



July 31, 2024

International Trade Policy Division (EV Consultations)
Department of Finance
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Re: Consultations on potential policy responses to unfair Chinese trade practices in electric vehicles

Summary

The global rules-based trading system is essential to the success of the agri-food exporting sector that CAFTA represents. The government should seek to strengthen this system and avoid taking trade action that may undermine WTO rules, even if inadvertently. Faced with similar challenges in relation to Chinese EV subsidization, the EU is currently taking an approach that pays close attention to rules-based trade, and the WTO's central role. The government should study the EU approach carefully and factor rules-based trade into its policy response.

Introduction

The Canadian Agri-Food Trade Alliance (CAFTA) is a coalition of national organizations advocating for a freer and fairer international trade environment for the agriculture and agri-food sector.

CAFTA's members include farmers, ranchers, processors, producers, and exporters from major trade sectors such as beef, pork, grains, oilseeds, sugar, pulses, and soy.

A fair and open international trade environment for agri-food is in Canada's economic interest. Agri-food is responsible for 1 in 9 jobs in Canada, and the majority are in export-based agri-food. In 2022, Canada exported \$92.8 billion in agriculture and food products, including raw agricultural materials, fish and seafood, and processed foods. More than half of our agricultural production is exported or processed to be exported.

Canada is the world's fifth largest agri-food exporter. We are one of the few countries in the world producing enough food for ourselves, while at the same time feeding others around the world.

Canada also has a strong track record of not using food as a political weapon or banning agricultural exports.

The international rules-based system is a key element of our success, and it is in Canada's national interest to strengthen this system. We should take great care not to undermine it, even if inadvertently.

The World Trade Organization (WTO) plays a vital role in global agri-food trade by establishing a framework for trade policies and regulations. The WTO helps to ensure that trade flows as smoothly, predictably, and freely as possible, which is essential for the agri-food sector. By setting international standards and rules, the WTO helps reduce trade barriers such as tariffs, quotas, and subsidies that can distort markets.

One of the significant contributions of the WTO to agri-food trade is its dispute resolution mechanism. This mechanism provides a formal process for resolving trade disputes that arise between member countries, ensuring that conflicts are addressed fairly and transparently. In the context of agri-food trade, this is particularly important given the frequent disagreements over issues like food safety standards, subsidies, and market access. By providing a structured process for dispute resolution, the WTO helps maintain stability in global agri-food markets, preventing prolonged trade wars that could disrupt supply chains and negatively impact food security.

Ninety to ninety-five percent of Canada's agri-food trade is underpinned by WTO principles, directly or indirectly.

The government is considering the possibility of a surtax under Section 53 of the *Customs Tariff*, which is an exceptional policy provision that allows Canada to levy tariffs in response to foreign practices that adversely affect trade. There is a serious risk that such a course of action may be found to be in violation of WTO provisions and subject to a WTO challenge. This is particularly true in the absence of a domestic ruling that allows Canada to retaliate in the context of a trade dispute. To our knowledge, our country has only invoked Section 53 in this way once before, at a time of considerable urgency when faced with U.S. steel and aluminum tariffs.

CAFTA believes it is constructive to closely examine how the EU has been careful to underline that it is seeking to resolve similar issues in a WTO-compatible manner. The Commission has undertaken an investigation that has provisionally concluded there is a threat to injury to European electric vehicle value chains based on a finding of WTO-incompatible subsidies and has since reached out to the Government of China to discuss these conclusions. The EU has argued that its approach is WTO compatible, underlining the centrality of the rules-based system.

In 2021, Canada was ranked the seventh largest agri-food and seafood supplier to China with values of \$11.7 billion. China is our second-largest market for agri-food exports, second only to the U.S. with whom the agri-food sector is highly integrated. The economic importance of the Chinese market to the Canadian agri-food sector is a factor to consider when preparing and implementing Canada's trade policy. Global trade is interconnected, and actions taken against China by countries in the recent past have resulted in negative impacts on farmers and agri-food stakeholders exporting to China. Managing both the potential impacts of misalignment with the U.S., and the potential negative impacts of retaliation on agri-food stakeholders should be an

important consideration for the federal government as it determines next steps and possible future uses of section 53 of the *Customs Tariff*.

Placing emphasis on WTO compliance is an important element of risk management to protect our economy from potential negative responses. Indeed, the federal government should consider developing a framework to guide future uses of section 53 of the *Customs Tariff* to ensure the predictable application of this policy tool. Open, transparent, stable, science-based and predictable trade is essential for the international rules-based order. In the meantime, the federal government must consider potential consequences, unintended or otherwise, on other sectors, including but not limited to agri-food.

Respectfully,

Michael Harvey

Executive Director