

Standing Order 108(2), Study on the government's COVID-19 recovery plan for Canadian exporters: changes, federal supports for exporters and trade agreement priorities.

The Canada West Foundation is deeply appreciative of the opportunity to once again appear before the Committee on International Trade to testify on issues of importance to the West and given the outsized role that the West plays in Canadian trade, issues of importance to Canada on the following question.¹

That, pursuant to Standing Order 108(2), the committee undertake a study on the government's COVID-19 recovery plan for Canadian exporters; that this study include an examination of changes to how international trade will be conducted in a world impacted by COVID-19, of what the Trade Commissioner Service is doing to prepare for these changes and help Canadian businesses navigate them, and of which agreements would be in Canada's best interests to pursue at the present time; that the Minister of Small Business, Export Promotion and International Trade be invited to appear; that the Chief Trade Commissioner be invited to appear; that briefs submitted to the committee be no longer than 2,000 words; and that the Committee report back to the House.

Testimony will focus on the second, third and fourth parts of the query – changes to how international trade will be conducted, what the Trade Commissioner Service (TCS) is doing to prepare, and which (new) agreements should Canada pursue.

01 Changes to how trade will be conducted

The most important issue, and a long-standing one, for Canada is with the fundamental element of how trade has been and will be conducted – the movement of goods, people, money and ideas to and from markets. Here Canada faces severe challenges that are not being addressed. In a policy brief published in October 2019, ["Building a Bridge to Trade Opportunities: A long-term approach to trade infrastructure planning"](#) we looked into the decline in Canada's rankings in the World Economic Forum's perception index rankings of competitiveness and reliability of trade infrastructure, falling from being perceived by international customers as having the 10th best trade infrastructure as in 2008-09 down to 32nd today. On the one hand, our customers are telling us that we have a problem. On the other hand, they are not seeing signs that we are aware that we have a problem. While competitors like Australia and the U.K. have developed comprehensive plans and transparent mechanisms to prioritize and coordinate projects into long-term pipelines, Canada still has not indicated whether we will recapitalize our only trade-specific national infrastructure program, the National Trade Corridor Fund (NTCF). Despite supporting the infrastructure that facilitates 67% of Canada's GDP, the NTCF's relatively modest \$2 billion share of the Government's \$188 billion infrastructure budget is now virtually depleted. CWF in partnership with the Business Council of Canada, the Canadian Chamber of Commerce, Canadian Construction Association, Western Roadbuilders, and others have joined forces to develop concrete policy steps for Canada to close the gaps with its competitors. Devoting serious attention to the trade infrastructure challenge is fundamental for Canada. Having market access is useless if you cannot get goods to markets, or worse, customers do not believe you will be able to get goods to market. As opposed to many other trade challenges, this one is fully under our control to solve. This is a major concern for Western Canada. Solving it would be a win for the entire country. Fortunately, policy work on trade infrastructure is a mixed bag. While follow-through on the Canada Transportation Act Review was

¹ The four western provinces are 32% of Canada's population but account for 35% of exports. By contrast, central Canada accounts for 61% of the country's population but only 58% of its exports.

disappointing and the government has not yet announced recapitalization of the National Trade Corridor fund, Canada together with Provincial and Territorial governments have made a public commitment via the Council of Ministers of Transportation to improve the competitiveness of our trade corridors as a national priority. Currently co-chaired by Alberta Minister of Transport McIver, the Council of Ministers has dedicated resources to the issue under the auspices of the Pan-Canadian Competitive Trade Corridor Initiative. Industry and the think tank community are also deeply involved including a coalition of organizations including CWF, the Business Council of Canada, the Canadian Chamber of Commerce, Canadian Construction Association and Western Roadbuilders and Heavy Construction association, Canpotex and others are using seven plus years of CWF research to bring forward concrete policy proposals to improve policies and institutional structures to improve Canada's trade infrastructure performance.

