Canadian Agriculture and Agri-Food in the Global Economy 2013-14

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Introduction

The Canadian economy depends on exports particularly in the agriculture and agri-food sectors, due to Canada's vast natural resources and relatively small population. Renowned globally for producing safe, high-quality agriculture[1] and agri-food products, Canada's low population density, strong trade partnerships and geographic proximity to the United States currently provide key competitive advantages. While the American market is Canada's main export destination, Canadian agriculture and agri-food increasingly look to developing countries where higher economic growth represents new and expanding opportunities.

Challenges in the global marketplace exist however. Canada's three largest trading partners – the United States, China and Japan – face economic uncertainty in 2014. The United States and Japan have low prospects for economic growth, and the future growth of China – Canada's second-highest agriculture export destination in 2012 – is slowing. Throughout the Organisation for Economic Co-operation and Development (OECD), slow growing economies and high debt levels continue to limit prospects for trade growth. At the same time, the expansion of developing economies has recently outpaced OECD countries, a trend that's expected to continue. For these reasons, Canada's trade relations with emerging economies are important to reduce reliance on traditional export markets.

The purpose of this document is twofold: 1) to describe Canada's position relative to the top market economies and competitors in today's global environment; and 2) to identify the trade implications for Canadian agriculture and agri-food industries. Selected countries include BRIC countries (Brazil, Russia, India, and China) and a subset of OECD countries (Australia, Japan, Mexico, the EU and United States). As of July 2013, these selected OECD countries represented approximately 75 per cent of Canada's overall agri-trade. The BRIC countries represented 10 per cent of overall agriculture and agri-food trade, and are both agriculture competitors and a potential source for growth of Canadian exports.

Key findings:

1. In 2011, Canada's agriculture and agri-food economy made up eight per cent of Gross Domestic Product (GDP) and accounted for 12 per cent of Canadian employment.
2. Canada's agriculture economy relies on export markets. Total global net exports accounted for over half of the agriculture economy in 2012 as measured by GDP.
3. In 2012, one-third of Canada's agriculture exports and over two-thirds of agri-food exports went to the United States. The overall Canadian economy depended even more on the United States, as it was the destination for three-quarters of all exports.
4. While growth rates in Canadian exports to these selected OECD countries have slipped, the growth of exports to BRIC countries has taken the lead.
    a. The rate of increase in Canadian export values to emerging economies is slowing, but continues to outpace those to developed economies. Canada's agriculture exports to the BRIC countries grew by 19 per cent year-over-year through August 2013 down from 73 per cent growth in 2012.
    b. China increased its trade with Canada and as of July 2013, was Canada's second-largest export market for agriculture products and third-largest source of agri-food imports.
    c. The value of agriculture exports to the selected OECD nations increased 15 per cent year-over-year through July 2013 following an eight per cent increase in 2012.
    d. If Canadian exports to the United States are excluded, the significance of these OECD countries as importers of Canadian agriculture and agri-food products is considerably muted. Total exports to these specific markets increased by three per cent in 2013, January through July.

[1] Within this document, "agriculture" describes crop and animal production (NAICS 111 & 112); "agri-food" is defined as all food and beverage manufacturing products (NAICS 311 & 312); "agriculture and agri-food" refers to the output of the agriculture and agri-food sectors combined.

Canada's agriculture and agri-food system makes significant contribution to GDP

The overall agriculture and agri-food system[2] was Canada's third-largest contributor to national GDP, accounting for eight per cent of total GDP in 2011. It provided one in eight jobs, employing over 2.1 million people, to account for 12 per cent of total Canadian employment.

Primary agriculture and food, beverage and tobacco processing accounted for 1.6 per cent and 1.7 per cent of employment in Canada respectively. Foodservice was the largest contributor to employment, at 5.2 per cent.[3]

The United States is Canada's most important market

The United States is by far the largest export market for Canadian goods and services. In 2012, 75 per cent of exports went to the United States, with the majority needed to meet American demand for energy. As the largest single-country economy, the United States requires massive volumes of imported energy to sustain its growth.

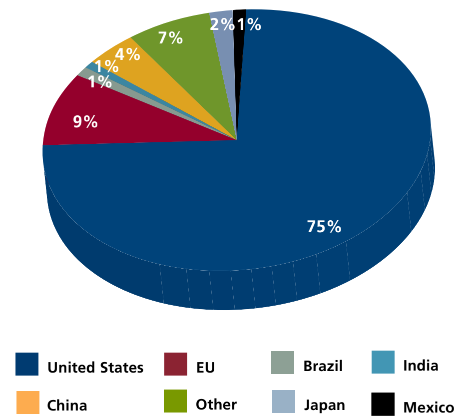
The success of the agriculture economy is less dependent on the United States as an export destination than is the overall Canadian economy. Thirty per cent of Canada's total agriculture economy was exported to the United States in 2012.

Nonetheless, the United States imports more Canadian agriculture products than any other market. In 2012, it imported one-quarter of all Canadian crop exports. Limited by logistical challenges and transportation costs, the vast majority (78 per cent) of Canada's livestock exports also went to the United States in 2012.

The importance of China for Canada's agriculture exports has been increasing and in 2012 it represented the second-largest agriculture market (14 per cent of exports), surpassing Japan. In 2008, China was the destination for five per cent of Canada's agriculture exports.

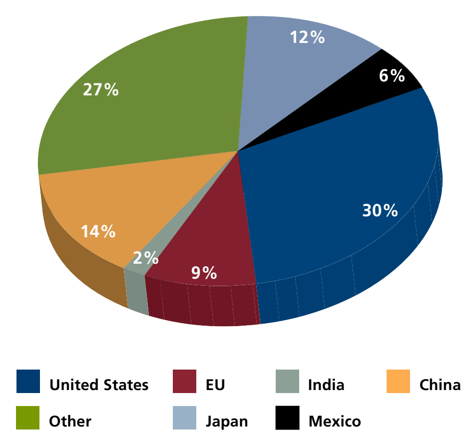
Canada's agri-food exporters show significant exposure to the United States: two-thirds (67 per cent) of all Canadian agri-food exports went to the U.S. market in 2012. Geographic proximity and a close integration of the two economies – in large part due to the North American Free Trade Agreement (NAFTA) – drive this trade outcome.

