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

October 16, 2018

Canada–ASEAN trade consultations  
Global Affairs Canada  
Trade Policy and Negotiations Division (TCA)  
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Via email: [CanadaASEAN-ANASE.Consultations@international.gc.ca](mailto:CanadaASEAN-ANASE.Consultations@international.gc.ca)

**Re: Consulting Canadians on a possible Canada-ASEAN Free Trade Agreement**

Given the unprecedented and aggressive protectionism that has put the global trading system at risk, the need for Canada to intensify its trade diversification efforts and reduce its reliance on the U.S. market has never been greater. In this context, the Canadian Agri-Food Trade Alliance (CAFTA) welcomes this opportunity to share our thoughts and priorities in relation to a possible free trade agreement (FTA) between Canada and the Association of Southeast Asian Nations (ASEAN).

Canadian agri-food exporters see huge potential in the fast growing and dynamic Asia-Pacific region. We look forward to the rapid ratification and speedy implementation of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and a strengthened trading relationship between Canada and China. According to research commissioned by CAFTA, the CPTPP could increase Canadian agri-food exports by nearly \$2 billion annually for a variety of agriculture products including beef, pork, grains, canola, pulses, soybeans, barley, sugar and processed foods<sup>1</sup>. With China projected to be the largest food importing nation in the world by 2025<sup>2</sup>, the opportunities for Canada are immense. A possible Canada-China FTA could generate substantial market access gains, reduced cost and improved stability and predictability of trade.

When considering how best to leverage opportunities in the ASEAN region, Canada may want to consider both long and short term policy levers. While we recognize the longer-term benefits of pursuing a free trade agreement with the ASEAN, we also encourage the government to use, strengthen and expand the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) as a preferred platform to the continued advancement of multilateral trade liberalization in the region, benefiting Canadian agri-food exporters. As four of the ASEAN nations are also part of CPTPP (Brunei, Singapore, Vietnam, and Malaysia), an important priority for Canada should be to expand the CPTPP to include the other ASEAN countries and build on this regional platform.

This submission reflects the views of CAFTA and its members.

CAFTA represents the 90 per cent of farmers, ranchers, food manufacturers and agri-food exporters who strongly support the federal government's pursuit of creating new and enhanced access to global markets. CAFTA is a coalition of national associations, all of whom seek a more open and fair international trading environment for Canada's agri-food exports. Our members represent producers, manufacturers and exporters from the beef, pork, meat, canola, grains, cereals, pulses, soybeans, as well as the malt, sugar

<sup>1</sup> "Caught in the Crossfire", CAFTA May 2018

<sup>2</sup> "Chasing China", CAFTA February 2017



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and food manufacturing sectors. Together, CAFTA members account for 90% of Canada's agriculture and agri-food exports exceeding \$57.7 billion in value in 2017, and an economic activity that supports about one million domestic jobs and contribute \$96 billion annually to the Canadian economy<sup>3</sup>.

A significant portion of these sales and jobs would not exist without access to world markets. Trade and competitive access to key markets is the cornerstone of Canada's agri-food sector as over half of everything we produce is exported. Trade is critical to the growth of the sector as 60 per cent of its value is generated by exports. CAFTA is an enthusiastic supporter of negotiating new trade agreements which can create significant new market opportunities for Canada's agri-food exporters.

## The ASEAN Market

As a market of 643 million people with a GDP of \$3.6 trillion, ASEAN provides opportunities for Canadian businesses to expand, and improve, market access in the Asia-Pacific region. With a growing middle class and an ongoing urbanisation driving the consumption of more and higher value foods, an FTA with the region provides the opportunity to boost the sector's competitiveness in Asia and a framework to diversify exports, in particular with countries such as Indonesia, the Philippines and Thailand. Canada's FTAs would grow from one (Republic of South Korea) to six with CPTPP (Japan, Vietnam, Malaysia, Singapore and Brunei) to twelve with ASEAN (Indonesia, Cambodia, Thailand, Laos, Myanmar and Philippines).

