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Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada

Future ^{of} North American Market Integration

A Canadian Perspective

Michael Keenan

Presentation to

USDA Agricultural Outlook Forum

February 25, 2005

Canada

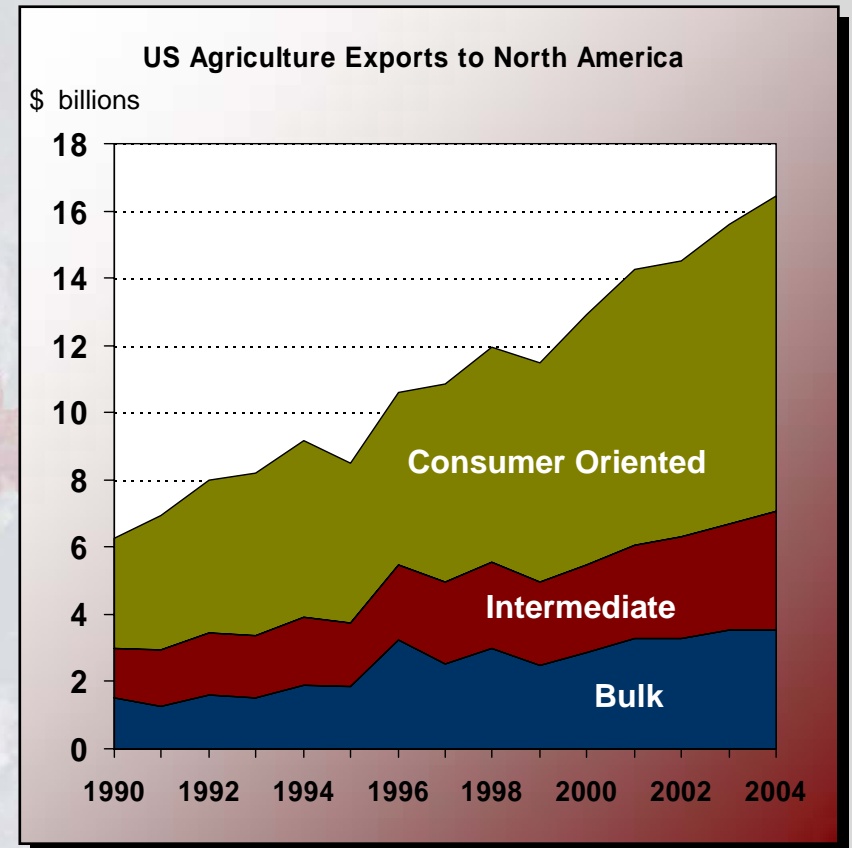
Purpose

- **Outline the benefits of market integration in a broader global context**
- **Highlight challenges to integration and risks of falling backwards**
- **Consider several policy areas where governments could do more to support integration**

North American integration has expanded trade opportunities for industry in all three countries