Total export distribution in 2012



FCC, Ag Economics
Last updated September 30, 2013
Source: Industry Canada, 2013

Agriculture export distribution in 2012



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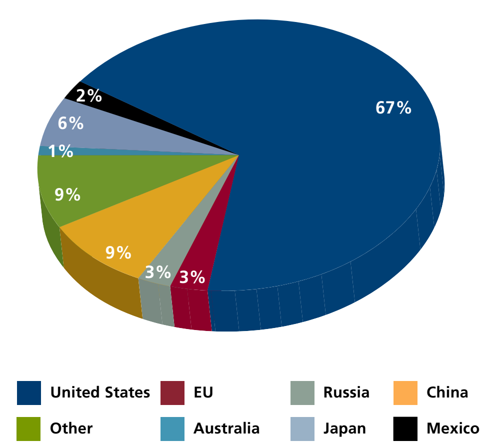
Source: Industry Canada, 2013

Agri-food export distribution in 2012



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Source: Industry Canada, 2013

[2] The overall agriculture and agri-food system includes farm input and service suppliers, primary agriculture, food and beverage processing, food retail/wholesale and food service industries.
[3] From "2013: An Overview of the Canadian Agriculture and Agri-Food System": Agriculture and Agri-food Canada

A shift in Canadian export volumes from the OECD to BRIC

Canada's export growth to BRIC countries has outpaced growth to OECD countries since 2006. Between 2006 and 2012, exports to BRIC countries increased by 336 per cent while exports to OECD countries increased by 48 per cent.

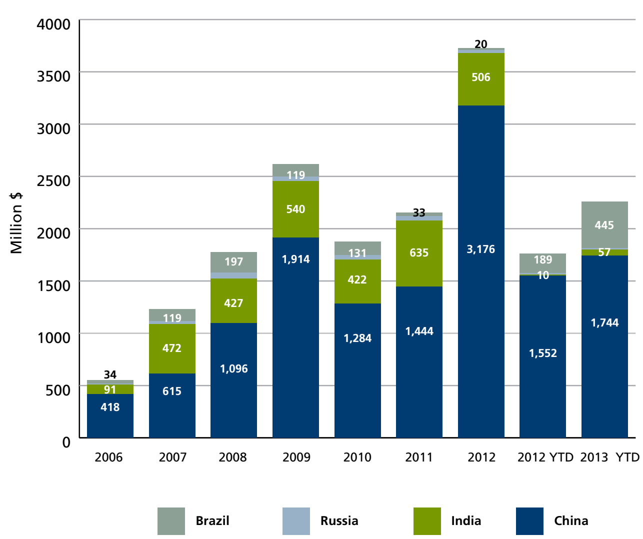
American import volumes of Canadian agriculture and agri-food products have a significant impact on the levels of Canada's overall agriculture and agri-food trade. The recent financial crisis had a major impact on Canadian exports: this was particularly true for exports to the United States.

Prior to the recession, Canada's exports to the United States were valued at a high of $7.8 billion. By 2010, American imports of Canadian agriculture products had fallen 24 per cent from 2008 levels. In 2012, they were still 11 per cent below the 2008 high. The impact of the U.S. decrease in this two-year period was severe, helping to decrease Canada's overall values of agriculture exports by 17 per cent.

In 2012, total Canadian exports were four per cent higher than 2008 values, largely based on the high value of grains and oilseeds and Canada's large crop.

As of July 2013, agriculture exports to the United States increased 24 per cent compared to the same period last year. Agriculture exports increased to the other selected OECD countries by three per cent and 28 per cent to BRIC countries in this same period.

Canadian agriculture exports to BRIC countries



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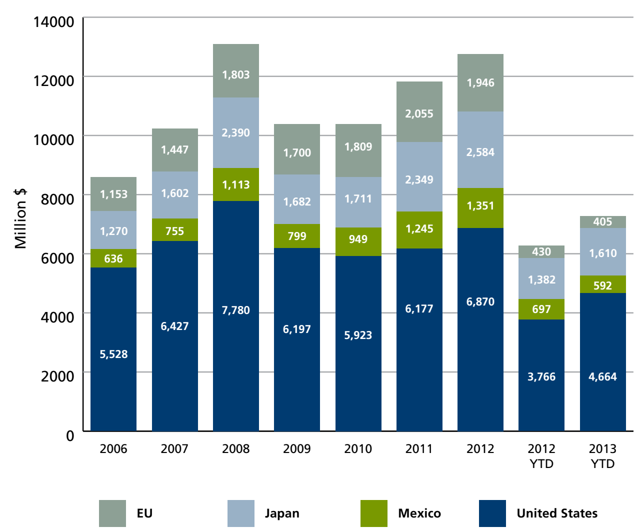
Source: Industry Canada, 2013

Canadian agriculture exports to OECD countries



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Source: Industry Canada, 2013

Free trade agreements (FTAs): Diversifying away from the U.S. market

In October 2013, Canada negotiated the Comprehensive Economic Trade Agreement (CETA) with the EU, the second-largest per capita pork consumer and a potentially larger export market for beef. Access to the red meat market was one of the remaining issues on the negotiation table, as was Europe's desire for greater access to Canadian cheese markets. Canada's early start (2009) to the negotiations is important – as is final approval of the deal – as the EU is looking to establish similar agreements with the United States and Japan. The CETA is projected to deliver a boost to bilateral trade of $38 billion within seven years of implementation of an agreement[4] and would be the biggest trade liberalization pact signed by Canada since NAFTA in 1994.

The Trans-Pacific Partnership (TPP) represents a market of 792 million people and $27.5 trillion in GDP (close to 40 per cent of the global economy). Both Mexico and Canada joined the negotiations in 2012 as relative late-comers. Among others, Canada's pork industry associations regard the TPP as important given that almost two-thirds of Canada's pork production is exported. Access to the major markets represented in the TPP countries that would be acquired through this agreement would help to ensure Canada remains competitive in the growing global demand for red meat.

