

# WHAT NOW?

HOW TO INCREASE & DIVERSIFY EXPORTS

## Saskatchewan's export opportunities in Japan



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**Read the report → MORE THAN THE USUAL SUSPECTS:**  
*Western Canadian Export Opportunities to Japan under the CPTPP*

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Saskatchewan's economic wellbeing depends on its ability to trade. With the economy taking a major hit due to the COVID-19 pandemic, it will be vital that Saskatchewan is able to take full advantage of its trade opportunities once the pandemic subsides. Recent trade agreements, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), give Saskatchewan the potential to expand trade through the diversification of products (what it trades) and markets (where it trades). However, realizing the full potential of these agreements requires information that allows exporters and government agencies that assist them to target the full range of new opportunities. This information has not been available at the provincial level and at a level of specificity that is actionable by business, particularly small and medium-sized firms.

New modelling of trade diversion in Japan caused by tariff reduction under the CPTPP now provides this information.<sup>1</sup> An extension to the report *More Than the Usual Suspects: Western Canadian Export Opportunities to Japan under the CPTPP*, this policy brief identifies what Saskatchewan products to target with Japan. Of the 194 tariff-reduced opportunities identified for Canada, only 30 currently exported from Saskatchewan are expected to see gains. Of these 30, only 10 products are expected to see more than US\$100 thousand in total gains with Japan under the CPTPP. The limited number of products identified shows the difficulty of diversification. Tariff reductions in trade agreements are limited to specific products. Export capacity is limited by the characteristics of current exports as well as supporting geography and resources, particularly for agricultural products. Nevertheless, having identified this narrow list of products allows export promotional agencies (EPAs) to focus outreach activities on targeting the right firms to confirm their capacity and export readiness.

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## SASKATCHEWAN'S EXPORT OPPORTUNITIES IN JAPAN

### Digging into the specifics

#### Saskatchewan's export gains with Japan

Figure 2 illustrates some of the largest expected export gains for Saskatchewan with Japan as a result of tariff reduction under the CPTPP. Figure 2 also identifies the potential impact of U.S. competition from the recent U.S.-Japan partial trade deal, effective January 2020. The table is rank ordered from largest to smallest total expected Saskatchewan export gain (Column 2).

Oilseed (HS120510) is Saskatchewan's largest export to Japan, accounting for 63% (or US\$542 million) of Saskatchewan's total export to Japan in 2018. Despite this significance, exports such as canola seeds are excluded from the study as Canada already had zero tariff duty rates on canola seed with Japan prior to the CPTPP.<sup>2</sup> This brief focuses on new opportunities for existing exports where Japan has reduced tariffs under the CPTPP agreement.

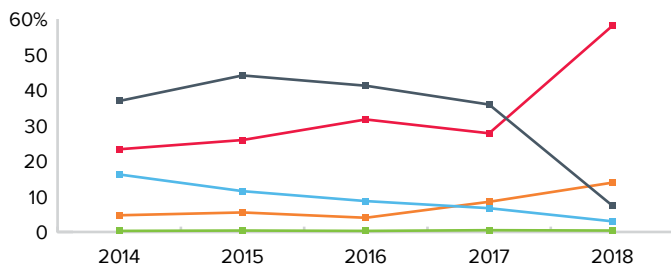
Dried shelled peas expect the largest gains for Saskatchewan with an estimated total gain of US\$48 million (Column 2) from the five-year average (2014-2018) baseline of US\$3 million. This presents significant export opportunities for Saskatchewan as the majority (73%) of Canadian dried shelled peas export to Japan already come from Saskatchewan (Alberta is ranked second with 24%). Under the new U.S.-Japan trade deal, the U.S. received the same tariff provisions as Canada with Japan. However, this may not necessarily be bad news for Canada if Canadian dried shelled peas act as a backfill to the U.S. supplies. If this is the case, the tariff reduction under the U.S.-Japan agreement may benefit Saskatchewan as a result of integrated supply chains. Canada already exports

on average US\$75 million of dried shelled peas to the U.S. – almost 19 times more than sold directly to Japan (compare column 8 with 5). The peas market in Japan has traditionally been very small for Canada. Japan is ranked as the 19<sup>th</sup> largest dried shelled peas market for Canada and 20<sup>th</sup> dried shelled peas import partner for Saskatchewan. Figure 1 shows the change in export market composition by percentage over the last five years from 2014 to 2018. Saskatchewan's export to Japan has been stable at an average of 0.4%. However, given the issues Canada has been facing with some of its largest markets for peas, such as India, the overall tension with China and the recent U.S.-China phase one deal of guaranteed agricultural commitments, the CPTPP agreement presents opportunities and provides a structured rules-based market for peas. Therefore, more market development resources should be made available to target Japan for pulses such as peas.