02 What the Trade Commissioner Service (TCS) is doing to prepare

TCS has taken prudent and necessary steps to meet the COVID challenge by moving more services online, transitioning to virtual trade missions and similar steps. However, there is a larger challenge. Overall, Canadian trade export services still tend to be analog in a digital world. The challenge was laid out in another CWF policy brief published in March 2020, "[Trade \(Assistance\) Diversification](#)". Current mechanisms for providing export support services impose significant, especially in person, transaction costs that deter and thwart smaller exporters. Canada has a vast array of support services by region, sector and other attributes that make sense to insider trade practitioners but confuse and frustrate new users and the vast majority of small exporters who export only to the U.S. (and have never needed support services) but are thinking about other markets (where they need support services). An Alberta SME seeking assistance faces up to a dozen different and competing agencies, all of which can provide value – municipal agencies such as Calgary Economic Development; provincial agencies such as the Ministry of Economic Development and Trade, and if the business exports food products, the Ministry of Agriculture and Forestry. At the federal level there are another half dozen agencies. A food processor in Alberta that owns neither a tractor nor a chainsaw would be surprised to discover that there is help available in the Alberta Ministry of Agriculture and Forestry – not an intuitive guess. These upfront friction and transaction costs are disincentives that can stop an SME before it even considers taking advantage of new agreements to export. The policy brief shows how the U.S. International Trade agency has consolidated and brought U.S. export services online to reduce transaction costs for U.S. exporters as a model for what Canada could do. But resolving this issue in Canada will take cooperation from provinces and crown agencies, something that is beyond the paygrade of TCS.

03 On which agreements Canada should focus

Here the priority is simple and straight forward – focus first on increasing the use of existing benefits including expansion of the multi-party trans-pacific agreement, which the [U.K. parliament has begun hearings on joining](#), and salvaging the World Trade Organization and second, on joining other multi-party agreements like the Regional Comprehensive Economic Partnership (RCEP). This means abandoning pursuit of old fashioned bi-lateral agreements such as an agreement with Indonesia. Multi-party agreements allow Canadian companies to build competitive supply and production chains. Bilateral agreements where rules apply only to Canada and the partner country do not. These agreements add to the already confusing array of rules, paperwork, tariff schedules and general confusion that has Canadian companies forgoing use of existing agreements. On the trade negotiation front, priority number one for Canada is to grow the CPTPP. Priority two is working on ascension to the RCEP. Additionally, finalizing an agreement with the U.K. given the size and importance of that market and the post-Brexit reality, would be one exception to the "no more bilateral agreements' rule.

Two final thoughts

First, on the trade infrastructure file, Canada needs to plan now for post-COVID realities around the movement of people. Here the instructive analogy is the transition to the new normal post 9/11. The shock of the attacks made transparent the ongoing threat of terrorism and the need for responses. Initial reactions were fine tuned to adapt as the ongoing nature of the threat became clear. As CWF noted in a *Policy Options* piece in June 2020, with pandemics after learning and quickly forgetting lessons from SARS, it should be clear that this threat, like terrorism, will not simply disappear allowing us to get back to life as we knew it. In 2003, the world saw SARS, in 2009 we had H1N1, then 2014 Ebola and in 2018 it was MERS. Any one of these could have manifested differently and become the pandemic we now face. We need to think now while money and attention are available to start thinking through changes that will be needed. We can take appropriate lessons from the post-9/11 experience in doing so. The North American Strategy Competitiveness group is one regional entity looking at solutions.