Currently, Canada is in the midst of developing bilateral agreements with India, Japan and Korea, three important agriculture and agri-food markets (all potential economic gains are estimates supplied by Foreign Affairs, Trade and Development Canada).

Canada already has in force a number of FTAs with small markets (Panama, Jordan, Colombia, Peru, Costa Rica, Chile and Israel). The value of these agreements lies partially in their capacity to reduce tariffs and non-tariff barriers but other benefits to Canada include the further development of trade relations in regions of interest to exporters.

Diversifying exports away from the United States will help ensure more robust Canadian agriculture and agri-food industries. With global exports so important to the Canadian agriculture and agri-food economy, an over-dependence on a single economy is a potential long-term risk. Any event – economic, political or other – that creates a decline in U.S. demand or in prices Canadian producers get can have a detrimental impact on the Canadian economy.

World economic growth is expected to improve in 2014. Fostering new trade agreements and expanding existing trade relationships will continue to strengthen Canadian agriculture.

Country	Launch date	Potential economic gains
India	2010	GDP gains of US$6 billion
Japan	2012	GDP gains of $4 billion
Korea	2005	Based on 2005 Canadian exports of $2.8 billion, potential overall export gains of $1.6 billion

Proximity and productivity: Canadian advantages in agriculture and agri-food exports

In 2012, Canada was the world's fifth-largest exporter of agriculture commodities: the EU was the largest with over US$440 billion of exports, followed by the United States, China and Brazil.

[4] Trade agreement data from Canadian Trade Commissioner Service and Foreign Affairs, Trade and Development Canada, various sites

Canada's competitive advantages: 2012-13

Canada competes for market share in global markets on the basis of the following advantages:

- Geographic proximity to the United States, the largest, single-country economy in the world and Canada's largest export market. U.S. economic growth is mostly driven by consumer spending and closely tied to the success of the Canadian economy.
- Other than the United States, traditional export markets for Canadian crops and agri-food include the EU, China and Japan, the highest value markets available for exporting economies (as measured by GDP).
- Low arable land population density (third-lowest in the world) and a high rate of technological adoption. These factors allow Canada to be a major exporter of wheat, beef and hogs, despite other countries' higher production volumes.
- Canada enjoys a global reputation for producing safe, high-quality foods.
- A slight depreciation in the Canadian dollar over the last year has supported profit margins of Canadian exporters; particularly when compared to products from the EU, China and Mexico (see Exchange Rates on page 9).
- Canada's financial system has always been stable, allowing for a relatively easier response to the recession.

Canada's advantages: world rankings of selected indicators

Indicator	Canada	Australia	EU	Japan	Mexico	U.S.	Brazil	Russia	India	China
Total agriculture exports (world rank)	5	8	1	33	12	2	3	22	11	4
million USD	34,703	26,625	442,334	3,222	17,064	118,805	62,100	5,832	19,933	36,164
Gross domestic product (world rank)	8	9	1	4	10	2	5	6	7	3
current prices trillion USD	1.82	1.54	16.49	5.96	1.18	15.68	2.4	2.02	1.82	8.23
Arable Land Population Density (world rank)	3	1	57	152	54	14	23	7	88	118
density (arable hectares per person)	1.23	2.05	0.21	0.03	0.22	0.50	0.36	0.85	0.12	0.08

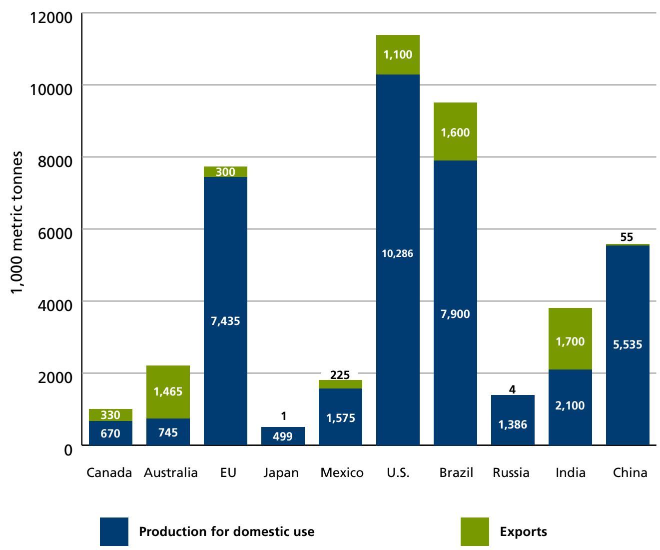
FCC, Ag Economics: Last updated October 2, 2013 Source: IMF and FAO

Canada as major global exporter of primary agriculture: world rankings of cattle, hog and crop exports

Indicator	Canada	Australia	EU	Japan	Mexico	U.S.	Brazil	Russia	India	China
Cattle exports (world rank)	3	5	1	74	2	13	4	50	56	22
head (thousand)	1,089	874	4,603	0	1,261	89	926	1	0	31
per cent of inventory exported	9.0	3.1	5.3	0.0	3.8	0.1	0.4	0.0	0.0	0.0
Hog exports (world rank)	2	24	1	38	36	7	16	19	13	3
head (thousand)	5,761	0	28,852	0	0	24	1	1	3	1,718
per cent of inventory exported	45.1	0.0	19.2	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Crop exports (world rank)	4	6	2	85	19	1	5	9	12	27
metric tonnes (million)	66.9	30.7	168.9	0.0	1.5	243.6	65.2	18.3	4.7	0.5