In 2017, Canada's total agri-food exports to ASEAN reached \$1.95 billion, a significant growth from the \$400 million in exports in 2003. This makes ASEAN Canada's 4<sup>th</sup> largest market for agri-food exports, worth just a bit more than Mexico in 2017. Canada is one of the top ten suppliers of agri-food products to the region behind the U.S. and Australia, two of Canada's global agri-food competitors. Notably, Australia's strategy to date has been to focus its trade agenda on the Asia-Pacific, where it plays a leadership role geopolitically and has a comparative advantage with distance.

As a bloc, ASEAN has five FTAs, including with some of Canada's top global agri-food competitors. ASEAN has FTAs with Australia and New Zealand, China, India, Japan and the Republic of Korea. ASEAN and Hong Kong also signed an FTA in 2017, which will enter into force in January 2019. In addition to negotiating with Canada, ASEAN is currently in talks with the European Union, the Eurasian Economic Union and the Regional Comprehensive Economic Partnership (RCEP), a regional FTA that includes all of the ASEAN's existing FTA partners.

## Strengthening the CPTPP

The government's intent to be part of the first six CPTPP countries to ratify the agreement would position Canada to take a leadership role in the accession process.

Given the overlap between the membership of the CPTPP and the ASEAN and the fact that a number of these countries have signaled interest in joining the CPTPP, CAFTA recommends that Canada prioritizes the accession of the ASEAN members who are not yet members of the CPTPP to that agreement while continuing FTA negotiations with the ASEAN in parallel.

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<sup>3</sup> [Why agri-food exports matter to the Canadian economy](#) Oct 2016



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Inclusion of the ASEAN bloc or of individual ASEAN countries within the CPTPP trading block would help secure access to dynamic Asian export markets, reduce the risk of unforeseen market disruption and increase the opportunity for broad trade liberalization in the region.

First, this approach provides a quicker route to leveraging opportunities in those ASEAN markets compared to negotiating a new FTA, which needs to be seen in the context of a longer time frame. As a reminder, Canada's negotiations with the European Union or the CPTPP members each took over 7 years. Second, this approach provides more opportunities to bring the outcomes of a possible ASEAN FTA to the level of outcomes, gains and standards reached in the CPTPP.

The expansion of the CPTPP to encompass the ASEAN regional block would significantly strengthen the CPTPP, making it an agreement that will more effectively secure trade liberalization and predictable open access to the Pacific region for Canadian exporters. In essence, expanding the CPTPP's membership will reinforce the agreement's value to Canadian agri-food exporters and generate momentum for other countries to join.

This is particularly true for Canadian food manufacturers who would not be pursuing sales with ASEAN countries that are not members of CPTPP (e.g. Indonesia, Cambodia) because of the nature of their products and freight sensitivities.

Bringing the ASEAN under the CPTPP umbrella will play a key role in improving the regional trading system by addressing remaining tariff and non-tariff barriers and promoting the adoption of high-quality standards across participating markets, including in areas such as science-based sanitary and phytosanitary (SPS) rules and dispute resolution processes.

Canada's long-term goal should be to bring these nations under the CPTPP umbrella. Developing a clear path forward with ASEAN members towards achieving this goal would be a positive outcome.

### **Negotiating a Canada-ASEAN Free Trade Agreement**

CAFTA supports the objective to pursue a free trade agreement with the ASEAN bloc to maximize opportunities, and captures commercial benefits within markets not yet ready for CPTPP accession.

**Priority #1: tariff market access:** an ASEAN trade agreement should include tariff liberalization for Canada's agri-food exports to the region.

**Priority #2: rules of origin:** an ASEAN trade agreement should include forward looking cumulation of rules of origin provisions which can support Canadian usage of supply chains.

**Priority #3: non-tariffs barriers:** an ASEAN trade agreement should include commitments towards building a more transparent and predictable trading system.

A sample of some of the potential benefits CAFTA members sees arising from a potential Canada-ASEAN FTA include:

- **Canola** – For the canola sector, the elimination of applied and bound tariffs on canola seed, oil and meal would prove very valuable. While CPTPP secures duty free access to Vietnam, Singapore and Malaysia, tariffs persist in Indonesia and Thailand increasing the cost of canola imports. Canadian



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canola competes directly with Australia and the United States for global markets. Canola growers also see potential to increase exports to Indonesia and Thailand if preferential market access is achieved. Not only would achieving tariff free access create a level playing field with Australia, it would give Canadian oilseeds an advantage over the United States.

