



WHAT NOW?

HOW TO INCREASE & DIVERSIFY EXPORTS

British Columbia's export opportunities in Japan



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Western Canadian Export Opportunities to Japan under the CPTPP

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British Columbia relies on its ability to trade for economic growth. With the economy taking a major hit due to the COVID-19 pandemic, it will be vital that B.C. 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 B.C. 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.

Scheduled tariff reductions are one of the most obvious approaches to trade diversification. New modelling of the effect of Japan's tariff reductions on Canadian exports under the CPTPP now provides this information at a level of specificity that is actionable by small and medium-sized firms.¹ An extension to the report *More Than the Usual Suspects: Western Canadian Export Opportunities to Japan under the CPTPP*, this policy brief identifies the export opportunities for B.C. with Japan.

Across all Western Canadian provinces, B.C. has the largest number of products expected to see export gains with Japan under the CPTPP. The model shows 171 currently exported products will see gains as a result of Japan's tariff reduction (of the 194 identified for Canada). Of these, 60 products are expected to see increases greater than US\$100 thousand, and 10 of these could see opportunities greater than US\$1 million in total gains with Japan.

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Despite gains from tariff reductions, the limited number of product gains demonstrates that true product diversification is limited by the tariff reductions in trade agreements, and by the capacity and characteristics of experience, geography and resources. Nevertheless, having identified this narrow list of specific products, export promotion agencies (EPAs) can focus outreach activities that efficiently target the right firms and discuss further the capacity and export readiness.

Digging into the specifics

B.C. export gains with Japan

Figure 1 illustrates some of the largest expected export gains for B.C. with Japan as a result of tariff reduction under the CPTPP. It also includes the potential impact of U.S. competition from the recent U.S.-Japan partial deal, effective January, 2020. The table is rank ordered from largest to smallest total expected export gain for B.C. (Column 2).

B.C. sees the largest gains in some of its already highly traded products with Japan. Most of these are non-agricultural products, including: coniferous wood, oriented strand board, chlorate of sodium, unwrought hafnium and germanium oxides/zirconium dioxide, having a total expected gain of US\$80 million. In addition, the province has a competitive advantage over the U.S. for these products. The province already, based on the five-year historical average, exports more than the entirety of the U.S. for all of these identified products (compare Columns 1 and 6). For example, 94% of Canadian coniferous wood (HS44710) exported to Japan comes from B.C. from 2013 to 2017. Additionally, under the U.S.-Japan partial agreement, there are no tariff reduction provisions for these products (Column 7).

B.C. also sees some large gains in the fishery industry including dried fish livers, frozen fish, fresh or chilled Atlantic salmon, frozen Pacific salmon, frozen sockeye salmon, frozen fish livers, sea urchins and frozen herrings. Japan's tariff schedule for the U.S. does not include reductions for any seafood products. Canada already exports more than the U.S. for most of these seafood products except for frozen fish livers, sea urchins and frozen herrings. Japan is Canada's third largest export destination for fish

and crustaceans (HS03). Of the US\$219 million fish and crustacean exports to Japan in 2018, 43% comes from B.C. followed by Nova Scotia and New Brunswick (see Figure 2). Canada should take advantage of Japan's tariff reductions under the CPTPP for the aforementioned products before the U.S. expands the partial agreement with Japan.

Pork – particularly fresh or chilled and frozen pork, and less-traded frozen pork products – is expected to see some of the largest export gains for B.C. with an estimated total gain of US\$125 million or a total growth by 422% (Columns 1 and 2). But pork also faces high competition from the U.S. as the U.S. already exports on average more than Canada (compare Columns 5 with 6) and has now received the same, if not better, tariff provisions than Canada under the new U.S.-Japan bilateral partial trade deal (Column 7, Figure 1). Nevertheless, Canada has gained traction over the U.S. for fresh or chilled pork in Japan. Coupled with the one-year advantage over the U.S. in tariff benefits for fresh or chilled pork and the market strategy that focuses on higher quality, Canada may capture the estimated gains.

Finally, historically less-traded products such as wood parquet flooring, wool sweaters, crude canola oil erucic acid < 2% and builders wood joinery all see potential gains with no threat from the U.S.-Japan trade deal.

Figure 1

For each product, Columns 1 and 3 displays the five-year (2014-2018) average baseline of B.C. and Western Canadian exports to Japan. Columns 2 and 4 are the calculated total expected export gains for B.C. and Western Canada respectively. Columns 5 and 6 compare 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.