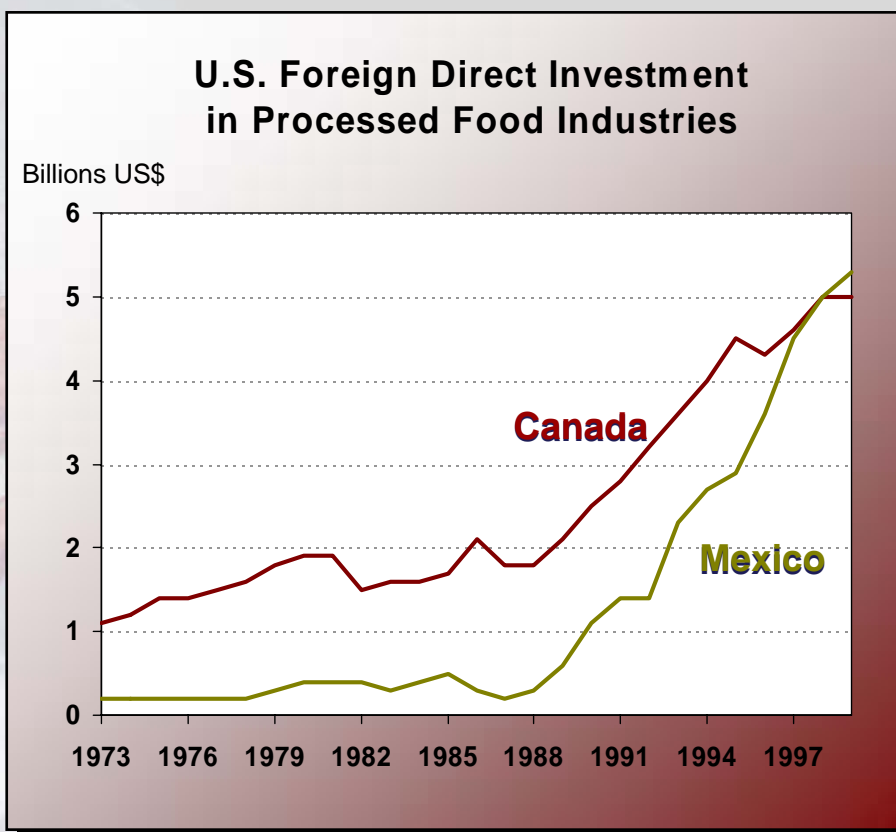
- Following trade agreements, agriculture exports destined to North American market have increased significantly
- Between 1990 and 2004, exports to North America
 - increased 162% for U.S.
 - increased 266% for Canada
 - Increased 141% for Mexico*

* For Mexico: 1990–2003 to the U.S. only.



Industry is building more integrated supply chains...

- Industry increased ownership linkages, as they shifted from national to continental supply chains
- This shift has helped our industries
 - increase efficiency by better exploiting comparative advantage at all stages of food production
 - better respond to customers' shift towards NA-wide procurement
- The result is a more competitive, customer-focused industry



Source: Bureau of Economic Analysis, USDA, ERS.

....that make each of us the most important suppliers, customers to each other

- **Industry moved to an integrated market in a bigger way than most expected**
- **This makes our industries more inter-dependent than ever before**
 - **The rest of North America is most important market for each of us**

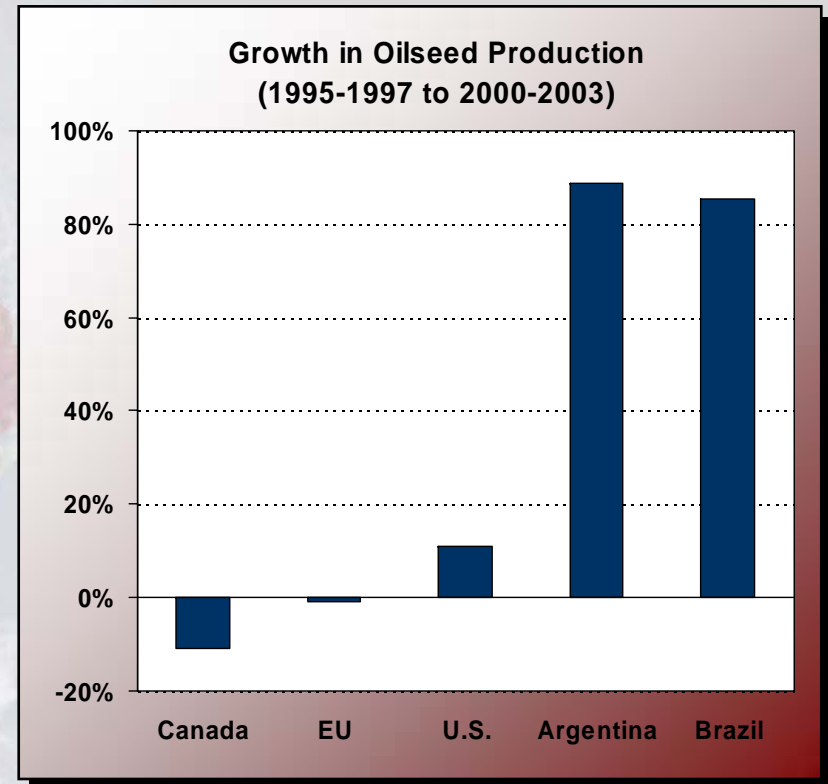
Agriculture and Food Exports to Rest of North America

Average 2000-2004	US\$B	Market Ranking	% of Total Exports
Canada	13.7	1 st	67%
U.S.	17.1	1 st	29%
Mexico	7.1	1 st	85%

Note: 2000-04 avg., with the exception of Mexico, 2000-03 avg.

