Leveraging Trade Agreements to Succeed in Global Markets

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Recent efforts by governments to liberalize trade are creating new opportunities. But companies need to understand the structure of these new trade rules, and related ways to leverage global market opportunities. This knowledge will help them identify from which country they can most efficiently serve customers in foreign markets. It will also help them to better evaluate prospects for expansion.

Purpose of this paper

Provide preliminary ideas about how agri-food players can best position themselves to act defensively and offensively in the context of a changing trade world.

Purpose of stakeholder discussions

Generate dialogues about preparing for this unfolding trade environment and elicit feedback on any research gaps required to help further inform the discussion and point to issues requiring resolution.

CONTENTS

A MORE COMPLEX TRADE ENVIRONMENT, VARIABLE BARRIERS, REAL OPPORTUNITIES

One of the biggest challenges facing today's globally active companies is keeping track of how rapidly changing barriers to market access and international trade rules will impact on their operations. For instance, when the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU comes into force, a company shipping a Canadian-made product to customers in the EU will face lower barriers than one shipping an American-made product. This has obvious implications for how companies determine where to situate their production. In order to best serve customers at home in Canada, in the EU, and in third-country markets, we need to consider such new dynamics: the new export opportunities, new competitive pressures, and new possibilities for investment and partnerships.

Twenty years ago, virtually all new trade rules were negotiated through the Geneva-based GATT (now the WTO or World Trade Organization), as were reductions or removals of tariffs and non-tariff barriers. Even when liberalization was unilateral, it had to be done in accordance with WTO rules, most notably following the most-favoured-nation requirement that all other GATT or WTO members be accorded exactly the same tariff treatment. This meant that in most cases a company selling into a foreign market would face the same terms of access to that market as its competitors from other countries. While international trade is never simple at best, businesses knew that they were operating on a relatively even playing field. A company selling into Europe from Canada would face the same import barriers as a company selling from the United States into Europe.

Competitive trade liberalization

The situation is now dramatically different. We have entered a world referred to as "competitive trade liberalization." In this new environment, countries are competing with one another to be the first to secure free or at least preferential access to the world's major markets. The first country across the finish line guarantees that its producers will have preferential access in the market of its new partner for a significant period of time. This preferential advantage may well increase as the agreement is implemented over time. The period of the advantage will continue until other countries negotiate agreements to provide similar treatment to their producers. Of course, the preferential advantage is most significant when the original tariffs or other barriers to imported products are highest.

Competitive trade liberalization: Two examples

Canada and South Korea have just announced the conclusion of a bilateral free trade agreement that may be ratified and implemented as early as January 1, 2015. However, the United States and South Korea had already negotiated an agreement that came into force on January 1, 2012 and the first tariff cuts were made on that date. The third set of cuts has now been made and Canadian producers are rapidly losing market share in South Korea for such products as beef and pork, where many of the original duties were 40%.

In Europe, however, the situation could well play out the other way around. Canada and the EU have already reached an agreement in principle on a Comprehensive Economic and Trade Agreement (CETA) similar to, but more ambitious than, NAFTA. Both sides hope to convert that agreement soon into a full-fledged agreement and begin the process of implementation in the coming months. By contrast, the United States and the EU are still at a relatively early stage of negotiating a similar bilateral deal. Canada is expected to cross this finish line ahead of the US, such that Canadian suppliers could enjoy two or more years of preferential access to the EU before American suppliers begin to catch up.

Moreover, under CETA, the EU has established some specific technical standards for market access. For example, Canadian access to the EU beef market is tied to ractopamine-free and growth hormone-free standards with which Canada has agreed to comply. Under EU-US trade discussions, the US is attempting to convince the EU to relax these standards to facilitate US beef exports to the EU. By agreeing to EU standards and not challenging internal EU policies in the context of CETA, Canada stands to access the EU beef market more easily and rapidly than the US. This represents another form of comparative trade advantage.

In the environment of competitive trade liberalization, firms need to consider carefully the most cost effective way of reaching consumers in foreign markets. Obviously, many economic factors need to be taken into account. But the increasingly complex variable geometry in international trade barriers argues that part of the analysis and due diligence should be a “trade barrier audit.” This is particularly true for Canadian food manufacturers that deal in the market for agricultural products, which is often a highly protected sector.