Second, on dealing with China, Canada needs a made in Canada policy for engaging and cannot inadvertently default to adapting an American approach as our own. Where our interests align with the U.S., we cooperate. But where our interests diverge and we compete, we need to compete. This should now be clear in the aftermath of the U.S. China Phase One agreement, where the Americans essentially threw Canadian farmers under the tractor. During the NAFTA re-negotiation the Americans warned Canada, through insinuation and hollow threats, to not contemplate engaging China to protect our trade interests. Meanwhile, the Americans were negotiating their own agreement that positioned U.S. farmers to take market share from Canadians. The danger was not in the purchase agreements, which are temporary, but in what former U.S. Trade Representative Robert Lighthizer termed “structural changes to trade” that give U.S. exporters sustained advantage. On issues from security to human rights we have and can continue to cooperate with the Americans. But where our interest diverges, we need to put Canadian interests forward as we have done in the past. Forging an independent path with China while maintaining close security cooperation was a hallmark of the Diefenbaker government. While fighting the Cold War alongside the U.S., Canada was also able to put its foot down on the U.S. undercutting Canada in global grain markets by refusing to abide by a U.S. embargo on grain sales to China. In thinking through contemporary trade relations with a country that has become our second largest trade partner, lessons from the past should not be forgotten. CWF has completed one of the most extensive reviews of Canada’s ag trade with China, which includes a rare analysis of the impacts of the U.S.-China Phase one agreement on Canadian agriculture and lays the basis for new thinking on developing a new policy for engaging China based on convergence of Canadian and Chinese interests.

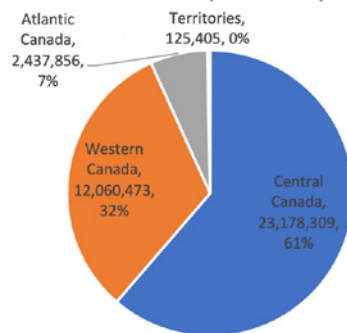
Post COVID trade data of relevance to CIIT study

Overall

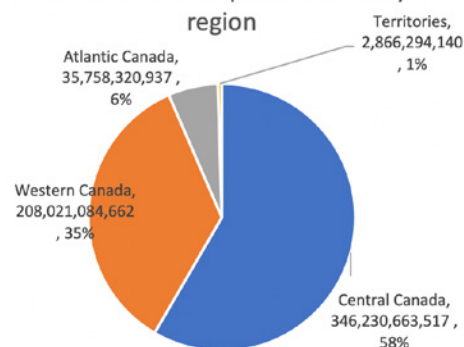
Western Canada accounts for 32% of the Canadian population but accounts for 35% of Canada's total export to the world. This is compared to Central Canada which accounts for 61% of Canada's total population as of 2019 but only 58% of Canada's total export to the world in 2019. In other words, one person in Western Canada is equivalent to CAD\$17,248 of export/output compared to one person in Central Canada is equivalent to CAD\$14,938.

Atlantic Canada accounts for 7% of Canada's population and only 6% of export.

2019 Canadiana Population by region



2019 Canadian export to world by region



Western Canada does not just export mineral fuel. While 51% of Western Canada's export is composed of mineral fuel, the remainder 49% are mainly composed of agricultural exports (34% of the 49% are ag exports).

52% of Canada's ag export to the world comes from western Canada.

Trade with China

China has unilaterally increase more agricultural items to be imported as a result of its food security priorities under the Central Economic Work Conference and Fifth Plenum.

China's General Administration of Customs recently published its "List of Countries/Regions Permitted to Export Grains and Raw Plant-based Fodder to China," which expands the total numbers of permitted grains and tubers to nine and three, respectively.² The expansion of list includes an expansion of both countries to import from as well as the number of items.

But what really concerns Canada on this list? – there are more threats than opportunities for Canada with China under the new list

- Canada will see new levels of competition in *soybeans* – with U.S.-China phase one threat as well as Benin and Tanzania, new countries on the list (that is within China's BRI interest).
- Canada sees new competition for *wheat* – with U.S.-China phase one threat and Lithuania (there's special relationship with specific Eastern European countries with China)
- Barley – new competition from U.S. and Russia

² <https://www.producereport.com/article/china-updates-list-permitted-grain-exporters-shortages-loom>