FCC, Ag Economics: Last updated October 2, 2013 Source: IMF and FAO

Canada a major beef exporter to global markets



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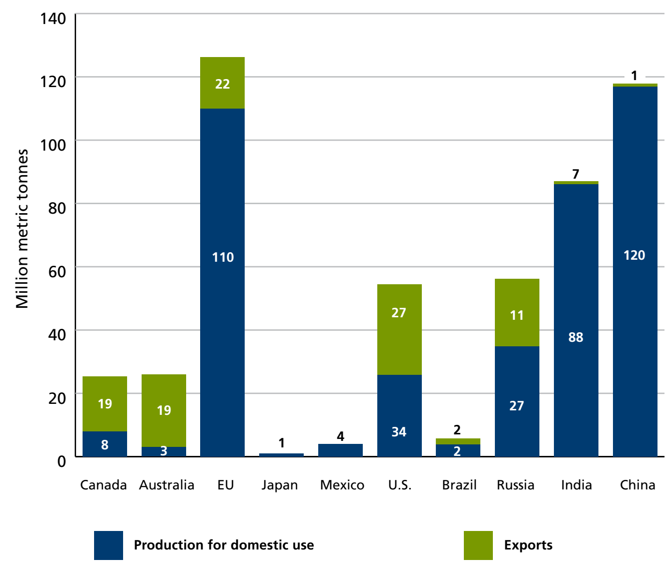
Source: USDA

Canada, Australia tied as world's third-largest wheat exporters



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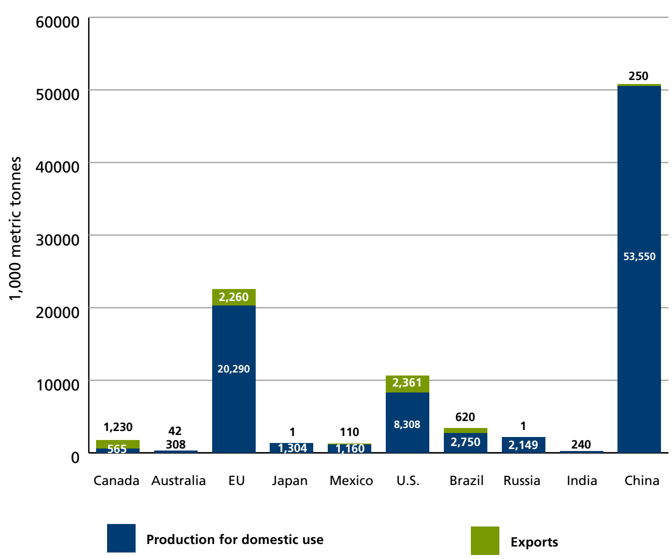
Last updated September 30, 2013

Source: USDA

Canada is world's third-largest pork exporter



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Last updated September 30, 2013

Source: USDA

Canada's competitive challenges

Canada faces challenges in global markets and in its own domestic markets (e.g., cheeses, manufactured foods), as importers vie for Canadians' food dollars.

- Of the selected countries in this study, Canada has the second-smallest population (32nd in the world). This, along with a major scale disadvantage to foreign competitors can create challenges for Canadian companies transitioning from a domestic to a global exporting focus.
- Canada currently has the third-highest unemployment rate, the fourth-highest gross debt as per cent of GDP and the third lowest projected GDP growth for 2013-18. This combination of factors suggests that Canada is not as well equipped to face future economic downturns as other exporters.
- Countries with higher projected growth include some of Canada's most significant agriculture and agri-food competitors: Australia, Mexico, the United States, Brazil and Russia.
- The second-largest country geographically, Canada's land base is the fourth-largest behind Russia, China, and the United States. The proportion of land that is suitable for arable agriculture ranks 33rd worldwide, which means that gains in agriculture production must be mostly derived from productivity increases.
- Compared to the period of 2002-07, Canada's currency has appreciated significantly relative to the U.S. dollar and top world currencies[5] – the Euro and the Mexican peso in particular – making Canadian exports pricier on global markets. The Australian dollar and the Chinese renminbi have increased in value against the U.S. dollar more than the Canadian dollar over the same period.
- The net effect of these changes make Canadian exports more attractive compared to those from Australia, but less attractive compared to European or Mexican exports.
- While the EU and China (pork) and Australia (beef) are major meat consumers, they rely primarily on their own domestic production, limiting Canadian export potential.

Canada's challenges: world rankings of selected indicators

Indicator	Canada	Australia	EU	Japan	Mexico	U.S.	Brazil	Russia	India	China
Population (world rank)	32	46	3	11	12	4	6	10	2	1
million	35.0	23.2	504.5	126.3	117.5	318.5	200.1	142.6	1,275.1	1,390.5
GDP annual growth (2013-2018) (world rank)	131	113	142	150	109	119	92	104	27	10
annual per cent	2.22	3.14	1.75	1.26	3.34	3.01	3.94	3.61	6.55	8.38
Unemployment rate (world rank)	44	22	57	18	20	52	25	31	n/a	15
per cent	7.29	5.24	10.12	4.35	4.80	8.08	5.50	6.00	n/a	4.10
Gross debt as per cent of GDP (world rank)	129	34	132	142	77	136	114	9	113	28
per cent	85.6	27.2	92.9	237.9	43.5	106.5	68.5	10.9	66.8	22.8

FCC, Ag Economics: Last updated October 2, 2013 — Source: IMF and FAO

[5] Top world currencies include: U.S. dollar, Canadian dollar, European euros, Japanese yen, Great Britain pound, Swiss francs, Hong Kong dollar, New Zealand dollar, Australian dollar, South Korean won and Mexican peso.

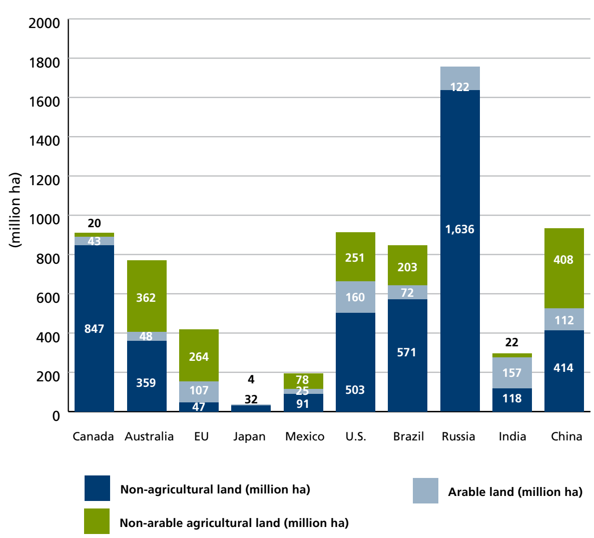
Exchange rates

	Compared to the U.S.		Compared to top world currencies	
	per cent change 2013 YTD to '02-'07	per cent change 2013 YTD to 2012	per cent change 2013 YTD to '02-'07	per cent change 2013 YTD to 2012
Canada	23.5	-2.0	15.0	-0.2
Australia	40.0	-3.4	31.7	-1.9
EU	9.5	2.1	0.7	4.3
Japan	20.1	-16.8	10.7	-16.9
Mexico	-14.9	4.4	-25.0	6.9
United States	0.0	0.0	-9.7	2.0
Brazil	20.8	-5.6	11.0	-3.9
Russia	-8.8	-0.8	-16.5	0.9
India	-19.1	-4.2	-26.0	-2.5
China	30.9	2.1	19.5	3.9

