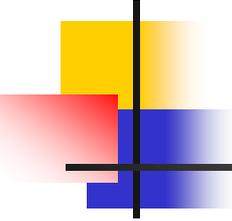


# Golden Opportunities and Surmountable Challenges: Prospects for Canadian Agriculture in Asia

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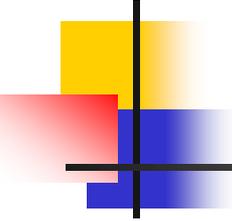
Mike Gifford

# Agriculture : the persistent problem sector of the 20<sup>th</sup> Century



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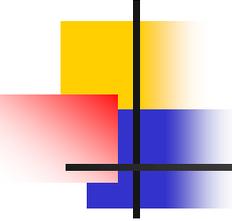
- Decades of declining real prices as supply dominated demand
- Structural surpluses and low farm incomes in developed countries
- Politics of agriculture ensured “special” treatment in trade negotiations
- Ineffectual trade rules allowed increasing distortions up to the 1990's



# Over-supply = production and import controls/export wars

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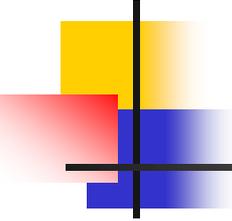
- Proliferation of non-tariff barriers to protect domestic market
- Extensive use of export subsidies to dispose of structural surpluses (export dumping ground mentality)
- Trans-Atlantic agricultural trade wars of 1970's/80's prompted first steps in trade reform (Uruguay Round)



# 21<sup>st</sup> Century - demand begins to dominate

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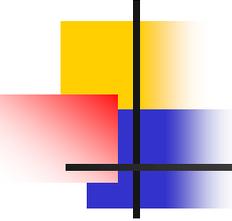
- Agricultural productivity gains begin to decline
- Growth of emerging markets stimulates demand
- Developed country markets stagnant
- Developing countries to account for  $\frac{3}{4}$  of demand growth over next two decades



# Asia's Import Growth: exporters golden opportunity

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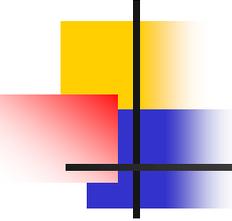
- China to become largest agricultural importer by end of decade
- Reflects population, income and urbanization growth
- Similar pattern throughout Asia as growing middle class upgrades diet
- More diversified and higher value diet; more meat, vegetable oils, dairy products
- More supermarkets, restaurant meals



# Other demand shifters

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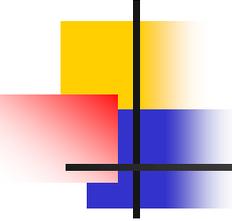
- Reinforcing Asian demand growth is increasing link between food and energy markets, not just fuel and fertilizer cost impacts
- Government support of biofuel production – consequent upward impact on grain and oilseed prices
- Future biofuel influence uncertain – depends on policies, technologies and oil prices



# Asian supply constraints – growing imports

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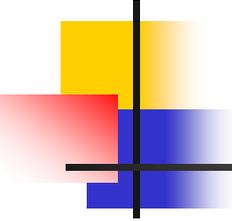
- Agriculture low priority in many countries until recently
- Reflects multi-decade decline in real prices and cheap imports
- Resource constraints (land, soil quality and water), especially China and India



# Increased volatility: more food price spikes

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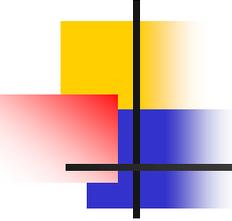
- Prompts social and political unrest in increasingly urbanized economies
- Highlights food security concerns and reinforces self-sufficiency arguments
- Stimulates domestic agricultural support
- Proliferation of export restrictions



# Future prospects – higher but more volatile world prices

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- World population grows from 7 to 9 billion by 2050
- Agricultural output will need to increase by 70 per cent or more
- Demand expected to outstrip domestic supply in key emerging markets, especially for land intensive crops – feed grains and oilseeds



# Who will supply additional demand?

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Depends on:

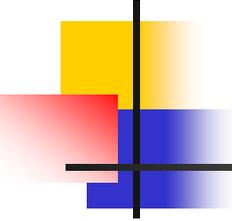
(1) domestic farm policies

(China's subsidies doubled between 2005 and 2008), and

(2) trade policies:

(a) preferential trade agreements

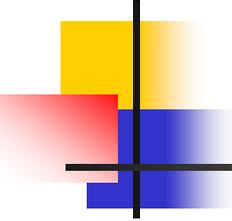
(b) WTO agreements, Doha dead? Re-birth as "China Round" of multilateral negotiations?



# Proliferation of bilateral and regional trade agreements

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- Non-members face major trade diversion risk because agricultural tariffs much higher than industrial
- Major competitors, especially US, EU and Australia, pursuing aggressive preferential trade agenda
- Canada has no option – must be equally aggressive
- Major concern: Trans Pacific Partnership (TPP) and prospective expansion , especially if Japan and Korea join

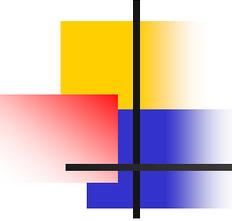


# TPP – Canada and Mexico now included

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NAFTA was state of art trade agreement, TPP will deepen and widen agenda – NAFTA Mark II

- Everything on table but parts of agriculture remain sensitive, especially for Canada AND US.