Two other already highly traded exports, natural honey and oriented strand board (OSB), are expected to see gains of US\$752 thousand and US\$515 thousand. These two products both have better tariff provisions than the U.S., and Canada already exports significantly more than the U.S. to Japan – Canada's five-year average exports to Japan are 123 times and four times more than the U.S. for OSB and natural honey.

Saskatchewan is one of the two western provinces that experience the greatest number of gains in its relatively less-traded exports with Japan. This includes products such as dried shelled adzuki beans, dried shelled kidney beans, linseed oil and crude linseed oil, and fresh or chilled and frozen pork.

**Figure 1: Saskatchewan's dried and shelled peas (HS071310) export to key partners as % of total peas export (2014-2018)**



Source: Trade Data Online, Statistics Canada 2020

	2014	2015	2016	2017	2018
China	23.3%	25.9%	31.7%	27.8%	58.1%
U.S.	4.7%	5.5%	4.0%	8.5%	13.9%
India	36.9%	44.1%	41.2%	35.9%	7.4%
Bangladesh	16.2%	11.5%	8.7%	6.7%	3.0%
Japan	0.3%	0.4%	0.3%	0.5%	0.4%

## Dried shelled peas expect the largest gains for Saskatchewan with an estimated total gain of US\$48 million from the five-year average (2014-2018) baseline of US\$3 million.

For example, while 57% of Western Canada's dried shelled adzuki bean exports came from Saskatchewan, the amount is very small (five-year average export of US\$20 thousand). However, we estimated large potential gains with Japan under the CPTPP (columns 1 and 2). Furthermore, while the U.S. has the same tariff benefits as Canada for adzuki beans under the U.S.-Japan deal, Canada already exports more than the U.S. to Japan (columns 5 and 6). Government agencies such as export promotional agencies (EPAs) need to take these results further by discussing with businesses on the feasibility, capacity and export readiness to meet these projections based on specific industry characteristics such as crop rotation and planting requirements.

Finally, Saskatchewan is expected to be the second largest exporter of crude canola oil erucic acid  $< 2\%$  and canola oil erucic acid  $\geq 2\%$  in Western Canada and in all of Canada, after B.C. The growth in processed canola products is a good example of Canada's changing and expanding export portfolio to Japan.<sup>3</sup> Nevertheless, while these less traded export opportunities have large gains, businesses need to consider whether or not it is realistic and feasible to enter as well as other non-tariff barrier/industry restriction considerations.

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### Policy recommendation

#### Saskatchewan action plan

Canada West Foundation's modelling has narrowed the list of export targets by tariff reduction, identifying new opportunities for highly traded and less-traded exports at a level of specificity that is useful for businesses. This policy brief has further narrowed the focus to identify products that matter for Saskatchewan. To test the usefulness of our results, we consulted with various industries to gain further insights into the feasibility and capacity in export readiness (such as using the U.S. as a proxy) for some of these products as well as the threat of U.S. competition. Dried shelled adzuki beans is one such example. This verification process should be repeated with each opportunity. EPAs should use our results to target the right businesses and consider capacity and export readiness based on industry specific characteristics such as product and industry type and strategy, as well as current supply chain and logistics structures. The results should also save EPAs time and

resources in determining the kind of assistance required, which may differ depending on firm size.

While our study did not include products that do not experience tariff reduction such as canola seeds, this does not mean that canola seeds are no longer important for Saskatchewan. However, the narrowed results allow EPAs to more efficiently and effectively identify the right businesses and develop targeted seminars and outreach programs rather than the "boiling the ocean" approach.

In a *separate policy brief*, we make the case that this dataset needs to be made available through new online tools that allow businesses to directly use and search for specific export opportunities. This would allow EPAs to engage more businesses in an efficient, effective and affordable manner and make the pursuit of smaller volume trade opportunities more viable.<sup>4</sup>

This kind of modelling should be done for other members of the CPTPP beyond Japan, as well as other agreements, to identify export opportunities for Canada. Therefore, as it becomes standard practice Canadian businesses can maintain their first mover advantage.