FCC, Ag Economics Updated October 2, 2013

Source: Pacific Exchange Rate Services

Total land area



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Source: FAOSTAT

World rankings of selected indicators

Indicator	Canada	Australia	EU	Japan	Mexico	U.S.	Brazil	Russia	India	China
Per capita beef consumption (world rank)	7	3	32	61	30	2	4	28	141	105
kg per capita	30.90	38.70	15.69	8.80	17.40	39.80	37.90	17.50	1.60	4.80
Per capita pork consumption (world rank)	11	20	2	24	35	8	42	24	121	3
kg per capita	25.70	21.70	39.03	19.90	15.10	30.10	11.70	19.90	0.30	36.70
Cattle meat production (world rank)	10	7	3	19	8	1	2	9	11	4
production (thousand tonnes)	1,154	2,110	8,070	500	1,804	10,331	9,030	1,625	1,087	6,182
Cattle meat production density (world rank)	9	3	27	96	31	10	7	42	150	86
density (kg per person)	33.0	90.9	16.0	4.0	15.4	32.4	45.1	11.4	0.9	4.4
Hog meat production (world rank)	6	19	2	8	9	3	4	5	20	1
production (thousand tonnes)	1,954	343	22,944	1,267	1,202	11,988	3,227	2,428	329	51,535
Hog meat production density (world rank)	3	29	4	40	38	6	26	21	139	7
density (kg per person)	55.8	14.8	45.5	10.0	10.2	37.6	16.1	17.0	0.3	37.1

FCC, Ag Economics: Last updated October 2, 2013

Source: IMF and FAO

Conclusion

To help limit trade exposure to the U.S. economy, Canadian agriculture could benefit from expanding existing trade relationships. Economic growth in developing nations is forecast to be strong relative to the pace of economic expansion of developed economies in 2014.

Canada's agriculture and agri-food economy stands at eight per cent of GDP. Canada is the world's fifth-largest agriculture exporter, the third-largest wheat and pork exporter and the fifth-largest beef exporter. Canada relies heavily on the United States as its main export market. Significant growth in export volumes to BRIC countries is healthy for Canada – that's where future economic growth is predicted and it reduces dependence on the U.S. market.

Canada has a number of FTAs with small markets. The federal government is also working on a number of FTAs, all of which would help lower the overall exposure to the United States.

Canada's dependence on the United States will be difficult to reduce: the geographic proximity to the United States is a competitive advantage, given the size of the American market. Canada's other markets are traditionally strong economies – and with a good reputation, strong trade relationships and high productivity, Canada should continue as a major global competitor. The Canadian dollar has depreciated slightly in 2013 relative to the U.S. dollar, creating more export opportunities, even if only for a brief period.

Challenges exist however. The amount of land available for agriculture production, the scale of production available to Canadian businesses, commitment to self-sufficiency in importing nations and a high Canadian dollar can all serve to limit trade potential.

Economic features of selected countries and implications for Canadian agriculture and agri-food

The next section highlights the current and historic trade relationships Canada shares with a number of high-value export markets and key competitors, and suggests implications for the Canadian agriculture and agri-food sectors. OECD country analyses (in alphabetical order) are followed by BRIC country analyses.

OECD country: Australia

Economic data

Overall economy:

- as of July 2013, a $210-million trade surplus with Canada

In 2012:

- agriculture represented four per cent of GDP
- accounted for less than one per cent of Canada's total trade
- public gross debt-to-GDP of 27.2 per cent

Primary agriculture trade:

As of July 2013:

- a $4.9-million trade surplus with Canada based largely on a 173 per cent increase in Canada's imports of Australia's animal production

In 2012:

- The sixth-largest importer of Canadian pork. Otherwise, it's not a major trade partner, accounting for less than one per cent of Canada's total trade.

Agri-food trade:

- historically, not a significant trade partner with Canada

As of July 2013:

- a $128-million trade surplus with Canada
- accounted for 1.6 per cent of Canada's imports and less than one per cent of exports

Summary and implications for Canadian agriculture and agri-food

The similarities of Canadian and Australian agriculture create less trade opportunity than they do competition for global markets, notably in Japan, the United States and EU, all high-value markets. Canada and Australia are tied as the world's third-largest exporters of wheat; Australia is also the world's third-largest exporter of beef, a position aided by the World Health Organization, which considers it a BSE-free country.

Export markets play the same, important role in both countries' economies as each produces more than can be consumed domestically, especially within the agriculture and agri-food sectors. Both countries have strong food safety requirements and produce high-quality food exports. Each country also exploits well-established trade relationships and geographic proximity to major markets: Australia with China, India and other Asian economies boasting fast growing populations, and Canada with the United States.

Canada has a low population density of two hectares per person (hpp), but Australia has the lowest in the world (18.6 hpp). Australia has more arable land than Canada (2.05 hpp compared to Canada's 1.23 hpp), although some land designated as arable is part of the Australian outback and has low carrying capacity for agriculture.

Australia has other advantages. From January to October 2013, Canada's dollar strengthened relative to Australia's dollar, eroding Canadian competitiveness in export markets. Australia is also a low-cost producer and major exporter of dairy products. As an original member of the TPP, it has influenced negotiations, requiring as a condition to entry a commitment to changes in Canadian supply managed industries. They have also indicated they are willing to remove all agriculture tariffs as part of TPP negotiations.

