chief Negotiators and Trade Ministers to finalize and sign the deal, and move to implement it without delay.*

### **December 2017: Then there’s China**

Prime Minister Trudeau met with Premier Li Keqiang in Beijing to discuss improved trade relations between Canada and China. While China had already shown its willingness to embrace freer trade in agri-food with countries like New Zealand, Chile and the ASEAN nations, Canada and China continue to hold exploratory discussions on a possible FTA.

***Impact:** Hopeful for a FTA. Good that discussions on a free trade agreement with China are continuing.*

### **Looking forward to 2018**

The world of trade negotiations is not standing still and Canada must start participating more actively if it wants to keep up with competitors.

The U.S. is turning inward. The EU has completed free trade agreements with Japan and Canada, and intensified talks with Mexico, Australia and New Zealand. Japan, traditionally a protectionist country, has managed to save the TPP and push ahead with another major FTA with the EU.

Canada's Advisory Council for Economic Growth recently released another set of recommendations for Ottawa to consider, which included the importance of Asia. It said that Canada is seen as a promoter of globalization and that the CPTPP is a vehicle to provide access to key Asian markets.

As a trading nation and in the current environment, Canada needs to diversify, and quickly. While threats about NAFTA and other policy changes south of the border are taking a lot of time and energy, equally important is the need to focus on the pace at which others are moving on with their own bilateral trade deals. If Canada doesn't step up its game, there will be a serious risk to agri-food exports and the jobs they support.

With tough and uncertain negotiations happening simultaneously with the United States over NAFTA, Japan over TPP and with China, Canada must get some wins soon in order to hit the ambitious targets Ottawa has set for itself.