- *Canola seed meal* – new competition from Russia and Argentina
- *Timothy* – new competition from the U.S. (although Canada currently exports extremely small amount of timothy to the world (less than a few hundred thousand)
- The following items are items in which Canada exports but **Canada is not on China's list**: *Corn* (Mexico newly added, U.S. already there), *feed oats* (U.S. already there), *sweet potatoes* (new item added that only has Laos), *soybean meal* (Russia and Argentina newly added), *Corn distiller* (Bulgaria newly added), *wheat bran*, *wheat flour* for feed (Kazakhstan newly added), other deep processing products such as *soy protein* and *tumor protection protein* (Denmark and U.S. already there).
- Opportunity: *potatoes* is a new item added on the list. While it is only for the U.S., Canada should see increase in potato exports to the U.S. as Canada is a backfill for U.S. global potato exports. This should be particularly true after the U.S.-China phase one.

Note

Green square is where Canada is permitted and where Canada has new opportunities; yellow highlight of the countries are new add-ons countries; yellow square are opportunities that Canada doesn't have with China that we should push for; blue highlight of U.S. is where U.S. competes with us directly

2020 List of Countries/Regions Permitted to Export Grains and Raw Plant-based Fodder to China			2018 List of Countries/Regions Permitted to Export Grains and Raw Plant-based Fodder to China
Types of	species	Accessed countries or regions	Accessed countries or regions
Grain and oilseeds	Soybeans	Canada, Uruguay, Russia, Ukraine, Ethiopia, Kazakhstan, United States, Brazil, Argentina, Bolivia, Benin, Tanzania	Canada, Uruguay, Russia, Ukraine, Ethiopia, Kazakhstan, United States, Brazil, Argentina, Bolivia
	Rapeseed	Canada, Australia, Mongolia, Russia	Canada, Australia, Mongolia, Russia
	wheat	Australia, Canada, Kazakhstan, Hungary, Serbia, Mongolia, Russia, France, United Kingdom, United States, Lithuania	Australia, Canada, Kazakhstan, Hungary, Serbia, Mongolia, Russia, France, United Kingdom, United States
	corn	Thailand, Laos, Argentina, Russia, Ukraine, Bulgaria, Brazil, Cambodia, South Africa, Hungary, United States, Peru (limited to large corn), Kazakhstan, Mexico, Uruguay	Thailand, Laos, Argentina, Russia, Ukraine, Bulgaria, Brazil, Cambodia, South Africa, Hungary, the United States, Peru (large corn only), Kazakhstan, Uruguay
	barley	Australia, Canada, Denmark, Argentina, Mongolia, Ukraine, Finland, Uruguay, United Kingdom, France, Kazakhstan, Russia, United States	Australia, Canada, Denmark, Argentina, Mongolia, Ukraine, Finland, Uruguay, United Kingdom, France, Kazakhstan
	paddy	Russia	Russia

	Sorghum for Feed	Argentina, Myanmar, United States, Australia, Nigeria, Mexico	Argentina, Myanmar, United States, Australia
	Feed peas	Belgium, Poland, France, Netherlands, Hungary, United Kingdom, Myanmar, Japan, India, Vietnam, South Africa, Malawi, Argentina, Canada, United States, New Zealand	Belgium, Poland, France, Netherlands, Hungary, United Kingdom, Myanmar, Japan, India, Vietnam, South Africa, Malawi, Argentina, Canada, United States, New Zealand
	Feed oats	Russia, Finland, United States, Australia, Malaysia, United Kingdom	Russia, Finland, United States, Australia, Malaysia, United Kingdom
Tuber grains	Dried cassava ("slice")	Cambodia, Laos, Tanzania, Ghana, Madagascar, Nigeria, Thailand, Indonesia, Vietnam	Cambodia, Laos, Tanzania, Ghana, Madagascar, Nigeria, Thailand, Indonesia, Vietnam
	potato	United States	
	sweet potato	Laos	
Plant-derived feed materials (dregs, bran and bran)	Soybean meal	South Korea (fermented soybean meal), Taiwan, China (fermented and expanded soybean meal), Russia (meal / cake), Argentina	South Korea ("fermented soybean meal"), Taiwan, China ("fermented and expanded soybean meal")
	Rapeseed meal	Kazakhstan, Pakistan, UAE, Japan, Ethiopia, Australia, Canada, India, Russia (meal / cake), Ukraine (meal / cake)	Kazakhstan, Pakistan, UAE, Japan, Ethiopia, Australia, Canada, India
	Corn distillers	United States, Bulgaria	United States
	Sunflower seed meal	Ukraine, Bulgaria, Russia (meal / cake)	Ukraine
	Peanut meal	Sudan	Sudan
	Beet meal	Ukraine, United States, Egypt, Russia, Belarus, Germany	Ukraine, United States, Egypt
	Rice bran meal (cake)	Thailand	Vietnam, United States
	Palm kernel meal	Thailand (meal / cake), Indonesia, Malaysia	Indonesia, Malaysia
	Palm fat powder	Indonesia, Malaysia	Indonesia, Malaysia