OECD region: European Union

Economic data

Overall economy:

- as of July 2013, an $11.5-billion trade surplus with Canada

In 2012:

- agriculture represented 1.8 per cent of GDP
- accounted for 8.5 per cent of Canada's exports and 11 per cent of imports
- public gross debt-to-GDP of 92.9 per cent

Primary agriculture trade:

As of July 2013:

- A $415-million trade deficit with Canada, representing a 32 per cent annual decline in Canada's surplus. Canada more than doubled its agriculture imports from the EU compared to the same period last year.
- accounted for five per cent of Canada's exports

In 2012:

- Canada's fourth-largest export market (8.6 per cent) with some of the largest-value beef and wheat exports
- accounted for three per cent of Canadian imports

Agri-food trade:

- historically, one of Canada's top five export markets and the second-largest source of imports by value

As of July 2013:

- a $1.6-billion trade surplus with Canada
- accounted for 2.9 per cent of Canada's exports and 13.9 per cent of imports

Summary and implications for Canadian agriculture and agri-food

The world's largest exporter of agriculture, the EU competes directly with Canada, particularly in the cereal market; however, the EU is generally a net importer, while Canada is major exporter. Close proximity to major wheat importing countries (e.g. Egypt) and long-standing ties with these countries have resulted in strong trade relationships for the EU.

European producers enjoy generous government support for production relative to the support that Canadian producers receive. Common Agricultural Policy (CAP) reforms have resulted in lower European subsidies, encouraging producers to respond to consumer demand and become more efficient.

Border protection in Canada will be a challenging negotiation issue as EU member countries and Canadian provinces still have to approve the Comprehensive Economic Trade Agreement (CETA) signed in October 2013. While Canada seeks greater access for beef, the EU seeks greater access to the dairy industry in Canada, particularly for specialty cheeses.

A bilateral trade agreement would be beneficial for Canada's beef industry. The EU is an important export market for Canada, as consumers are willing to pay premium prices for high-quality products with strong safety standards. However, European consumer demands for hormone-free beef will require changes to a portion of Canada's beef production if exports are to grow. Canada continues to improve transparency and has introduced traceability of livestock to meet growing food safety demands.

The EU benefits from the size of the economy and ability to consume the majority of its production. But as the world's largest aggregate economy, the EU continues to struggle. High debt levels in individual countries, austerity measures and a lack of confidence in financial markets have contributed to low economic growth in most of Europe. These factors, along with high unemployment may limit the potential for growth in Canadian agri-food exports.

OECD country: Japan

Economic data

Overall economy:

- as of July 2013, a $1.8-billion trade surplus with Canada

In 2012:

- agriculture represented 1.1 per cent of GDP
- accounted for 2.3 per cent of Canada's exports and 3.2 per cent of imports
- public gross debt-to-GDP of 237.9 per cent (extremely high relative to developed nations)

Primary agriculture trade:

As of July 2013:

- a $1.6-billion trade deficit with Canada
- Accounted for 11.8 per cent of exports. Canada imported less than $10 million of Japanese agriculture products.

In 2012:

- Canada's third-largest export market (11.4 per cent)
- the third-largest importer of Canada's crop production and sixth-largest importer of animal production

Agri-food trade:

- historically one of Canada's top three export markets
- Canada's import values of Japanese products amount to less than one per cent of imports.

As of July 2013:

- an $812-million trade deficit with Canada

In 2012:

- Canada's third-largest export market (6.4 per cent)

Summary and implications for Canadian agriculture and agri-food

Japan's high population density and low arable land availability (0.03 hectares per person and among the lowest in the world) means Japan is heavily dependent on agriculture imports.

Because of the limited domestic opportunity to meet Japanese consumers' demands for safe high-quality food, Canada's strong relationship with Japan provides opportunity for Canadian producers. Canada's improving record of transparency and introduction of traceability in livestock will limit the likelihood of production issues (e.g., BSE) in Canada disrupting future trade.

While Japan is generally not competitive in world agriculture markets, its domestic producers enjoy border protection in the forms of high tariffs on many products including meat, rice and wheat.

This policy has coloured trade bargaining: Japan joined TPP negotiations in July 2013 and early talk was of protecting national interests in pork and beef through retaining high tariffs imposed on their imports. Of note to Canadian CETA negotiations, Japan and the EU have also begun negotiations toward a bilateral free trade agreement.

Japan has an aging population and has seen public debt reach high levels. Yields on government bonds remain exceptionally low. As the population starts retiring, savings will be lower and the historically large trade and current-account surpluses may erode over time. This could reduce consumers' willingness to pay premium prices for Canadian crop and livestock products.

OECD country: Mexico

Economic data

Overall economy:

- as of July 2013, a $12-billion trade surplus with Canada

In 2012:
- agriculture represented four per cent of GDP
- accounted for 1.2 per cent of Canada's exports and 5.5 per cent of imports
- a public gross debt-to-GDP of 43.5 per cent

Primary agriculture trade:

As of July 2013:
- a $208-million trade surplus with Canada compared to a $21.5-million deficit in the same period last year
- accounted for 4.4 per cent of Canadian exports behind the United States, China, Japan and the EU
- Canada's second-largest source of imports (13 per cent)

In 2012:
- second-largest source of Canada's imports (12 per cent) and fourth-largest export market for Canadian crop production

Agri-food trade:

As of July 2013:
- a $99.6 million trade surplus with Canada

In 2012:
- Canada's sixth-largest export market and fifth-largest source of imports

Summary and implications for Canadian agriculture and agri-food

The success of Canada and Mexico – the first- and third-largest U.S. trading partners, respectively – are closely tied to the U.S. economy. With similar access to the U.S. market under NAFTA, they compete directly in agriculture exports, especially for red meat, fruits and vegetables. Both economies have been negatively affected by the U.S. recession and continue to be impacted by Country of Origin Labelling (COOL) legislation.

Mexico is better positioned to establish trade agreements with Latin American countries, notably Brazil and Argentina. Both Mexico and Canada officially joined negotiations in 2012 to conclude a TPP free trade agreement among the United States and 10 other countries. A changing North American trade environment could emerge. In Mexico, opponents calling for reform have alleged NAFTA negatively impacted the agriculture sector with a loss of labour and wages. It will be interesting to monitor how a TPP agreement will relate to rules and market access commitments brought into force since NAFTA.