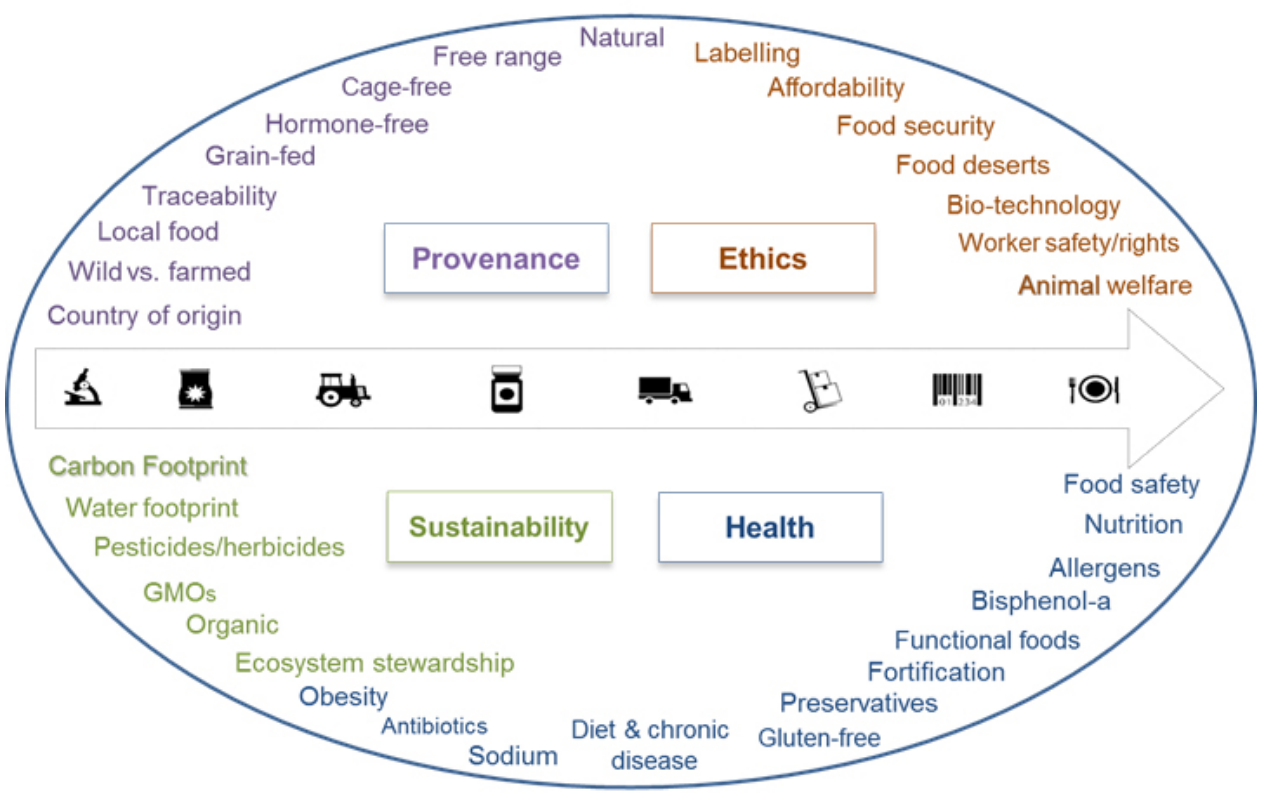
The situation is further complicated by the fact that even when country A catches up with country B the agreements are unlikely to be identical; there will therefore remain preferential niches that will be exploited by enterprising entrepreneurs indefinitely.

WHAT THE CONSUMER WANTS DRIVES EVERYTHING

The new imperative is for companies to respond to what the consumer wants. Nowadays, consumers want a lot. These new consumer requirements are not only reflected in the marketplace, but have found their way into safety and quality standards at both the government and corporate (or supply chain) level. Governments want to assure consumers that they are taking their concerns seriously. Companies want to demonstrate that they understand consumer needs. While this imperative extends to all products, it is becoming a particularly strong dynamic in the food business. Hence the added emphasis placed on government regulations on food safety and quality, both in terms of how a product is produced and its actual qualities. Meanwhile, corporations are putting a stronger focus on private standards and brand assurances.

