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CHASING CHINA

Expanding Canada's Agriculture and Agri-Food Exports to China

China will be crucial to Canada's economic future over the next 50 years. China is a massive market where consumers are hungry for safe, high-quality products.

China has become the 3rd largest destination for agricultural products worldwide. Opportunities are enormous with China projected to be the world's largest agrifood importer by 2020.

China is already Canada's second largest market for Canadian agri-food exports. In 2015, Canada exported C$5.6 billion in agri-food products to China,[1] and unlike many of Canada's trading partners; exports to China have been climbing steadily and did not fall during the global economic crisis. Canadian agri-food exports to China include significant exports of canola products, which account for half of all shipments, as well as pulses, pork, wheat, barley, soybeans, beef, genetics and processed products.

Canadian Exports of Selected Agri-food Products to China in C$

	2015
Canola (seed and oil)	2,601,362,139
Soybeans	588,473,484
Wheat	333,454,534
Pulses	316,180,219
Pork and products	234,143,999
Hides & Skins	165,828,355
Wheat	333,454,534
Barley	265,227,298
Beef	255,166,783
Hides & Skins	165,828,355
Malt	2,935,564
Sugar (sugar candy, sugar confectionery)	1,259,447
Special crops (buckwheat, mustard, canary seed, sunflower seed)	515,929

It's only the beginning

China is a strong and growing economy. In 2014, China surpassed the U.S. in becoming the world's largest economy. China has almost 20 per cent of the world's population but only 11 per cent of its arable land.

[1] AAFC. *China – At a Glance.* Retrieved Aug. 25, 2016

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As with other developing countries, China's demand for agri-food imports is expected to expand. Growing urbanization increases in personal income, and limits on China's agricultural production will impact the country's ability to meet its growing agriculture and food demand through domestic production.

China is striving to build its domestic agriculture sector by building capabilities and adopting new technologies and innovation. China's demand for human capital and expertise in this sector is growing.

China's middle class is expanding rapidly and quickly adopting a "western" diet with an increased focus on animal proteins, processed foods, eating out, and convenience dishes. This offers significant potential for agriculture and food exporters around the world, including those in Canada.

In August 2012, the two countries released the results of an economic complementarities study which identified opportunities to expand and improve trade, including agriculture and agri-food, between the nations. However as noted in the study, China's agriculture has not kept pace with the country's growing demand for food products. Tariff reductions would provide an opportunity for the Canadian industry to supply growing demand.

China's Trade barriers

Despite the large and growing demand for Canadian agri-food products in China, Canadian exporters continue to face serious barriers that are hampering growth.

China's restrictive policies stifle the competitiveness of imported goods. Tariffs and non-tariff barriers also reduce the range of products that can be exported to that country and raise uncertainty for exporting businesses.

- China's average tariff on agricultural products is 15.1 per cent, compared with 8.6 per cent for industrial goods. China makes use of tariff-rate quotas; in 2015 they applied to 47 tariff lines including products such as wheat, corn, rice, cereal flours, and sugar and sugar-containing products.

- China's current Five-Year plan expresses the government's commitment to supporting its agriculture sector. The plan establishes self-sufficiency targets in key sectors (wheat, corn, rice, sugar, beef, pork). These sectors are supported through a variety of domestic subsidies and support programs as well as the use of TRQs and tariffs.

- Tariffs and non-tariff barriers restrict the range of products that can be exported to China and raise both risk and uncertainty for exporters.

Overcoming the barriers will be tough. Improving agri-food trade with China will require addressing issues including eliminating tariffs, which remain high on many agri-food products, tariff escalation and tariff rate quotas (TRQs). There are also a number of non-tariff barriers including the inconsistent application of regulations, slow customs administration, the discriminatory application of China's Value-Added Tax on imported goods, and limitations on Foreign Direct Investment.

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Hopeful signs for expanding trade

While many of Canada's agri-food export interests are in the areas where China is most sensitive, opportunities to expand and/or improve trade do exist:

- China's experiences with recent Free Trade Agreements, including those with New Zealand and Chile, suggest Beijing may be prepared to address tariffs and other trade barriers in some sectors, including malt, barley, pulses, beef and pork. New Zealand's exports to China have tripled since signing its free trade agreement.

- In many commodities, such as canola, soybeans, wheat and sugar, Chinese production can't keep up with demand. Tariff reductions and/or tariff quota expansion for canola, soybeans, sugar and sugar-containing products and other products like wheat would provide an opportunity for the Canadian industry to meet that demand.

- Regular Chinese-Canadian government communications around market supply and demand could improve predictability for Canadian exporters.

- In the case of wheat, which is subject to a TRQ, any steps to encourage China to increase its TRQ fill rate (which is currently at just nine per cent), could increase Canada's exports of that product.

- Addressing non-tariff barriers, like inconsistent regulations and testing, and encouraging the Chinese to meet internationally recognized standards, could reduce export costs and expand trade for some sectors, especially pork and beef.

- Improving the customs administration process could greatly reduce costs and improve predictability for exporters.

Significant room to grow in China.

The US International Trade Commission estimated that the elimination of China's tariffs and non-tariffs barriers could increase US agri-food exports by $9.3 billion (USD). This suggests that Canadian gains would also be significant.

Achieving improved access for Canadian exports would require that a number of significant and highly sensitive issues are addressed. This would be aided by stronger relationships between Chinese and Canadian governments and industry. Improved access to the Chinese market would allow the Canadian agriculture industry to grow in this market and establish a stable and predictable trading relationship with China.

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