Integration helps us respond to the growing competitive pressures from overseas

- In all sectors, new economic powers overseas are forcing change
- In agriculture, overseas producers have increased market share in many crops
 - And are positioned to do it in horticulture and meat





But North American integration itself is under pressure

- **Industry has made a big management shift to an integrated market but government less so**
 - Still too many barriers to integration
 - Growing risk of unintentionally moving backwards
- **Ongoing debate on integration that often fails to take into consideration the global economic context**
 - Sometimes dominated too much by narrow interests on all three sides of the North American borders wanting to stop it
 - May undermine our industries' competitiveness just when it is needed the most



Global competition adds urgency to need for better managing risks to North American integration

- **Making progress on long-standing barriers to complete integration**
 - **General border costs (border delays, regulatory differences)**
 - **Trade remedy laws**
 - **Constant possibility of anti-dumping and countervail cases creates added uncertainty around cross-border transactions**
- **And finding a better way to address uncertainty of market access due to safety concerns**
 - **Issues related to animal, plant and human health concerns create risk of complete loss of market access — at any price**
 - **For integrated sector, border closure completely disrupts industry structure**
 - **Growing perception of this risk is creating a possibility of de-integration**

Regulatory differences can impose needless economic costs

- **There are many legitimate reasons for having different regulations and standards**
 - Different risks (e.g. due to environment)
 - Different policy objectives or consumer preferences of different sovereign nations
- **However, some regulatory differences cause needless frictions to trade — and integration**
 - Not needed to achieve different policy objectives
 - More result of different regulatory methods, procedural requirements, historical circumstance

AD and CVD cases on both sides of the border have created many frictions to North American trade...

- **Disputes disrupt trade and increase border costs**
 - Cattle (1987, 1993, 1997, 1998)
 - Wheat (1990, 1993, 1994, 1998, 2000, 2002)
 - Hogs (1985–2000, 2004–2005)
- **Creates an uncertainty about tariff rates that is a dis-incentive against the most efficient, integrated supply chains**

