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Agriculture and Agri-Food Canada
Agriculture et Agroalimentaire Canada

Future of North American Market Integration

A Canadian Perspective

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Presentation to
USDA Agricultural Outlook Forum
February 25, 2005

Canada

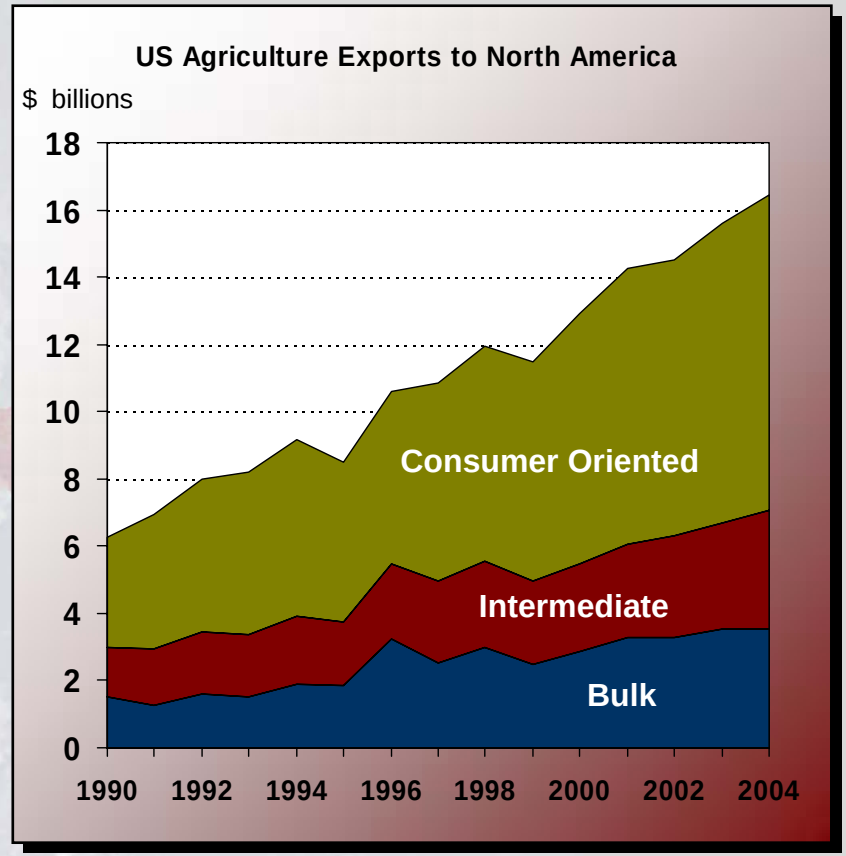
Purpose

- **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**

Canada

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***

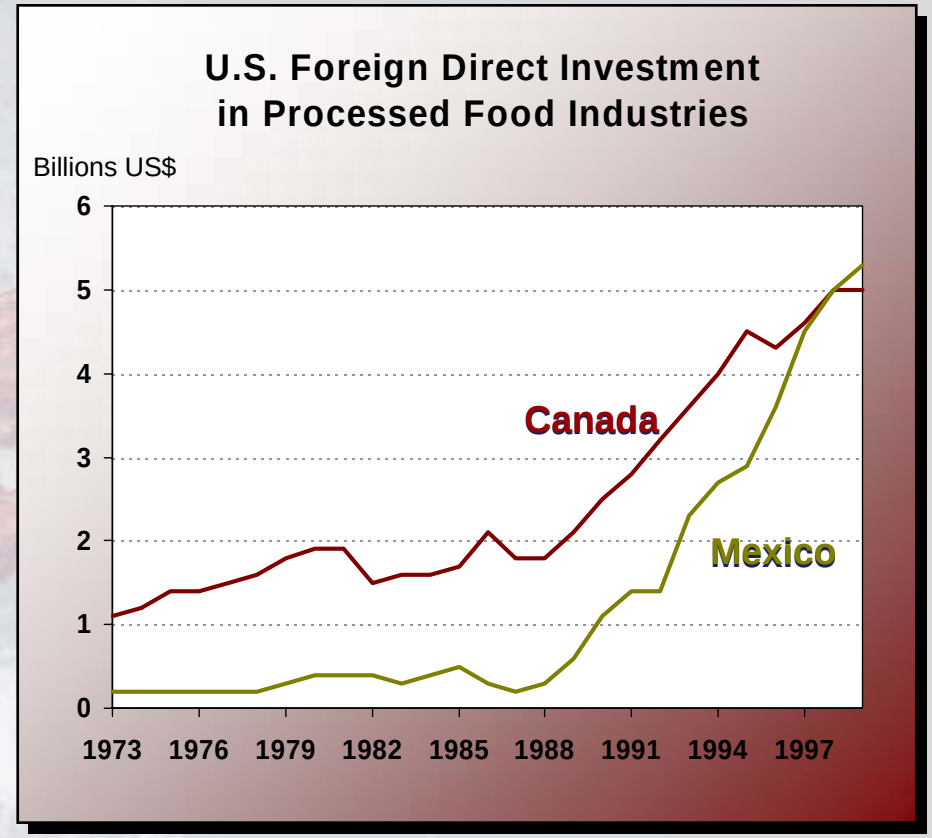


** For Mexico: 1990–2003 to the U.S. only.*

Canada

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.