- **Beef** - Of the six ASEAN countries that are not currently signatories to the CPTPP, the highest potential for Canadian beef appears to lie with Thailand, the Philippines and Indonesia. Of these three, Canadian beef exports to Thailand and Indonesia are almost non-existent. Thailand has the highest per capita GDP of these three and should therefore represent a good market for quality beef, however Thailand also has a prohibitively high MFN tariff of 50% on beef and offals imports that could be addressed through a free trade agreement. The Philippines has been steadily increasing imports of Canadian beef, reaching \$10 million in 2017 to become our 8th largest export market. However the elimination of the Philippines' 10% tariff on muscle cuts, 5% on livers and 7% on other offals, the potential in that market is likely to increase. Indonesia has a 5% tariff on beef and offals as well as Halal requirements. Indonesia has also maintained a prohibition on Canadian meat and bone meal since 2015. Prior to that time, Indonesia purchased approximately \$30 to \$35 million of Canadian meat and bone meal, demonstrating that potential opportunities exist.
- **Pork**: for the pork sector, the completion of an FTA that includes the Philippines as well as Canada's ratification of the CPTPP would be beneficial as the region encompasses some of the world's fastest growing economies and pork consuming markets. In particular, the Philippines is Canada's 7th largest pork export market with sales of \$93 million. With a 60% increase in dollar value and 43% increase in volume over 2016, this market is an example of the potential that exists in the Asian Pacific region as markets continue to develop.
- **Sugar** – Market access prospects in the ASEAN region may be limited for Canadian refined sugar and sugar-containing products given surplus production and exports from Thailand (Thailand is the world's second largest exporter of white sugar); however, removal of tariff and non-tariff barriers could provide long term opportunity for high value Canadian products. The region as a whole is characterized by significant government intervention in the sugar sectors (e.g., regulated domestic markets, high import tariffs, TRQs and import licensing) and surplus sugar production in the region is a threat to Canada's open market without offsetting export gains. In the absence of Canada-specific preferential access gains, Canadian sugar and sugar-containing products are not competitive with Thailand or with external preferential suppliers, notably Australia. Canada's refined sugar tariff, while small by international standards, should be maintained in the absence of meaningful reduction in ASEAN tariff and non-tariff barriers. The industry supports negotiation of a liberal rule of origin that confers origin to the refining of raw sugar as well as cumulation of rules of origin.
- **Grains** - Tariffs in Indonesia, the Philippines and Thailand remain very high on some of our key exports and are particularly problematic given the preferential access Australia, a key competitor for most grains and oilseeds, has through its FTA which will render Canadian exports uncompetitive by 2021. Grain farmers see potential to increase wheat sales to Indonesia and the Philippines. However, the US and Australia are moving aggressively to take market share away from Canada. Securing preferential market access is critical to maintaining and growing exports of wheat to Indonesia, Canada's top wheat market outside of North America.



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- **Beyond tariffs** – An ASEAN FTA provides an opportunity to set a new Asia-Pacific framework for trade with rules based on science to increase cooperation and transparency on non-tariff barriers related to sanitary and phytosanitary measures, biotechnology and plant health.

To give some sense of CAFTA's priorities, we would attach more importance to concluding an agreement with ASEAN than with the Pacific Alliance or Mercosur countries.

In short, CAFTA recommends that prioritization of trade negotiations be as follows:

- Ratification and implementation of the CPTPP
- Ratification of the new USMCA
- Resolution of non-tariff barriers in the EU to ensure CETA delivers on its huge potential
- Launch of FTA negotiations with China
- Accession of ASEAN nations into the CPTPP
- Negotiations of a Canada – ASEAN free trade agreement
- Negotiations of a Canada – Pacific Alliance free trade agreement

CAFTA wishes to express its willingness to continue to work with the government and the team of negotiators by providing more precise advice on a broader list of agri-food products as the negotiation process moves forward.

Thank you for the opportunity to participate in this consultation. Please contact us if you have any questions or if we can assist in any other way.

Respectfully,

Claire Citeau