...which make operating an integrated market more difficult

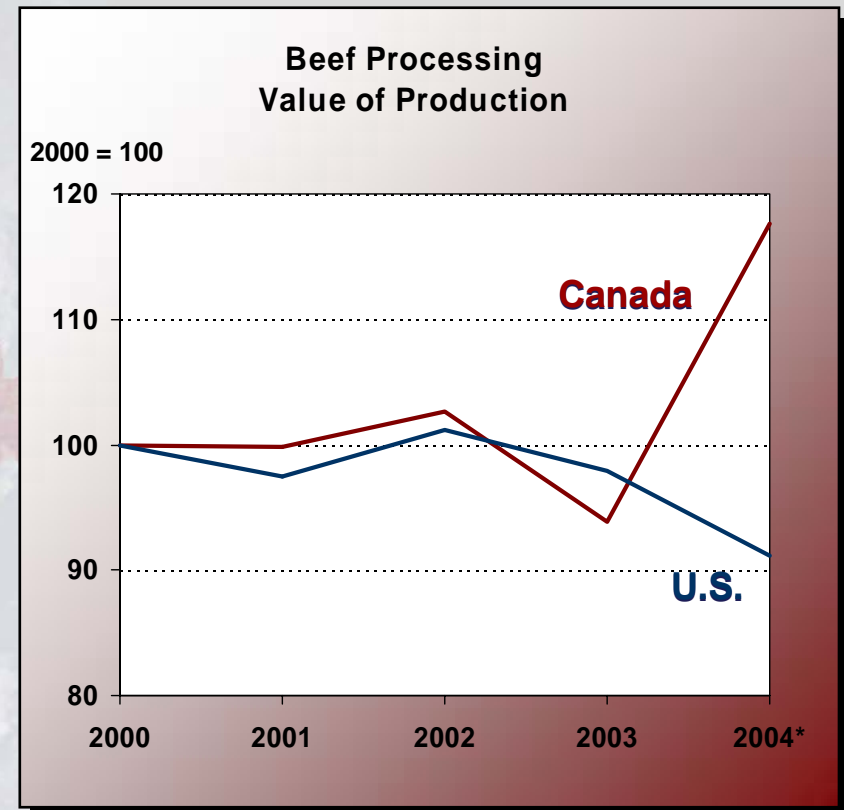


For agriculture, AD and CVD cases are a major challenge

- **In all three countries, agriculture accounts for more than its share of cases**
- **Even the initial filing of AD or CVD petitions can be disruptive, regardless of final outcome**
- **Under current rules, complainants can win countervail case even though they are getting higher subsidies than defendants**
- **Anti-dumping rules do not recognize the reality of economic cycles**

Discovery of an animal, plant or human disease can be highly disruptive

- Prior to BSE, cattle and beef sector had made a very successful shift to integration
- But border closure rendered integrated structure non-operable
- Result is a temporary de-integration
 - Processing is shifting from U.S. to Canada
 - Canada is exporting only meat





This highlights the new risk of unintentional disintegration...

- **Border closure has created a deep disruption to North American beef and cattle sector making it much less efficient**
 - **No longer optimally marketing animals, or beef**
 - **Forcing Canadian plants to pay large overtime bills, while idling some US plants**
- **And weakens our ability to get back in third markets**
- **Created a “chill” effect that may have long-term consequences beyond cattle sector**
 - **New industry perception of market access risks that discourages integrated, efficient supply chains**

...that weakens North America's ability to respond to the competition from overseas



Moving forward with North American integration...

- **For Canada growing recognition that meeting challenge from new global competitors requires a more integrated, efficient North American economy**
- **All three countries face this mutual challenge and may have mutual interest in overcoming barriers to North American integration**
- **Key question: How can we better support our industries' efforts to unlock the potential from North American Integration?**

...to achieve global success

A stylized map of North America is visible in the background, with the United States and Canada highlighted in a light red/pink color. The map is partially obscured by a white curved shape on the left side of the slide.

On border costs, we have some successes to build on...

- **North American Smart Border Initiative**
 - Primarily about border security
 - Also about facilitating trade
 - e.g., Joint program — Free and Secure Trade (FAST)
- **In Canada, developing an agenda for Smart Regulations that may help reduce needless regulatory differences**
 - General focus on considering the broader North American market when making regulations
 - Specific focus on eliminating small regulatory differences that impede growth of North American industry

... but a lot more needs to be done

Can we find ways to improve how trade remedy works within North America?

- **Can we find a way for the dispute process to:**
 - better evaluate the dispute's effects on the broader public interest?
 - replace cost of production methodology with something more economically reasonable?
 - take into account the level of domestic subsidies received by the complainants in the calculations of duties?
- **Current WTO negotiations may fine-tune these rules globally, but is it possible to go further within North America?**
 - e.g., recognize our market is integrated and eliminate AD suits among ourselves
 - Already in place in Canada/Chile, Australia/New Zealand



Can we do more to protect health and security of food system, while protecting integration?

- **Already working to establish more scientifically-based global rules**
 - Canada/U.S./Mexico working together to influence OIE to update guidelines on BSE
- **Is it possible to go further?**
 - Establish protocols, more planning in advance of an incident
 - Promoting great coordination in case of a disease outbreak
 - Build on recent progress:
 - **Potato wart: Second case had a much smaller effect because Canadian and US agencies worked out “what if” scenarios after first case**
 - **Avian Influenza: limited the fall-out through mutual recognition of outbreaks in BC and Texas**

Industry leadership is essential

- **In some ways, industry already ahead of governments on North American integration**
 - **Industry structure, marketing and branding has shifted**
- **Need to encourage industry groups in development of North American strategies**
 - **Coordinated efforts for common grading in fresh produce is one example**
- **Common industry positions will help governments “catch up” on North American integration**

Conclusion

- **As we focus on the challenge of increasing competition from new global players, the benefits of North American integration become more important**
- **At the same time, the risk of losing these benefits has never been greater**
- **We have to work harder and be more innovative to find solutions that support integration**
- **What avenues can we pursue to do that?**