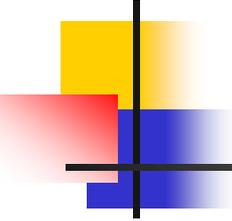


# Canada – adding agricultural complications

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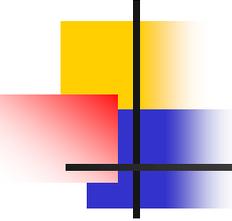
- US, New Zealand and Australia concerned Canada's well known dairy and poultry sensitivities will erode agricultural ambition
- However, US negotiating flexibility far from clear
- US has no fast-track trade authority, sugar and dairy protected and politically powerful
- Likely best case scenario eventual duty free trade for most agricultural products, but sensitive products remain protected, albeit with reduced tariffs and expanded tariff quotas

# Longer term concern – TPP becomes core preferential trade agreement for Asia/Pacific



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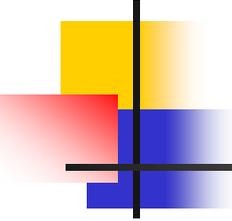
- US wants Japan in even though its agricultural concerns will complicate talks
- Will Japan (and South Korea) join negotiations in 2013?
- Protecting Canada's \$3 billion market in Japan vital – particularly pork, wheat, canola oil
- In meantime Canada and Japan have started bilateral talks



# Canada/Japan bilateral ok as interim measure

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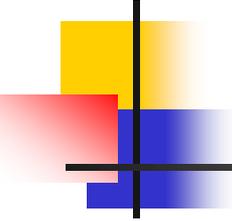
- Main drawback for Canadian agriculture is limited leverage (relative to TPP) to open up Japan agricultural market.
- Advantage of bilateral for Canada is dairy and poultry could be excluded since Japan has no export interest.
- Would there be need for bilateral if Japan joins TPP negotiations?



# Politics of agriculture in Canada

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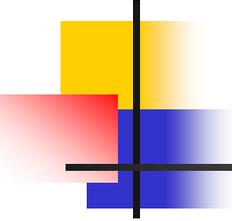
- Supply managed products (dairy and poultry) account for 20% of farm income and 80% of political influence
- SM concentrated in Quebec and Ontario but influential in all provinces
- Up until now protecting SM has not been at expense of rest of farm sector
- Canada/EU trade talks first test



# TPP presents bigger challenge to SM than EU bilateral

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- EU want more access for cheese/protection of geographic names – likely tie to Canada's beef and pork export interests.
- In TPP, US (and NZ) will want more, how much will depend on how far US will go on dairy imports (and sugar)
- In theory new US Farm Bill could accommodate less dairy protection, but US concerns likely to remain in practice<sub>17</sub>

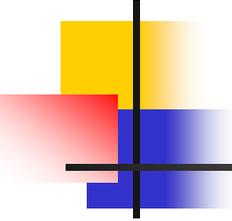


# Most likely TPP scenario

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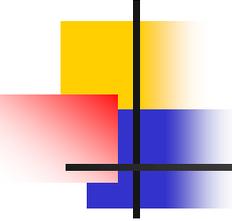
- Most likely: expansion of low or duty free within quota import volumes
- More problematic: reduction of over quota tariffs?
- Greater the impacts, the longer the implementation period
- Greater the import expansion/price impact, greater the need for changes to supply management system – adaption challenge

# Canadian agriculture cannot afford to be locked-out of Asia-Pacific



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- Risk loss of market share in major markets anytime competitors have preferential access
- Domestic growth expected to slow given declining birth rates, emerging markets will account for most of future demand growth
- Canada cannot afford to be at access disadvantage relative to export competitors

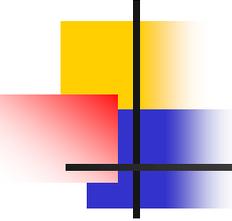


# Canola, Pulse, and Pork sectors illustrate Asia-Pacific potential

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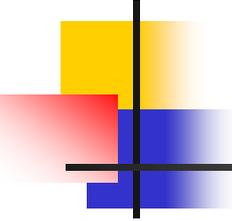
- Canola now largest single source of farm income, larger than cattle, wheat or dairy
- China and Japan canola markets crucial, India great potential
- Canola great example of what happens when government and industry work together, same for pork and pulses

# Great potential in Asia, what required to maximize exploitation?



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- Shared Government-industry export growth vision
- Domestically, need to ensure world class research, transportation infrastructure and health and safety systems
- Trade partners concern is Canada's import barriers not supply management per se
- TPP will likely only require adjustments not elimination of supply management



# Too much dogmatism, not enough pragmatism!

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- Simply asserting supply management must be scrapped is as unhelpful as asserting the status quo must be preserved
- Better to encourage stakeholders to develop a game plan that recognizes that economy-wide benefits of freer trade come at a cost to some sectors and that adjustment assistance may be required
- Unfortunately, no one wants to discuss this until the end-game of the TPP is clear.