Figure 1: Top expected gains for British Columbia's exports to Japan (in thousands of current US\$)

HS6 Code	Abbreviated description [*]	B.C. Export to Japan Baseline	B.C. 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 ^{**}
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
020329	Frozen pork	9,052	68,507	81,188	405,273	166,655	560,505	same if not worse
440710	Coniferous wood	478,287	61,537	507,566	65,481	508,179	113,250	better
020319	Fresh/chilled pork	20,451	54,853	441,353	682,309	609,695	970,231	same if not worse
441012	Oriented strand board	43,902	13,142	45,660	13,726	45,672	370	better
081190	Frozen fruit and nuts	11,426	6,085	11,486	6,119	27,461	14,716	same
282911	Chlorate of sodium	23,666	3,418	23,666	3,418	25,489	13,050	better
030520	Dried fish livers	15,822	2,641	15,867	2,649	15,867	3,880	better
020649	Frozen pork products	108	1,722	9,127	83,153	12,308	26,847	same
030389	Frozen fish	8,553	1,413	8,553	1,413	12,634	164,408	better
190590	Bread, pastry, cakes	2,239	1,232	2,637	1,451	3,218	45,494	same
030214	Fresh/chilled Atlantic salmon	9,820	870	9,821	870	9,888	181	better
030312	Frozen Pacific salmon	6,201	844	6,201	844	6,201	7,325	better
030311	Frozen sockeye salmon	5,931	827	5,931	827	5,931	62,349	better
811292	Unwrought hafnium	10,721	823	10,721	823	10,724	6,256	better
440910	Wood parquet flooring	3,727	806	3,731	807	3,746	2,915	better
282560	Germanium oxides/zirconium dioxide	8,023	791	8,023	791	8,023	5,513	better
090122	Roasted decaf coffee	1,459	736	1,459	736	1,474	2,545	same
030351	Frozen herrings	3,136	652	3,136	652	3,196	18,244	better
611011	Wool sweaters	553	650	553	650	566	1,298	better
070959	Fresh/chilled mushrooms	6,306	634	6,311	635	6,311	1,753	same
210410	Soups and broths	1,885	634	1,906	641	2,088	12,353	same
151411	Crude canola oil erucic acid < 2%	903	632	2,018	1,417	2,199	28	better
030390	Frozen fish livers	5,526	619	5,526	619	13,405	145,980	better
441890	Builders wood joinery (excl. windows)	3,104	618	3,537	704	5,401	11,174	better
020322	Frozen bone-in ham	120	599	2,187	9,844	4,770	2,444	same if not worse
030821	Sea urchins	8,569	594	8,576	595	8,759	24,788	better
293299	Heterocyclic compounds	2,136	433	2,136	433	2,148	8,542	better
621040	Rubberized men's garments	393	390	393	390	509	1,177	better
441899	Builders wood joinery (excl. bamboo)	1,486	342	1,857	426	2,733	6,341	better
040900	Natural honey	406	317	9,891	6,939	11,923	3,200	better
441239	Plywood ≤ 6mm thick	775	314	775	314	775	2,232	better
030391	Frozen fish livers, roes and milt	2,520	297	2,520	297	5,868	206,125	better
761699	Aluminium articles	1,163	285	1,522	373	1,698	50,601	better
151491	Canola oil erucic acid ≥ 2%	667	267	1,030	450	1,045	326	same
030616	Frozen shrimps	7,220	237	7,220	237	14,275	1,341	better

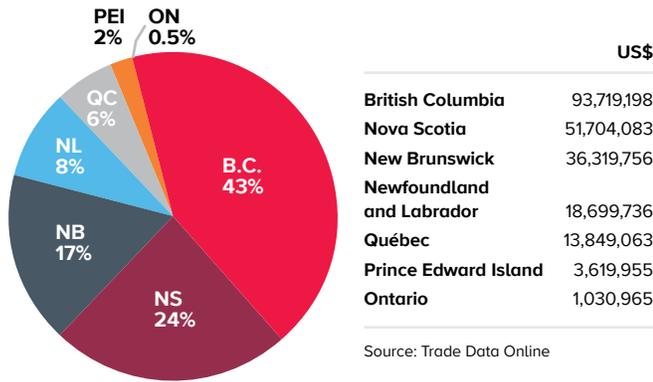
* The names of the products in the tables have been shortened for simplicity. For exact product description, refer to the HS6 codes in the tables.

** 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.

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Figure 2: Canadian fish and crustacean exports (HS03) to Japan by province and territory (2018)



Policy recommendation

B.C. action plan

Canada West Foundation's modelling has narrowed the list of export targets by tariff reduction, identifying new opportunities for both already 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 what matters for British Columbia. To test the usefulness of our results, we consulted with various industries to gain further insights into the feasibility, capacity and export

readiness for some of these products as well as the threat of U.S. competition. The pork industry is one such example. This verification process should be repeated with each opportunity. EPAs should use our results to target the right businesses and take our results further with conversations on capacity and export readiness that considers industry specific characteristics, 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 these products are not important for Canada and for British Columbia. However, the focused results allow EPAs to more efficiently and effectively identify the right businesses and develop targeted seminars and outreach programs rather than "boiling the ocean."²

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.³

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. As it becomes standard practice, Canadian businesses can maintain their first mover advantage.

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

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

³ Dade, Carlo. *Trade (Assistance) Diversification*. Canada West Foundation, March 2020.

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