The list of what consumers consider when buying a food product is growing, and now includes many factors that were not a high priority a few short years ago. This includes concerns over such issues as chemical residues, antibiotics, and humane animal treatment. While price remains a key driver, the consumer is increasingly focused on other factors: “is my food safe?”, “how was it produced?”, “is it good for me?”, and “does its production cause harm?” This is all about consumer trust in what one eats and the product’s perceived and actual *authenticity*. See the breadth of factors facing food production and supply in the following diagram:

The profound impact of rising societal expectations across the food system
Confronting how we think about “trust”, “transparency” and “authenticity”



A representation of consumer and societal food issues and perspectives.[1]

[1] The diagram is referenced in *Differentiate to Compete: The Consumer Perspective*, CAPI, May 2014; http://www.capi-icpa.ca/proc-food/proc5.html

Traceability Systems are Essential to Meet Regulatory and Marketing Objectives

Rising societal expectations put a premium on being able to trace a food product back to its origins. This is a governance issue. In the food business, this is done through various traceability programs. Ten years ago traceability was mainly used to ensure health concerns were properly enforced. Now it is required to ensure that various standards, both governmental and private, are also enforced. These are addressed under the regulatory and sanitary and phytosanitary headings in the CETA. And, of course, companies that offer quality and other assurances to their customers need traceability systems to demonstrate that they can and do meet these claims. Additionally, for many products, traceability is needed to prove that the product qualifies for the benefits of free trade treatment under CETA.

The Role of National Brand

Brands are a core element of efforts by corporations to show they can fulfill consumer wants and build customer loyalty. National brands can be used in conjunction with private brands to strengthen a competitive trade advantage in export markets. For example, a national brand can be used to communicate a common set of national characteristics for a product category that serves as a platform upon which individual firms build their own brands. To be effective, there needs to be an industry consensus regarding the basis and common characteristics or attributes of the national brand used to leverage private brands. There are prospective characteristics that could form a Canadian brand in agri-food products, such as clean air and water, or nutrient-density, comparatively less chemical residue or other production practices. But a consensus on these characteristics and the value they may have in export markets is yet to emerge.

IT'S NOT JUST TARIFFS THAT ARE IMPORTANT

Tariffs continue to be the most highly emphasized aspect of a trade agreement. It is commonly believed that when the tariff is eliminated free trade results. However, even with the duty gone, prospective exporters won't sell a single pound of beef — to use one example — unless they successfully address the trade restrictive effects of a range of non-tariff barriers. Many of these barriers derive from the consumer-driven factors described above; these factors are addressed in CETA, for example, or in its parallel agreement on veterinary issues. They include such arcane but critical matters as protocols for ensuring that banned substances have not been used in production or in carcass washes. Other impediments to realizing newly negotiated access arise in connection with the administration of the "tariff rate quotas" that are designed to provide access for meat products. Who "owns" the quota will determine whether the exporter can make a profit.

Of course, CETA is also an investment agreement. There may be scope for fruitful collaboration between international firms to exploit markets in the EU and Canada and also beyond.

We need to consider how to take advantage of the new legal and policy structures created by CETA, and how to exploit the new opportunities the agreement presents. While some measures will be readily apparent, making progress in other areas will require a more nuanced approach and may even involve using residual barriers creatively to get ahead of competitors.

FRAMING THE BREADTH OF ISSUES

The ultimate competitive significance of any trade agreement for Canadian agri-food products relates to three components:

1. Canada's fundamental competitiveness (i.e., cost, quality, product form, brands, supply chain, etc.) in supplying agri-food products.
2. Canada's access to the target export market (i.e., the tariff/tariff rate quota levels that it faces).
3. Canada's access to the target export market *relative* to that of competing export market suppliers, given competitors' underlying position (i.e., cost, quality, etc.).

The combination of items 1 and 2 defines the prospect for Canada to successfully compete with domestic suppliers in export markets; the combination of items 1 and 3 defines the potential for Canada to successfully compete with third-country export competitors in export markets. Moreover, an understanding of these components requires knowledge and awareness of design and performance of the system that generates the outcome of a Canadian product sold in an export market. This includes, for example, its genetic base, production process, regulatory oversight, asset ownership and financing, public and private infrastructure, and product brand logistics. This system will have bottlenecks; the nature and significance of these bottlenecks vs. the bottlenecks in the systems of competitors will heavily influence Canada's success in taking advantage of trade agreements.

It also targets where public and private resources can be used to assist in responding to trade opportunities. Consider for example two key export products for Canada: canola and beef (see box).