	Cottonseed meal	Tanzania (meal"/shell), Brazil	Tanzania
	Coconut meal	Indonesia, Philippines	Indonesia, Philippines
	Chili-meal	India	
	Olive meal	Spain	
	Almond shell particles	United States	
	Rice bran	Vietnam, United States, Spain	
	Wheat bran	Kazakhstan, Mongolia, France, Serbia, Japan, Malaysia, Singapore, Australia, Indonesia	Kazakhstan, Mongolia, France, Serbia, Japan, Malaysia, Singapore, Australia, Indonesia
	Cassava residue	Laos, Cambodia, Thailand	Laos, Cambodia, Thailand
	Wheat flour for feed	Kazakhstan	
	Other products (deep processing)	Denmark (soy protein), the United States (tumor protection protein), the United Kingdom (palm oil), France (palm oil)	Denmark (soy protein), the United States (tumor protection protein), the United Kingdom (palm oil), France (palm oil)
forage grass	Alfalfa	Bulgaria, Romania, Spain (including particulate), Hasa Kesi Tan (including particulate), Sudan, Argentina, Canada, USA, South Africa, Italy (including particulate)	Bulgaria, Romania, Spain, Kazakhstan, Sudan, Argentina, Canada, United States, South Africa, Italy
	Alfalfa hay blocks and pellets	United States	
	Oat grass	Australia	Australia
	Timothy	Canada, United States	Canada
	Natural forage	Mongolia, Lithuania (silage)	Mongolia
other	Jelly grass	Vietnam	

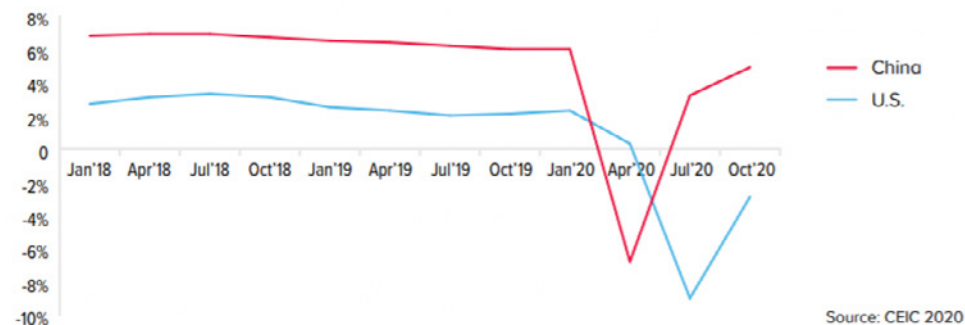
Canada is clearly missing market opportunities from China. It needs to be on the list of some of the aforementioned items. Furthermore, the projections of the size and attractiveness of China's market further emphasizes why Canada NEEDS TO BE THERE AND NEEDS TO PUSH HARDER TO BE THERE.

China's Post-COVID recovery is an indication to where trade is going post-COVID.