Canadä

….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	1st	67%
U.S.	17.1	1st	29%
Mexico	7.1	1st	85%

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

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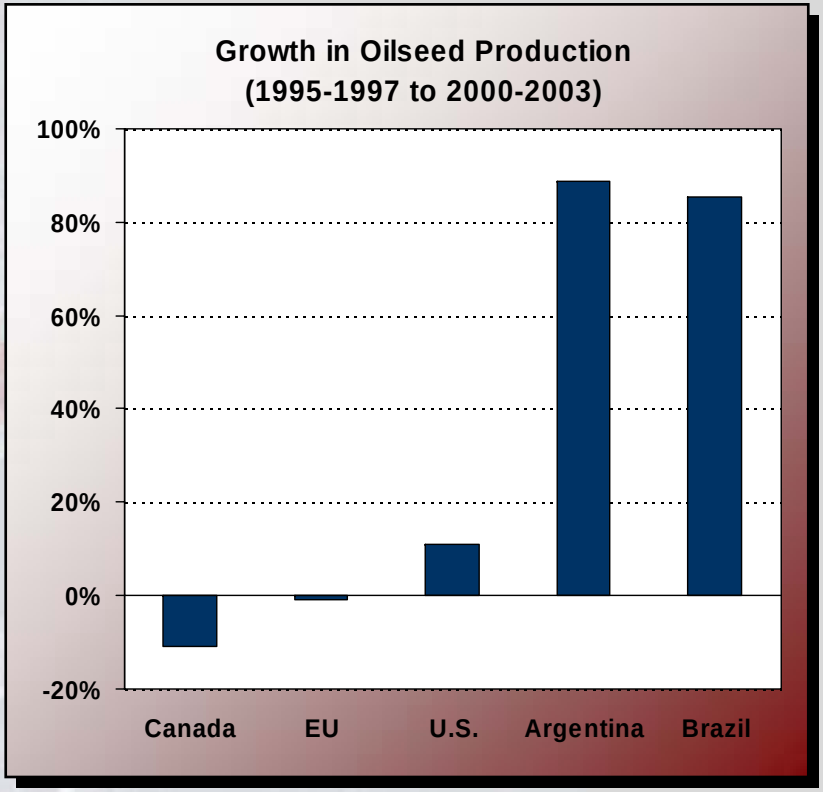
Integration helps us respond to the growing competitive pressures from overseas

- **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**



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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**

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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**

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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**

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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

Canada

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**

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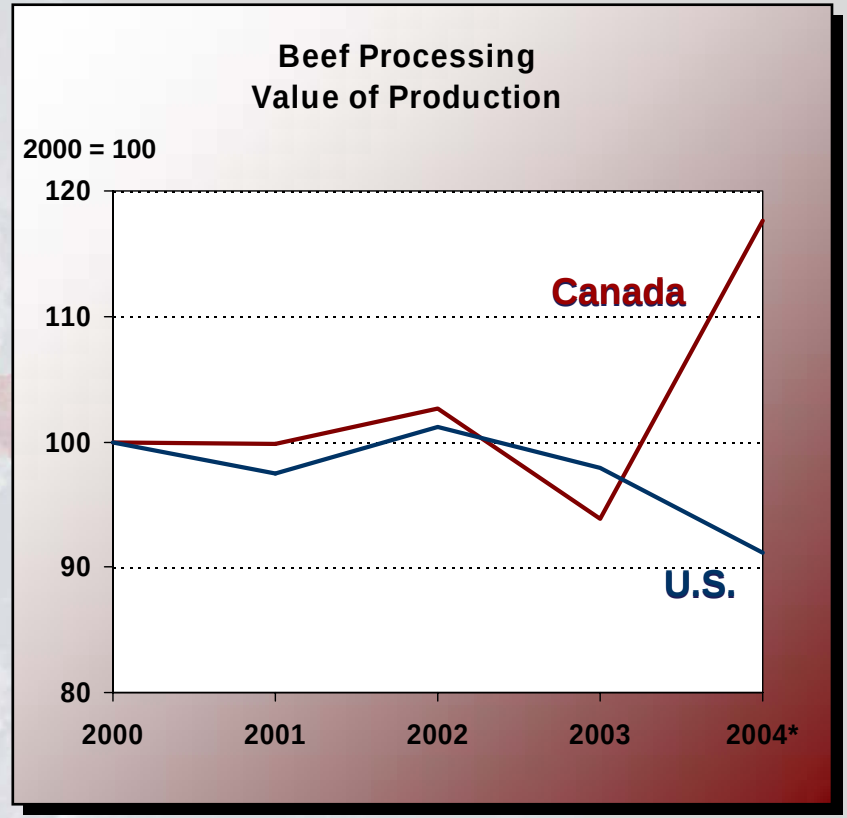
Discovery of an animal, plant or human disease can be highly disruptive

- **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**



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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

Canada

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

Canada

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

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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**

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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**

Canada

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**

Canada

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?

Canada