Expanding exports and issues: profiles of canola and beef

Canola: Canola acreage has grown significantly in recent years, and is now similar in acreage to wheat. The vast majority of canola is genetically modified (GM); it moves through an elevator system along with other crops that are not GM. The rail freight system within the country is shared among crops and other products, and is subject to regulation of freight costs and consequently availability of rail cars. Canola processing facilities are located in the regions where the crop is grown (not at ports) and significant new investment in capacity of these facilities has occurred. These investments have been made by a handful of firms that are integrated into grain handling and primary processing. This simple description suggests that there is significant production and processing capacity for canola to grow further exports, understanding that it shares a logistical system with other crops and that the GM character of canola may require segregation from other crops (for certain markets). Logistics for canola oil exports require more dedicated facilities since the crushing occurs in the country rather than at port.

Beef: In beef, the Canadian beef cow herd has declined markedly in recent years, but domestic slaughter has been relatively unchanged. This has led to a short supply situation with relatively less capacity for export. The bulk of the cattle slaughter is in large scale, federally inspected facilities. Beef cuts are not uniform in demand; some cuts are more preferred in the Canadian market, while others are more preferred in export markets. To the extent that some export markets have specific protocols (i.e., ractopamine-free, BGH-free, etc.), these requirements need to be managed within the context of the scale efficiency and overall volume of the plant, a threshold number of producers willing to produce under this protocol, and a procurement/handling/inspection system capable of managing segregation of these cattle and products through the system. Processing firms make decisions to invest in facilities capable of managing these requirements based on the anticipated cost/benefit in the export market versus returns in the domestic market.

UNDERSTANDING THE TRADE AGREEMENTS

A. Canada-EU: Comprehensive Economic and Trade Agreement (CETA)

Canada and the EU completed an agreement in principle on CETA in late October 2013. Under the agreement, 94% of tariffs faced by Canadian exporters to the EU will be reduced to zero. CETA builds on Canada's existing grain trade with the EU, augmenting it with increased access to the EU beef and pork market as well as increased access to the Canadian dairy market, within a broad envelope of tariff reductions on farm and food products. Under CETA, the EU will obtain an increase in tariff-free access for cheese totaling 18,500 tonnes and an exemption to the milk protein substances tariff. Canada's access to the EU beef market will increase to 50,000 tonnes and to 3,000 tonnes for bison. Access to the EU pork market will increase to just over 80,000 tonnes. The EU will also be given protection for certain geographical indications that apply to selected cheeses and meats. The agreement also acknowledges prospective technical barriers to trade, and a process will be established to address these barriers. Some of the detailed technical elements of CETA are still the subject of negotiation.

The EU Market

The EU constitutes the largest economy in the world. Existing trade in all goods between Canada and EU countries is about $86 billion. Canadian agri-food exports to the EU are $2.7 billion, led by wheat and soybeans. Canadian imports from the EU are $4.2 billion, led by alcoholic beverages and confectionery/bakery products.

Canada-EU Trade, 2013 ($CDN)

Total Canadian Exports:	$33 billion
Total Canadian Imports:	$53 billion

Total Agriculture and Food Trade*

Canadian Exports:	$2.7 billion
Bulk:	$1.8 billion
Processed:	$0.9 billion
Canadian Imports:	$4.2 billion
Bulk:	$0.4 billion
Processed:	$3.9 billion

*NAICS: 111+112+311+3121
Source: Statistics Canada, Trade Data On-line

Key Food and Agricultural Issues

Food security, defined broadly, remains a core issue for food and agriculture in the EU. This is embodied in the various elements of the Common Agricultural Policy (CAP). It is also consistent with a relatively high proportion of arable land. For example, France and Germany each have almost 35% of their respective land bases in arable land; the overall average for the EU is about 25%. Canada has less than 5% of its area in arable land. Moreover, the EU has arable land per capita of about 0.2 hectares/person; Canada has 1.3. So land is both heavily used in agriculture, and in tight supply.

With such a high proportion of land already being farmed, aggregate increases in EU farm/food output will essentially come through yield increases, or through imports. At the same time, heavy attention is placed on stewardship and sustainability of agricultural resources in EU countries; this has been met with an abundance of caution and skepticism of certain agricultural technologies (such as GM, growth hormones, etc.). The EU also has past experience with farm/food-related diseases and public health emergencies (such as BSE and Foot and Mouth Disease), and consequently possesses a protracted sensitivity to food safety and quality. Finally, farming, rural lifestyles, and the culinary traditions are important parts of the cultural fabric in many EU countries.

These factors have resulted in a high degree of protectionism of agricultural land and associated resources in the EU, and an abundance of caution regarding new technologies that influence agricultural resource use or rural landscapes and/or are perceived as posing consumer food risks.