These are the facts:

→ China's GDP rose 2.3% in 2020, making China the only major world economy to record gains³

Figure 6: Real GDP growth, % (Jan 2018 to Oct 2020)



→ Furthermore, Canada's agricultural export has already recovered and exceeded 2017 levels

Figure 7: Canada's agricultural exports to China (2015-2020)

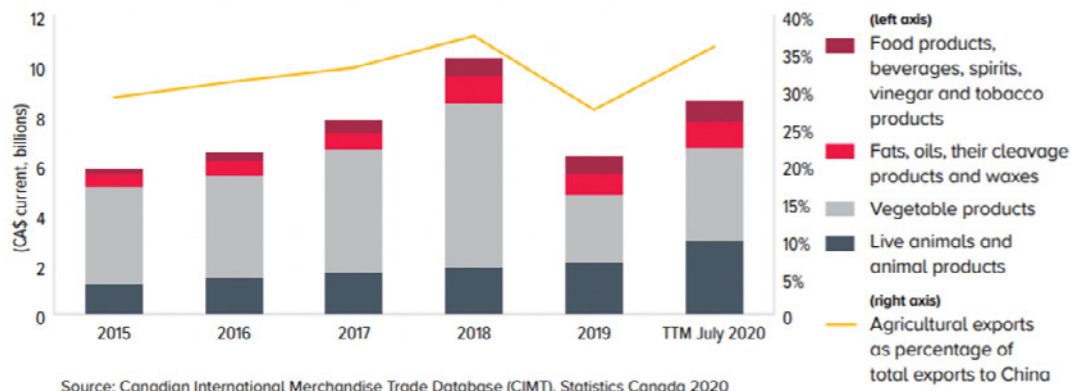
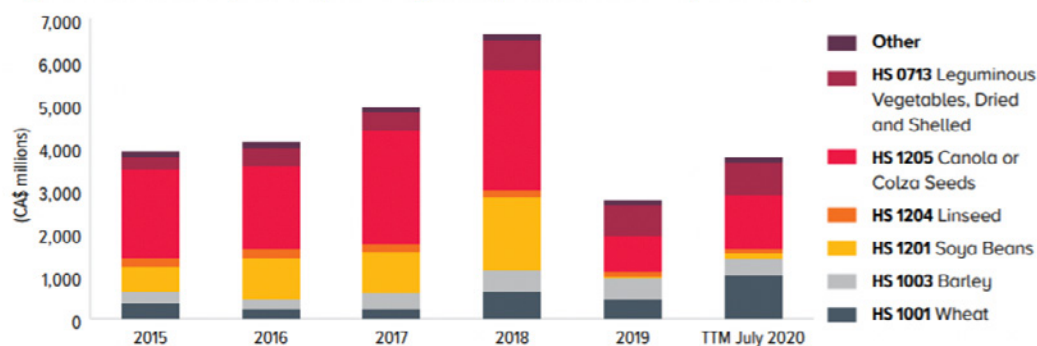


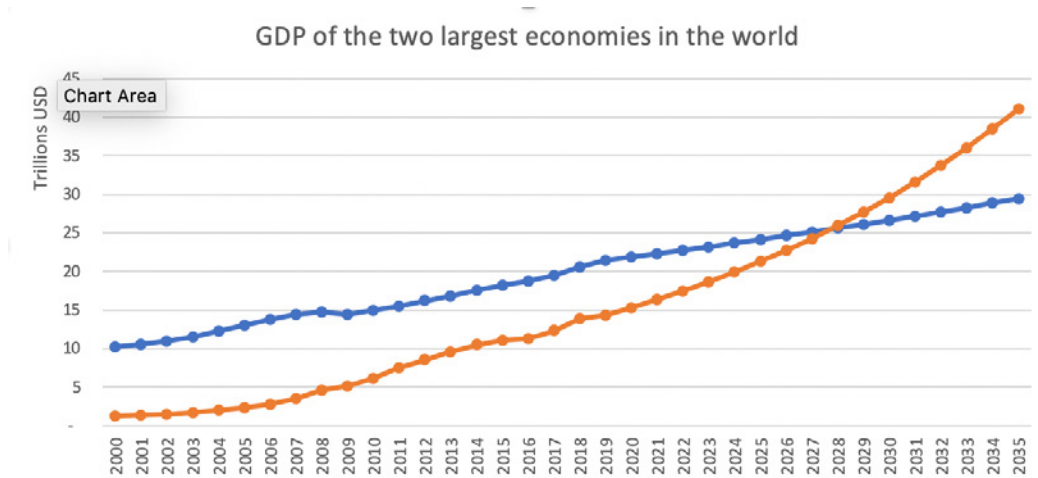
Figure 8: Canada's exports of specific vegetable products[®] to China (2015-2020)



