

Private Sector *Trade Note*

Developing Agribusiness with Canada

STRATEGIC CONSIDERATIONS FOR AGRIBUSINESS DEVELOPMENT IN CARICOM-CANADA NEGOTIATIONS

CARICOM and Canada have agreed to the negotiation of a Trade and Development Agreement. There are some specific sectors that can gain from these negotiations. These agri-food sectors include Rum, ethanol products, liqueurs and cordials, aerated/mineral waters, sauces and baked products as without a replacement to the CARIBCAN, their market penetration may be stymied as high duties become applied on their exports (see table 1).

Whilst some sectors have a strong and organized position, such as Rum, Pork and Poultry, others such as the fisheries sector, spices, herbals and akees have not yet engaged the negotiating

process. All agribusiness firms are encouraged to intensify their lobby efforts towards appropriate positions for not only tariff treatment, but appropriate rules of origin, and even development cooperation proposals. For example, the fisheries sector may propose rules of origin provisions that permit import of let's say tilapia, from an extra-regional market, such as China, for processing (e.g. breeding, seasoning) in CARICOM and then onward export to Canada. Ultimately, the challenge is before the region's "agripreneurs" to engage trade negotiators to assist in crafting a relevant trade agreement for their international business development.

Two rounds of the CARICOM-Canada Trade Negotiations were hosted by the Government of Barbados on November 10, 2009 and March 29-31, 2010. The

next round of negotiations is scheduled for the second half of 2010, and the agriculture sector could intensify its advocacy to ensure that the negotiations represent their international business development needs. There are so much examples of disappointing market penetration for the agribusiness sector in the face of trade agreements. The question is normally raised concerning some key factors which may need to be addressed for the agri-food sector to really stand a chance of building linkages with external partners such as Canada's agri-food sector to enable survival and global competitiveness.

Some strategic considerations impacting Agri-food trade between CARICOM and Canada include: tariffs; sanitary and phyto sanitary measures

(SPS); technical barriers to trade (TBT); trade facilitation (especially as it relates to perishables); trade related subsidies; rules of origin; development cooperation; innovation; and services (temporary work programmes especially as it relates to international movement of farm workers). Developing stronger business linkages, either through investment, services and trade ties, should be one plank upon which agricultural discussions take place with Canada. Below, one will see the approach that Canada takes to some of the same issues that the region is seeking to address to enhance integration into global agri-food value chains. It is being suggested that through these negotiations with Canada, the region should seek to build alliances with Canada's agricultural sector towards adopting a relevant developmental path for the sector.

Comprehensive Agricultural Policy:

Canada is a highly competitive producer of many agricultural commodities, and among the world's largest exporters of agri-food products. Canada provides significant assistance to supply-managed products (which cover dairy products, chicken, turkey, eggs, and broiler hatching eggs), including through the use of high out-of-quota tariffs (frequently exceeding 200%). In-quota volumes are, in some cases, small, reserved to certain countries, or available to preferential partners at reduced tariff rates.

In June 2002, the federal, provincial, and territorial governments signed the Framework Agreement on Agricultural and Agri-Food Policy for the Twenty-First Century (known as the Agricultural

Policy Framework) to enhance the profitability of the agri-food sector. Programmes and services under the Agricultural Policy Framework are grouped into one of the following categories: business risk management (encompassing farm income support programmes), food safety and food quality, science and innovation, environment, and renewal (i.e., advisory and skills development services). As the region embarks on various attempts to address agricultural development, it may be useful to examine the Canadian approach to integrating the provinces in a coherent national agricultural development framework.

Sanitary and Phytosanitary Measures:

Health Canada is responsible for establishing standards and policies governing the safety and nutritional quality of all food sold in Canada. Specifically, Health Canada engages in research, food-safety risk assessment, pre-market review and evaluation of all issues related to food safety and

nutrition, and regulation and registration of pest control products and veterinary drugs used in food-producing animals.

Meat exports are one business possibility with Canada, however this trade is subject to a special approval system. Upon request, the government reviews all pertinent statutes on a country's meat inspection system. If these are deemed equivalent, the Canadian Food Inspection Agency (CFIA) carries out on-site audits of individual meat establishments. So, no individual CARICOM meat exporter can access Canada without the national meat inspection system first getting approval. As CARICOM furthers the establishment of our own CARICOM Health and Food Safety Agency (CAHFSA), it could be instructive to incorporate some development cooperation with the CFIA and Health Canada in the framework of these negotiations where the region holds a little leverage as Canada could seek to enshrine improved market access for its pork, beef and poultry.

State/provincial Marketing boards:

In some provinces, agricultural producer boards regulate the marketing of certain agricultural products, including by setting prices. The Canadian Wheat Board (CWB) has a monopoly on sales for export and for domestic human consumption of wheat and barley produced in Western Canada. The issue of agricultural marketing is one area in which Canada has some success, and the region could seek to be informed by the Canadian experience in marketing agri-food products.