Key Differences: Canada vs EU

Canada brings to CETA a large agricultural land and natural resource base in comparison with its population; the EU is in somewhat of the opposite position, with a large domestic population in comparison to its agricultural resources. The EU brings to the agreement well-established food product brands, such as in alcoholic beverages and confectionary products.

Key Challenges/Threats

In effect, many of the trade barriers facing Canada in the EU market have been, and may continue to be, non-tariff in nature. In particular, the EU has taken a different view of certain agri-food technologies than Canada, presenting the risk that even as products produced to Canadian standards may readily enter the EU market, they could still face consumer resistance within the EU marketplace. As farm/food processing technologies develop, differences in attitudes may pose challenges within CETA that extend beyond the agreement itself. CETA may also create competitive challenges to the domestic Canadian market.

Apparent Opportunities for Canada

Overall, CETA presents an opportunity for Canada to leverage its agricultural land base, building on the grain and oilseed trade with the EU and developing an export trade in pork and beef that is currently insubstantial. To do so effectively will require improved alignment of Canada’s processing and supply chain logistics. CETA offers the advantage of matching strong and well-established European brands with the refined consumer market of a developed country, Canada. Moreover, Canada possesses a large farm-product production base. As such, an aspect of the opportunity may be for European firms to invest in Canadian operations in order to access raw products and to expand brand presence in Canada, in addition to accessing the Canadian consumer market. EU investors could help develop the Canadian logistics infrastructure that supports CETA.

The question that becomes apparent is: what do we have to do to be domestically competitive given the increased access provisions gained by the EU?

B. Canada-Japan

Canada and Japan are currently in negotiations on a trade agreement (Canada-Japan Economic Partnership Agreement). In a 2012 joint economic study by Canadian and Japanese governments, the potential gains from trade under a Canada-Japan agreement were estimated at up to $US 9 billion for Canada and up to $US 4.9 billion for Japan.

The Japanese Market

Japan is a developed country with a large, cosmopolitan market. Existing trade in all goods between Canada and Japan is just over $24 billion. Canadian agri-food exports to Japan are $4.1 billion, led by canola, wheat and pork. Canadian imports from Japan are $86.6 million, led by tea, sauces and preparations, and sesame oil.

Key Food and Agricultural Issues

Canada-Japan Trade, 2013 ($CDN)

Total Canadian Exports:	$10.7 billion
Total Canadian Imports:	$13.7 billion

Total Agriculture and Food Trade*

Canadian Exports:	$4.1 billion
Bulk:	$2.6 billion
Processed:	$1.5 billion
Canadian Imports:	$86.6 million
Bulk:	$6.6 million
Processed:	$80 million

* NAICS: 111+112+311+3121

Source: Statistics Canada, Trade Data Online

Food security is viewed as a key, and perhaps the critical issue in agriculture and food in Japan. Food self-sufficiency is tracked and monitored; it has fallen from over 70% before 1970 to less than 40% today. This occurred in tandem with decreasing agricultural production in Japan, over an extended period. This has especially been the case in field crops and horticulture; a decline in livestock and dairy production has been mitigated somewhat. Contributors to this trend include an aging farmer demographic (in 2013 about 74% of farmers were over 60 years of age), the prevalence of small-scale farm operations, and fewer young people choosing farming as a career. This is a critical issue, because the existing structure of agriculture is predicated on scarce land and relatively abundant labour in an intensive land-use system. As human capital available for Japanese agriculture has declined, abandonment and underutilization of farmland has become an issue. Other important trends include a rapidly aging Japanese demographic, and many small or single person households. Food quality and safety is important in Japan, and food and farming traditions are an element of Japanese culture. Moreover, Japanese consumers are known for uncompromising tastes.

Key Differences: Canada vs Japan

Canada's land-use situation is entirely different than that of Japan. Canada operates in a more extensive land-use system, in which farm scale has adjusted to scarcity in labour through mechanization and automation. Canada also has significantly more resource capacity to draw upon in farm/food production (which Japan lacks).

Apparent Opportunities for Canada

Japan represents a premium export market for Canadian farm and food products. This market has grown as an export destination for Canadian agri-food products, despite a broadly protectionist Japanese agri-food trade policy. It represents an opportunity for Canada to leverage its natural resources and agricultural capacity to assist a trading partner with very limited capacity. For its part, Japan has well-established food processors and product brands; the opportunity exists for enhanced investment on behalf of Japanese firms in Canadian capacity, consistent with Japanese preferences for quality and safety.