Mexico has a higher arable land population density (0.22 hectares per person) than Canada (1.23 hpp). It has more agriculture land available for production, a longer growing season, warmer temperatures and abundant water resources. Mexico is a low-cost producer of many agriculture products including vegetables primarily due to low labour and fuel costs. Their cost of production advantage and a currency that has been relatively weaker against the U.S. dollar than the Canadian dollar since 2002 has made it difficult for Canadian producers to compete on price alone in American markets.

The United States is a net importer of high-quality greenhouse tomatoes, as its growing demand exceeds domestic supply. Mexico has fed most of the growth in U.S. imports, quadrupling export volumes over the last 10 years, while Canada exports about half of its total production to the United States. Despite higher costs of production, Canadian producers are able to compete in these markets where consumers are willing to pay a premium for quality.

OECD country: United States

Economic data

Overall economy:

- as of July 2013, a $62.5-billion trade deficit with Canada

In 2012:
- agriculture represented 1.1 per cent of GDP
- accounted for 74.5 per cent of Canada's exports and 50.6 per cent of imports
- public gross debt-to-GDP of 106.5 per cent

Primary agriculture trade:

As of July 2013:
- A $1.6-billion trade deficit with Canada, a 58 per cent annual increase to the trade balance. Both Canada's imports of U.S. products and exports to the United States increased compared to the same period last year.

In 2012:
- accounted for 30 per cent of Canada's exports and 53 per cent of imports
- Canada's exports to the United States peaked in 2008 and then dropped to a low in 2010. Climbing each year since, 2012 values were still below 2008 values.

Agri-food trade:

As of July 2013:
- a $1.1-billion trade deficit with Canada
- accounted for 69 per cent of Canada's exports and 61 per cent of imports

In 2012:
- accounted for 67 per cent of Canada's exports and 60 per cent of imports

Summary and implications for Canadian agriculture and agri-food

The United States is Canada's largest agriculture and agri-food trade partner. Canada's geographic advantage and well-established trade relationship with the U.S promote Canadian trade with the world's largest single-country economy. As a result of the integration of the two economies, the impacts of the slow U.S. economic recovery (sluggish labour market, a depressed yet improving real estate market and ballooning public debt) limits growth potential for Canadian agri-food exports.

Faced with difficult fiscal challenges, the U.S. federal government will review programs to find potential savings. U.S. farm subsidy programs may be significantly altered under the next Farm Bill, and this could impact the competitive position of U.S. agriculture producers.

In September 2013, U.S. courts threw out an injunction to stop the implementation of COOL legislation. Canada will pursue the matter through WTO and seek the removal of COOL legislation.

Close economic integration and little differentiation of products for export are the basis of strong United States-Canada competition in the agriculture and agri-food export markets. A member of TPP trade negotiations and with the world's third-largest population, the United States is a key global export market. Countries striking trade agreements with the United States not only gain access to the enormous American market, but they also reduce Canadians' preferential access.

The U.S. dollar has depreciated 10 per cent from the 2002-07 average compared to major global currencies, also reducing Canada's competitiveness in major export markets. Financial market conditions such as low interest rates in the United States can make capital expansion there more attractive for both American and Canadian businesses. Canadian companies in the greenhouse and dairy sectors are expanding in the United States due to the size of the market.

BRIC country: Brazil

Economic data

Overall economy:

- as of July 2013, a $425-million trade surplus with Canada

In 2012:
- agriculture represented 5.2 per cent of GDP
- accounted for less than one per cent of Canada's trade
- public gross debt-to-GDP of 68.5 per cent

Primary agriculture trade:

- not a major importer of Canadian agriculture products
- Canada imports mainly Brazilian fruit and tree nut production

As of July 2013:
- a $10.8-million trade surplus with Canada
- Canada's exports to Brazil increased from $9.5 million to $56.7 million (a 494 per cent increase), while Brazilian exports to Canada decreased by 20 per cent compared to the same period last year.

In 2012:
- accounted for two per cent of Canada's imports

Agri-food trade:

As of July 2013:
- a $317-million trade surplus with Canada
- accounted for 2.3 per cent of Canada's imports and less than one per cent of exports

In 2012:
- Canada's third-largest source of food manufacturing imports (tied with China)

Summary and implications for Canadian agriculture and agri-food

Canada and Brazil are major competitors in primary agriculture global markets. The largest economy in South America, Brazil has strong economic relations with the Mercosur* countries. As the second-largest producer of beef in the world and a major exporter, Brazil's cost of production advantage makes it a significant competitor to Canadian beef exports. However, Canada has both a location advantage and a well-established trade relationship with the United States. With a reputation for producing safe, high-quality food, Canada is well-positioned to meet growing global demand for high-quality beef.

Brazil has limited foreign land purchases by implementing a cap of between 250 and 5,000 hectares. These restrictions along with a series of farm strikes impacting Brazilian production could stall the expansion and modernization of Brazilian agriculture.

With similar agriculture land population density as the United States (0.36 hectares per person), Brazil nonetheless faces infrastructural constraints that hinder export potential. Recent improvements in transportation and on-farm storage could have an impact in 2014.

Brazil is one of the world's largest ethanol producers. In 2011, a poor sugar cane harvest and high world sugar prices limited domestic production, prompting Brazil to be a net ethanol importer. In 2012, improved growing conditions and increased ethanol prices boosted production and decreased imports.

** Mercosur countries: Argentina, Brazil, Paraguay and Uruguay; Bolivia, Chile, Columbia, Ecuador, Peru and Venezuela are associate members of the agreement*

BRIC country: Russia

Economic data

Overall economy:

- as of July 2013, a $205-million trade deficit with Canada

In 2012:
- agriculture represented 3.9 per cent of GDP
- accounted for less than one per cent of Canada's trade
- public gross debt-to-GDP of 10.9 per cent, low due to its default on public debt in 1998

Primary agriculture trade:

As of July 2013:
- a $10.2-million trade deficit with Canada
- accounted for less than one per cent of Canada's trade
- Canada's third-largest importer of pork (by volume), Russia's imports of Canadian pork decreased by 66 per cent as of September 2013, compared to the same period last year, in part due to Russia's ban on pork fed with the additive Ractopamine.