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The agri-food sector is not a major tradables sector for CARICOM. In 2008, CARICOM exporters generated US\$34.3 bn in sales both within CARICOM and to the rest of the world. However, agribusiness exports did not provide a major share of regional exports, as CARICOM agribusiness firms generated only US\$246mn in export sales. As was the case for exports, agribusiness imports represented a negligible share of the total regional merchandise import bill of almost US\$40bn. In 2008, importers of agricultural and agro processed products spent US\$625mn. This also implies that in 2008, the region was a net importer of agricultural and agro processed products spending almost US\$380mn more than was earned from export sales.

At the macro level, CARICOM firms generated more merchandise export revenue from Canada, than the merchandise import spending bill with that country (i.e. a merchandise trade surplus). In 2008, CARICOM merchandise exporters generated US\$1.5bn in export sales, whilst merchandise importers in CARICOM spent almost US\$854mn on imports from Canada. Between 2001, and 2008, the merchandise trade surplus with Canada has actually improved from US\$230mn to almost US\$680mn.

This positive outcome has been a result of export sales growing by over an annual average of 16%, offsetting the 15% average growth in import spending between 2001 and 2008.

While on the macro level the region generated a trade surplus with Canada, the agri-food sector generated a trade deficit with Canada between 2001 and 2008 (see figure 1). In fact, the agricultural trade deficit expanded from



US\$56mn in 2001, to almost US\$150 mn in 2008 signifying a crude loss of trade competitiveness in agribusiness over this period.

In 2008, CARICOM agricultural exporters generated US\$70mn in export sales to Canada, whilst importers in CARICOM spent almost US\$219mn on agricultural and agro processed imports from Canada (see figure 1). For the agricultural and agro-processing sectors, Canadian agricultural exporters are penetrating the CARICOM market at

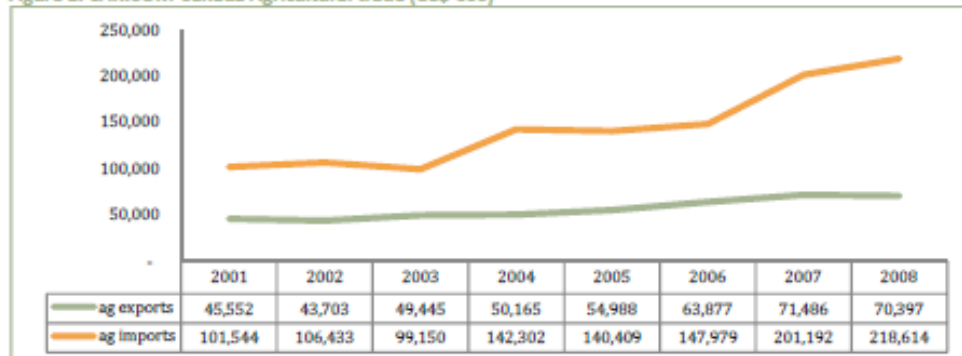
almost twice the rate of the region's agricultural exporters in the Canadian market. Between 2001 and 2008, CARICOM agricultural exporters expanded their annual international sales by 6% on average. However, Canadian agribusiness exporters were expanding their international sales at almost 12% per year between 2001 and 2008.

Between 2001 and 2008, Rum and Tafia has consistently been the top agri-food sector export from CARICOM to Canada. Interestingly, the rest of the world pays a very high tariff on rum of 24.56 cents/litre of ethyl alcohol to access Canada's Rum and tafia market, and as such, and on the assumption of rules of origin qualification, the rum industry may be competing in this market with dependence on the tariff preferences granted by the provisions of the CARIBCAN Rum protocol. Rock Lobster/crawfish, papayas, beer and ethanol round out the top five agri-food sector exports to Canada (see table 1).

Interestingly, 11 of the top 20 agri-food sector exports to Canada could be dependent on CARIBCAN provisions for a preference margin, meaning that without the CARIBCAN, their shipments could experience a higher duty at the border. Rum, ethanol products, liquors and cordials, aerated/mineral waters, sauces and baked products seem heavily dependent on the CARIBCAN for duty preferences (see table 1).

Some dynamic agri-food exports to Canada observed between 2001 and 2008 included vegetables and mixtures of vegetables processes (akees); sweet biscuits; frozen fish fillets (excluding swordfish and toothfish); fresh or chilled fish fillet; rolled oats; yellowfin tunas (fresh or chilled as well as frozen); black tea; uncooked pasta; ethanol; fresh papayas; dogfish; beer; fresh guavas, mangoes, mangosteen; sauces; coffee; fruit and vegetable juices; and sweet potatoes. Firms in these sectors can seek to use the platform of continued duty relief under a successor

Figure 1: CARICOM-Canada Agricultural trade (US\$'000)



Source: International Trade Centre, TradeMAP database (retrieved February 28, 2010)

Table 1: CARICOM's top 20 agri-business exports to Canada in 2008 (US\$'000)