Even with Japan's entry to the Trans-Pacific Partnership (TPP), Canada could still benefit from a bilateral agreement with Japan, preferably ahead of the TPP agreement. When completed, the TPP will likely start to add countries from across the Pacific Rim to the agreement over time. As such, the TPP is a safeguard for Canada to ensure equal access to these markets as those countries come under the Partnership.

C. Trans-Pacific Partnership (TPP)

The Trans-Pacific Partnership is a multilateral trade negotiation that seeks to extend a 2005 trade agreement among Brunei, Chile, New Zealand, and Singapore to include Australia, Canada, Japan, Malaysia, Mexico, Peru, the United States, and Vietnam. In addition to adding countries to the original signatories, the TPP negotiations extend and deepen the agenda for trade among signatories.

The TPP Market

The TPP spans a range of large markets in developed countries, like the US and Japan, and markets of large developing countries, like Malaysia and Vietnam, as well as smaller countries like Brunei. Taken together, Canadian agri-food exports to all of these countries in 2013 were valued at about $32.8 billion. This underscores the stake Canada has in agri-food trade with these countries. However, it should also be noted that when the countries with which Canada already has bilateral trade agreements are excluded, the value of Canadian agri-food exports falls to $4.75 billion. When the countries with which Canada has initiated bilateral trade negotiations are also excluded, the remaining Canadian agri-food export value falls to about $567 million. Thus there is a sense that within a very large set of national markets, Canada already has trade agreements with many members or is in the process of developing them. In this sense, some see the TPP as being a defensive interest for Canada, in which the major gain will be in protecting and deepening its existing trade relationships.

Key Food and Agricultural Issues

Given the range of countries involved, the TPP presents a diversity of issues. In terms of the agri-food sector, the Partnership could be viewed as an array of developed, exporting countries (Canada, US, New Zealand, Australia, and Chile) and an array of developing countries with rapidly expanding middle classes (Vietnam, Malaysia, Brunei, and Mexico). The interest of the first group is to expand growth in its large domestic agri-food sectors with the second. The interest of the second is to secure increased supplies of agri-food products to serve the demands of rapidly growing middle classes, and to expand opportunities for these middle classes through other aspects of a TPP agreement.

BRUNEI

Canadian Agri-Food Export Value: $683,482

Top Canadian Agri-Food Exports to Brunei (2013 values)

- Soybeans: $467,936
- Protein Concentrates: $152,785

No formal trade relationship to date.

CHILE

Canadian Agri-Food Export Value: $163.6 million

Top Exports

- Wheat: $54.1 million
- Canola Oil: $45.0 million
- Pork: $26.6 million
- Pulses: $20.4 million

Canada-Chile Free Trade Agreement, 1997.

NEW ZEALAND

Canadian Agri-Food Export Value: $59.4 million

Top Exports

- Pork: $21.0 million
- Pet Food/Feed: $9.5 million
- Condiments: $6.7 million
- Frozen Potatoes: $2.4 million
- Pulses: $2.3 million

No formal trade relationship to date.

SINGAPORE

Canadian Agri-Food Export Value: $98.8 million

Top Exports

- Pet Food/Feed: $27.4 million
- Animal Fats: $25.5 million
- Soybeans: $11.4 million
- Pork: $10.2 million
- Protein Concentrates: $3.8 million

Launched trade negotiations in 2001.

AUSTRALIA

Canadian Agri-Food Export Value: $204.9 million

Top Exports

- Pork: $96.6 million
- Bread/Bakery: $25.9 million
- Protein Concentrates: $13.7 million
- Sugar/Syrup: $8.7 million

No formal trade relationship to date.

Some TPP members have pressed for an ambitious agenda of tariff cuts and eliminations. This presents the prospect of reduced border protection for Canadian dairy, poultry, and egg products; this is a sensitive issue for Canada, Japan and probably other countries. Others have pressed for issues related to intellectual property, labour standards, and environmental standards; these discussions are ongoing.

Apparent Opportunities for Canada

The clear opportunities for Canada in the TPP involve expanding agri-food exports with the growing economies with which it has no formal trade relationships. At the same time, it is just as important that Canada retain its current agri-food export base among TPP members with whom it has existing trade agreements in this new multi-lateral environment.