³ https://www.wsj.com/articles/chinas-2020-growth-shows-it-gaining-ground-on-u-s-economy-11610967016?mod=hp_lead_post

China will become the largest economy in the world by 2028 – another indication of where trade is going post-COVID.

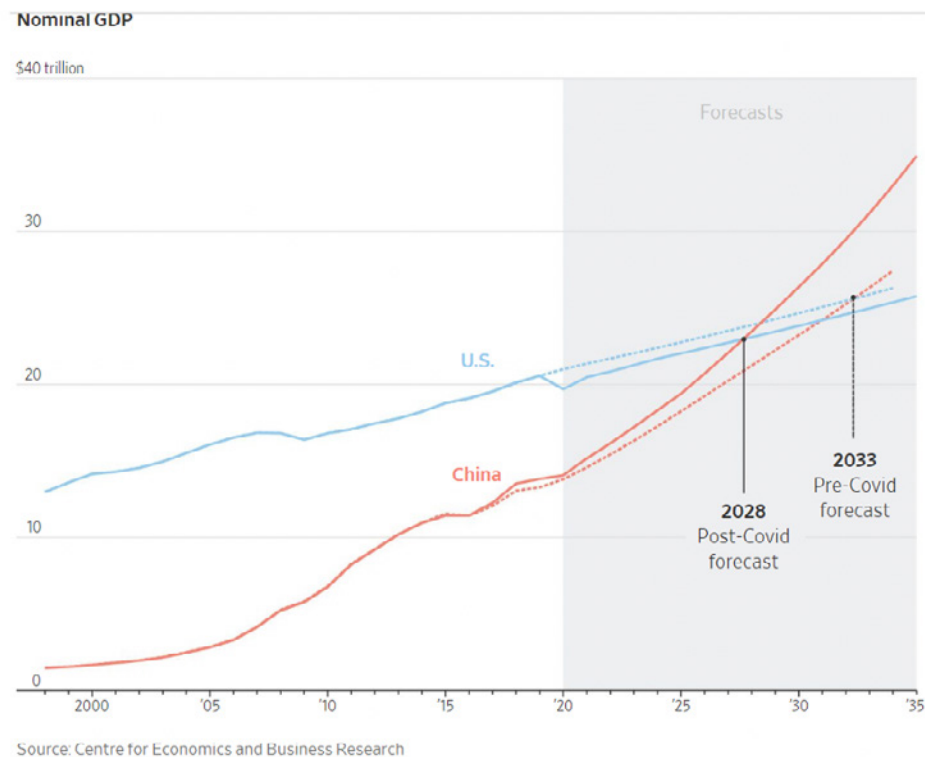
→ This is our inhouse calculation. China's GDP will outperform U.S. by 2028.



Notes

Calculation is based on the compounded annually rate of growth of 2% and 6.8% for U.S. and China respectively. The rate is what the U.S. and China's governments have set for itself.

This is the estimate by Wall Street Journal – THE SAME AS OUR IN HOUSE CALCULATION



China will be the largest consumers in some of Canada's key agricultural exports. These numbers are underestimated and will be exasperated with COVID – another indication of where trade is going Post-COVID

Figure 5: 2028 projections on key agricultural goods consumed by China (thousands of tonnes)