Tariff code	Description	Value in 2001	Value in 2008	AGR	Pref margin ¹
220840	Rum and tafia	12,113	21,684	8.7%	24.56c/ltr/ethyl alc
030611	Rock lobster&oth sea crawfish,frozen in shell/not	6,100	8,335	4.6%	5%
080720	Papaws (papayas), fresh	1,077	6,771	30.0%	0%
220300	Beer made from malt	579	2,841	25.5%	0%
220710	Undenaturd ethyl alcohol of an alcohol strgth by vol >= 80%	156	2,567	49.2%	12.28 c/ltr/ethyl alc
071420	Sweet potatoes, fresh or dried, whether or not sliced or pelleted	1,094	2,385	11.8%	0%
220870	Liqueurs and cordials	2,476	2,368	-0.6%	12.28c/ltr /ethyl alc
030269	Fish nes, fresh or chilled excl heading No 03.04, livers/roes	1,582	2,112	4.2%	0%
071490	Arrowroot,salep etc fresh or dried	1,521	1,868	3.0%	9.5%
210390	Sauces/preps nes and mixed condiments and mixed seasonings	598	1,582	14.9%	9.5%
080450	Guavas, mangoes and mangosteens, fresh or dried	308	958	17.6%	0%
200599	Vegetables and mixtures of veg. prepared or preserved	0	946	n/a	7%
030342	Tunas, yellowfin, frozen excl. heading No 03.04, livers and roes	113	946	35.5%	0%
200899	Fruits&oth edible pts of plants prep/presvd, (inc akees)	1,254	924	-4.3%	0%
220210	Waters incl mineral&aerated,containg sugar or sweeteng matter	655	881	4.3%	11%
030379	Fish nes, frozen, excluding heading No 03.04, livers/roes	958	864	-1.5%	0%
030232	Tunas,yellowfin,fresh/chilled,excl heading No 03.04,livers/roes	17	787	73.0%	0%
190590	Communion wafers,empty cachets &sim prod&bakers' wares	606	774	3.6%	8.47c/kg+6%
030239	Tunas nes, fresh/chilled,excluding heading No 03.04,livers/roes	1,277	680	-8.6%	0.3%
190531	Sweet biscuits	0	621	n/a	2.8%

Source: International Trade Centre, TradeMAP database (retrieved February 28, 2010)

to the CARIBCAN to maintain dynamism in their sectors.

Between 2001 and 2008, wheat has consistently been the top agri-food import from Canada (see table 2). Of the top agri-food imports from Canada between 2001 and 2008, a number of competing imports (i.e. imports which are also produced regionally) were observed, and as such these products could represent some production competition from Canada. Amongst these competing imports are fresh potatoes; pork products; cured bovine products; spices; homogenized prepared vegetables; and non-alcoholic beverages.

Additionally, the most dynamic agri-food sectors observed between 2001 and 2008 included durum wheat; malt, not roasted; dried red beans; sweet biscuits; soya bean oil and its fractions, refined but not chemically modified; live bovines for breeding; vegetable fats and

Readers are invited to suggest topics of interest for future trade notes.

oils; processed vegetables; whey; hams and cuts thereof of swine prepared or preserved; live swine for breeding; and cereal preparations. Firms in these sectors are encouraged to pay attention to the CARICOM-Canada negotiations. This is encouraged because any replacement to the CARIBCAN will be a reciprocal agreement which will imply some amount of tariff liberalization in CARICOM.



Table 2: CARICOM's top 20 agri-business imports from Canada in 2008 (US\$'000)

Tariff heading	Description	Value in 2001	Value in 2008	AGR
100190	Wheat nes and meslin	28,639	82,558	16.3%
030559	Fish nes, dried, whether or not salted but not smoked	519	11,826	56.3%
200410	Potatoes prepad or presvrd oth than by vinegar or acetic acid,frozen	4,715	10,400	12.0%
030542	Herrings smoked, including fillets	1,523	9,087	29.1%
030569	Fish nes, salted and in brine, but not dried or smoked	8,216	7,518	-1.3%
070190	Potatoes, fresh or chilled nes	1,945	7,403	21.0%
021019	Swine meat cured, nes	1,190	6,894	28.5%
071310	Peas dried, shelled, whether or not skinned or split	2,084	5,565	15.1%
020329	Swine cuts, frozen nes	3,097	5,133	7.5%
021020	Bovine meat cured	457	3,679	34.7%
030530	Fish fillets, dried, salted or in brine but not smoked	2,665	3,424	3.6%
020727	Turkey, cuts & offal, frozen	835	3,008	20.1%
020649	Swine edible offal, frozen nes	2,050	2,855	4.8%
091099	Spices nes	84	2,839	65.4%
040210	Milk powder not exceeding 1.5% fat	2,340	2,665	1.9%
110100	Wheat or meslin flour	2,092	2,501	2.6%
100110	Durum wheat	-	2,353	n/a
110710	Malt, not roasted	-	2,152	n/a
200510	Homogenizd vegetables prep/presvd,o/t by vinegar/acetic acid,not frozn	8	2,076	121.2%
220290	Non-alcoholic beverages nes,excludg fruit/veg juices of headg No 20.09	176	2,059	42.1%

Source: International Trade Centre, TradeMAP database (retrieved February 28, 2010)

¹ Preference margin measures the difference in tariffs applied on qualified CARICOM products and the tariff applied on products from countries who do not receive any special concessions from Canada (i.e. the Most Favoured Nation (MFN) Tariff).

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