D. Canada-South Korea

The Canada-South Korea Free Trade Agreement was concluded in early 2014. Under the agreement, about 87% of agri-food tariff lines faced by Canada in South Korea will be phased out; Canada will allow immediate duty-free access on about 51% of tariff lines with a further 36% phased-in to duty-free over 5 years. The agreement will eliminate South Korean tariffs on Canadian imports with a range of phase-in periods; this includes beef (15 years), pork (5-13 years), pulses (10 years), canola oil (7 years) and frozen blueberries (7 years). It also establishes immediate tariff rate quotas that expand over time for soybeans, feeds, and other products.

The South Korean Market

South Korea has been a major importer of agri-food products, in which Canada is a leading export supplier. According to the USDA, by volume, South Korea’s estimated 2013 imports ranked:

- 7th in wheat
- 6th in rapeseed oils (11th in rapeseed)
- 6th in beef and veal
- 5th in pork

As these numbers illustrate, South Korea represents the large market of a developed country, and one geared to imports of products that Canada exports. With the right

PERU

Canadian Agri-Food Export Value:
$204.9 million

Top Exports

- Pork: $99 million
- Bread/Bakery: $25.9 million
- Protein Concentrates: $13.7 million

Canada-Peru Free Trade Agreement, 2009.

MALAYSIA

Canadian Agri-Food Export Value:
$108.1 million

Top Exports

- Soybeans: $50.1 million
- Wheat: $35.3 million
- Canola Oil: $3.0 million
- Protein Concentrates: $2.7 million
- Pork: $1.9 million

No formal trade relationship to date.

VIETNAM

Canadian Agri-Food Export Value:
$193.7 million

Top Exports

- Wheat: $56.4 million
- Frozen Fish: $26.1 million
- Soybeans: $23.6 million
- Fish Fillets: $15.8 million
- Canola Meal: 15.8 million

No formal trade relationship to date.

UNITED STATES

Canadian Agri-Food Export Value:
$26.1 billion

Top Exports

- Bread/Bakery: $1.6 billion
- Canola Oil: $1.6 billion
- Live Cattle: $1.3 billion
- Canola Meal: $1.2 billion

NAFTA, 1994.

MEXICO

Canadian Agri-Food Export Value:
$1.6 billion

Top Exports

- Canola: $747 million
- Wheat: $316 million
- Pork: $72 million
- Edible Offal: $59.1 million
- Beef: $56.4 million

NAFTA, 1994.

appropriate market development initiatives, and with unrestricted access, Canada faces a large, relatively wealthy market in which it should be a very effective competitor with foreign and domestic South Korean suppliers.

Canada-South Korea Trade, 2013 ($CDN)

Total Canadian Exports: $3.5 billion
Total Canadian Imports: $7.3 billion
Total Agriculture and Food Trade*
Canadian Exports: $388.1 million
Bulk: $130.9 million
Processed: $257.2 million
Canadian Imports: $81.7 million
Bulk: $11.9 million
Processed: $69.8 million
*NAICS: 111+112+311+3121
Source: Statistics Canada, Trade

Key Food and Agricultural Issues

South Korea has similarities with Japan in terms of agricultural and food issues. It has a small endowment of agricultural land relative to its population; its per capita land endowment is comparable with Japan. At the same time, farms are typically very small in scale, in part due to land tenure/transfer controls intended to maintain farmland within families. Small-scale farms have struggled to attract human capital, resulting in declining farm output, despite attempts through agricultural policy to support production via price supports.

At the same time, South Korea considers self-sufficiency in food to be an important public policy objective, along with rural-urban equity. South Korean households have strong preferences for food safety and quality, and as the country ages demographically, the demand for convenience and health attributes in foods has increased.

Understanding Food Security

Food security is a term that carries a broad range of connotations. It can refer to the extent to which food is accessible at affordable price points across the range of income levels in a society. This is sometimes related to food self-sufficiency, or the ability to meet domestic food demands from domestic production. Food security can also relate to the level of public trust in the domestic food system in terms of food safety and quality.

Understanding attitudes toward food safety can be a critical element of trade strategy. In countries such as Japan and South Korea, where food security relates to scarcity from declining domestic production and competing demands for food from other countries, Canada may position itself as a solutions provider by supplying certain food products and allowing for improved self-sufficiency in other products. In others, where domestic food standards face skepticism from some, Canada can position itself as a trusted supplier of high quality products and transparent standards.

Key Differences: Canada vs South Korea

The major differences between Canada and South Korea relate to agricultural land base and capacity. Canada has scale in terms of the capacity of its land and water endowment to efficiently supply more extensive land use crops, as well as scale in individual farms and supply chains. In these areas, Canada exceeds South Korea’s capacity. South Korean customers have fastidious preferences for quality, requiring systems to effectively manage product quality.