In 2012:
- accounted for less than one per cent of Canada's trade

Agri-food trade:

- Historically, not a significant trade partner with Canada. However, growth in Canadian export values started climbing in 2010. In 2011 and 2012, Russia was Canada's fourth-largest, single-country export market (2.6 per cent of exports).

Summary and implications for Canadian agriculture and agri-food

Russia and Canada are not significant bilateral trading partners. They both have large land bases and relatively small populations, and thus have a need to export large proportions of their crop and livestock production. Russia's expanding economy and increasing levels of individual wealth mean higher demand for agriculture and agri-food products but opportunities to expand Canadian agriculture exports to Russia are limited largely to the pork industry.

Canada currently produces more pork per capita than Russia and has strong trade relationships with major importers, particularly Japan. These advantages may be offset if Russia is increasing the size of its hog population to boost domestic production and limit its dependence on imports. Minimizing potential disputes (e.g., ractopamine) will be important if Canada is to expand trade volumes in the future.

Normally a major wheat producer/exporter, Russia often implements export restrictions on wheat to control domestic prices when world production is low. Lower export volumes from Russia provide Canadian producers with expanded opportunities to supply global markets.

Russia is a low-cost agriculture producer due to low labour costs. It also has closer geographic and political ties to China, whose continued economic expansion will support economic growth in Russia. However, infrastructure constraints and the lack of land suitable for agriculture development that has not already been converted into arable land have hampered Russian agriculture growth.

BRIC country: India

Economic data

Overall economy:

- as of July 2013, a $102-million trade surplus with Canada

In 2012:
- agriculture represented 17.4 per cent of GDP
- accounted for less than one per cent of Canada's trade
- public gross debt-to-GDP of 67 per cent

Primary agriculture trade:

As of July 2013:
- a $399-million trade deficit with Canada, a 161 per cent increase in Canada's surplus due to a large increase in Canada's crop production exports compared to the same period last year
- accounted for 3.3 per cent of exports

In 2012:
- Canada's fifth-largest export market (2.2 per cent)

Agri-food trade:

- historically, not a significant trade partner with Canada
- as of July 2013, a $160-million trade surplus with Canada

Summary and implications for Canadian agriculture and agri-food

India is the fourth-largest economy by GDP, the second-largest country by population, and one of the world's fastest growing economies. These factors, along with increasing levels of individual wealth mean increased demand in India for agriculture and agri-food products.

India is the world's largest producer of cereals and milk and the second-largest producer of rice, wheat, sugar, fruit and vegetables. The Indian rupee experienced a strong depreciation against the top world currencies including Canada's dollar in 2013. Combined with a low cost of production, this gives India's agriculture producers an advantage.

Canada has remained competitive on the basis of a stable political and economic situation and a consistent supply of crops that are in high demand in India, a major importer of pulses, edible oils, fertilizers, horticulture products, and processed foods. Pulse crops (peas, lentils and chickpeas) have accounted for more than 95 per cent of recent Canadian agri-food exports to India.

Trade volumes with India can vary dramatically on an annual basis for several reasons. Despite its growing wealth, India's population remains price sensitive and will substitute pulse crops with other crops (e.g., potatoes) if prices dramatically increase. Trade is also impacted by political instability, corruption and food tariff policies that yield market instability, and volatility. Crops largely depend on monsoon rains that create highly variable production cycles. And last, trade taxes are applied and often changed, resulting in different import and export volumes.

Despite these significant hurdles, Canada and India have begun negotiations towards a comprehensive economic trade agreement. Because very little of India's primary production is processed into food products, excellent opportunities for a range of Canadian agriculture and agri-food commodities would be facilitated by a trade agreement.

BRIC country: China

Economic data

Overall economy:

- as of July 2013, a $17-billion trade surplus with Canada

In 2012:
- agriculture is an important component of the economy, representing 10.1 per cent of total GDP
- accounted for 4.3 per cent of Canada's exports and 11 per cent of imports
- public gross debt-to-GDP of 22.8 per cent

Primary agriculture trade:

As of July 2013:
- a trade deficit of $1.65 billion with Canada
- Canada's second-largest export market (13 per cent)

In 2012:
- Canada's third-largest animal production export market, behind the United States and Hong Kong and the second-largest crop production export market
- Canada more than doubled its exports to China since 2011.

Agri-food trade:

As of July 2013:
- a $943-million trade deficit with Canada
- Canada's second-largest export market (nine per cent) and third-largest source of imports (3.3 per cent)

In 2012:
- Canada's second-largest export market and third-largest importer

Summary and implications for Canadian agriculture and agri-food

The Chinese economy is one of the world's fastest growing, though it has recently slowed. It currently boasts the world's third-largest economy and largest population. With large foreign currency reserves and strong economic growth relative to the EU and the United States, China's influence on world politics is increasing.

That influence is shifting patterns of international agriculture trade and foreign direct investment. China recently signed a contract to manage five per cent of Ukraine agriculture land. In mid-2013, a pork processor completed the largest buyout of a U.S. business (Smithfield) by a Chinese firm, illustrating China's desire to expand domestic pork production and import foreign technology and expertise to improve productivity.

China's expanding economy and increasing levels of individual wealth will result in increased demand for agriculture and agri-food products. Canada has a larger beef herd than China and currently exports a much larger proportion of its animal production, allowing producers to capture any future growth in export markets. China's reliance on oilseeds exports is projected to continue growing, also offering opportunities for Canadian producers.

One of the Chinese government's main initiatives is to increase agriculture productivity and reduce rural poverty by improving infrastructure, increasing subsidies, introducing new technology and providing farmers with ownership rights for their land. But as China seeks to increase production and modernize farming techniques, there will be opportunities for Canadian agribusiness to sell expertise, products and genetics into China.

Interested in a particular fact or figure? Contact Martha Roberts at Martha.Roberts@fcc-fac.ca for full reference details.

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