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### Figure 2

For each product, columns 1 and 3 displays the five-year (2014-2018) average baseline of Saskatchewan and Western Canadian exports to Japan. Columns 2 and 4 are the calculated total expected export gains for Saskatchewan and Western Canada respectively. Columns 5 and 6 compares the historical five-year average (2014-2018) of Canadian exports and U.S. exports to Japan for additional insights on the degree of Canadian export competition with the U.S. for Japan. Column 7 compares Japan's tariff schedule under the CPTPP with the U.S.-Japan agreement to identify products where Canada has the same, better or worse provisions than the U.S. for potential areas of export competition. Column 8 shows the historical five-year average (2014-2018) of Canadian exports to the U.S.

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## SASKATCHEWAN'S EXPORT OPPORTUNITIES IN JAPAN

**Figure 2: Top expected gains for Saskatchewan's exports to Japan** (in thousands of current US\$)

HS6 Code	Abbreviated description <sup>*</sup>	SK Export to Japan Baseline	SK Expected Export Gain	Western Canada Exports to Japan Baseline	Western Canada Expected Export Gain	Total Canada Export to Japan Baseline	U.S. Export to Japan Baseline	Canada vs. U.S. Tariff Comparison <sup>**</sup>	Total Canada Export to U.S. Baseline
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
071310	Dried shelled peas	2,940	<b>47,999</b>	3,952	63,734	4,025	3,306	same	75,064
040900	Natural honey	989	<b>752</b>	9,891	6,939	11,923	3,200	better	40,120
151411	Crude canola oil erucic acid < 2%	732	<b>515</b>	2,018	1,417	2,199	28	better	356,290
441012	Oriented strand board	1,550	<b>515</b>	45,660	13,726	45,672	370	better	1,236,813
071332	Dried shelled Adzuki beans	20	<b>506</b>	35	866	13,143	938	same	1,385
151491	Canola oil erucic acid ≥ 2%	363	<b>183</b>	1,030	450	1,045	326	same	29,800
071333	Dried shelled kidney beans	20	<b>165</b>	59	495	998	1,484	same	13,651
020319	Fresh/chilled pork	33	<b>151</b>	441,353	682,309	609,695	970,231	same if not worse	608,790
020329	Frozen pork	10	<b>125</b>	81,188	405,273	166,655	560,505	same if not worse	117,279
151519	Linseed oil	321	<b>100</b>	2,068	487	2,068	422	better	3,015
151499	Canola oil erucic acid ≥ 2%	248	<b>67</b>	878	204	899	363	same	1,662
071320	Dried shelled chickpeas	342	<b>56</b>	404	66	613	876	same	25,125
090921	Coriander seeds	203	<b>41</b>	205	41	353	5	better	3,408
200819	Prepared nuts	72	<b>35</b>	72	35	371	24,958	same	92,228
151319	Coconut oil	92	<b>31</b>	112	39	112	1,713	same	39,815
071339	Dried shelled beans	114	<b>29</b>	746	187	8,627	7,546	same	49,728
070810	Fresh/chilled peas	255	<b>28</b>	471	50	491	796	same	436
151511	Crude linseed oil	55	<b>17</b>	124	39	124	632	same	1,607
071340	Dried shelled lentils	97	<b>16</b>	106	17	111	274	same	36,335
100290	Rye	142	<b>16</b>	410	45	410	228	same	16,826

\* The names of the products in the tables have been shortened for simplicity. For exact product description, refer to the HS6 codes in the tables.

\*\* For Column 7, refer to *More Than the Usual Suspects: Western Canadian Export Opportunities to Japan under the CPTPP* for specific definition of comparison scenarios.

<sup>1</sup> Dan Ciuriak and Canada West Foundation's modelling has windowed a list of good candidates to increase exports under the agreement.

<sup>2</sup> Refer to *More Than the Usual Suspects: Western Canadian Export Opportunities to Japan under the CPTPP* for detailed inclusion/exclusion criteria of our study.

<sup>3</sup> Ciuriak Consulting. *Canola Market Impacts under Alternative TPP Scenarios*. January 6, 2016.

<sup>4</sup> Dade, Carlo. *Trade (Assistance) Diversification*. Canada West Foundation, March 2020.

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