Apparent Opportunities for Canada

Some of Canada’s top agri-food exports to South Korea are subject to very high tariffs and thus stand to benefit from liberalization; for example, currently fresh pork is subject to a 22.5% tariff, frozen pork to a 25% tariff, and canola oil is also subject to a tariff of 8-10%. A trade agreement that eliminated these tariffs over time could substantially benefit our Canadian industries. However, Canada lags behind some of its competitors that already have trade agreements with South Korea in place. Importantly, the Korean-US trade agreement (KORUS) came into effect in March 2012. Canadian exporters will need to catch up with US exporters that have a head start.

THE BENEFIT OF DIALOGUE (KEY QUESTIONS) & FURTHER WORK

A focused dialogue on trade agreements and Canadian agri-food may inspire the need for conducting some deeper investigation (research) on key issues raised in the discussions.

As part of this discussion, a number of key questions emerge. These are illustrated in three linked boxes in the figure below, an Integrated View of Trade, Domestic Policy, and Business Strategy:

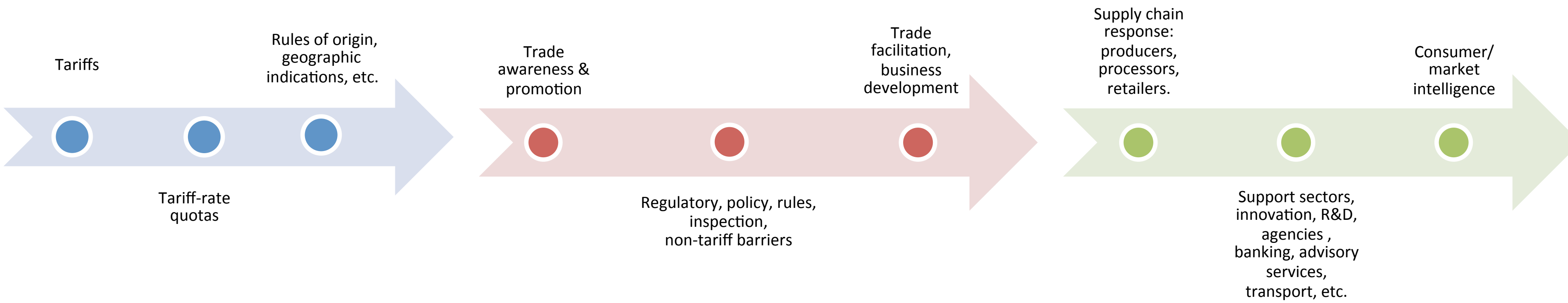
1. Is Canada's agri-food sector ready for the depth and extent of trade agreements being pursued? How or how not?
2. How are we positioning ourselves? Where are the gaps and opportunities (as marked by the following categories in the three boxes)?
    - Foreign/trade policy; strategic negotiating.
    - Domestic policy; understanding foreign country domestic requirements.
    - Private sector investments and supply chain efforts.
        - Once barriers are eliminated, how can we better promote our products to retailers/end-use consumers? What steps do we need to take to do so?
3. What additional, more in-depth analysis of trade agreements, domestic policy adjustments, and agri-food sector adjustments is required?

INTEGRATED VIEW OF TRADE, DOMESTIC POLICY, AND BUSINESS STRATEGY

1. Trade Agreements

2. Country Preparedness

3. Food System Preparedness



Once the Agreement is finalized, this is about the specific and direct terms of the Agreement and its implications for Canadian trade.

Governments respond by promoting the Agreement, helping firms to export (e.g., trade commissioners, etc.) and address domestic issues stemming from the trade initiative. Governments have a role in enabling companies to respond to foreign market and access conditions. This includes understanding and responding to non-tariff barriers; private sector standards – while not set by governments – are part of meeting requirements to do business in a country/region. Actions and dialogue here enable the agri-food sector to act on trade developments.

Individual companies and their supply chains, and related organizations, develop their strategies and plans to compete, respond to opportunities and address new competitive threats. They do so by working across the food system, such as the innovation community, banking, legal advisory services, and many others. Clearly, understanding market opportunity requires insights into consumer segments, trends and behaviours, societal expectations, demographics and retail practices. Actions and dialogue here connect back to how government supports the agri-food sector.

Partners

CAPI expresses its appreciation to its partners for helping to make this project possible.

Bennett Jones

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