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

U.S. Foreign Direct Investment in Processed Food Industries

![Graph showing U.S. Foreign Direct Investment in Processed Food Industries from 1973 to 1997. The graph displays investment trends for Canada and Mexico.](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 interdependent than ever before
  - The rest of North America is most important market for each of us

<table>
<thead>
<tr>
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<th>Average 2000-2004</th>
<th>Market Ranking</th>
<th>% of Total Exports</th>
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</thead>
<tbody>
<tr>
<td>Canada</td>
<td>13.7</td>
<td>1st</td>
<td>67%</td>
</tr>
<tr>
<td>U.S.</td>
<td>17.1</td>
<td>1st</td>
<td>29%</td>
</tr>
<tr>
<td>Mexico</td>
<td>7.1</td>
<td>1st</td>
<td>85%</td>
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</tbody>
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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

- 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 form North American Integration?

…to achieve global success
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?