



Agriculture and  
Agri-Food Canada

Agriculture et  
Agroalimentaire Canada

# Future <sup>of</sup> North American Market Integration

*A Canadian Perspective*

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*Presentation to*

*USDA Agricultural Outlook Forum*

*February 25, 2005*

**Canada**

# *Purpose*

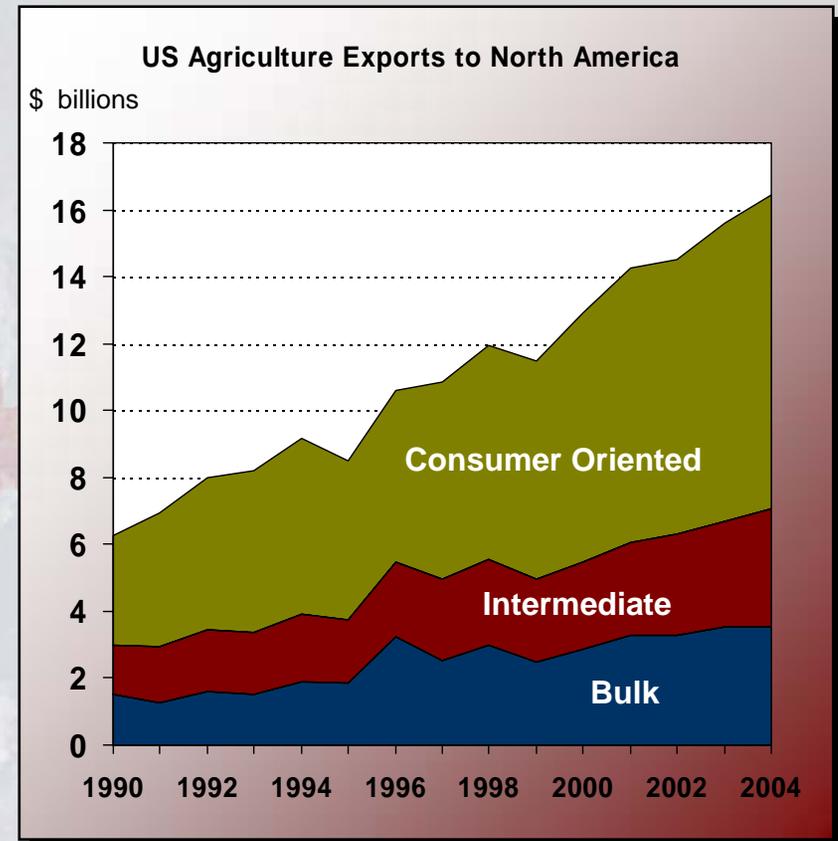
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- **Outline the benefits of market integration in a broader global context**
- **Highlight challenges to integration and risks of falling backwards**
- **Consider several policy areas where governments could do more to support integration**

## North American integration has expanded trade opportunities for industry in all three countries

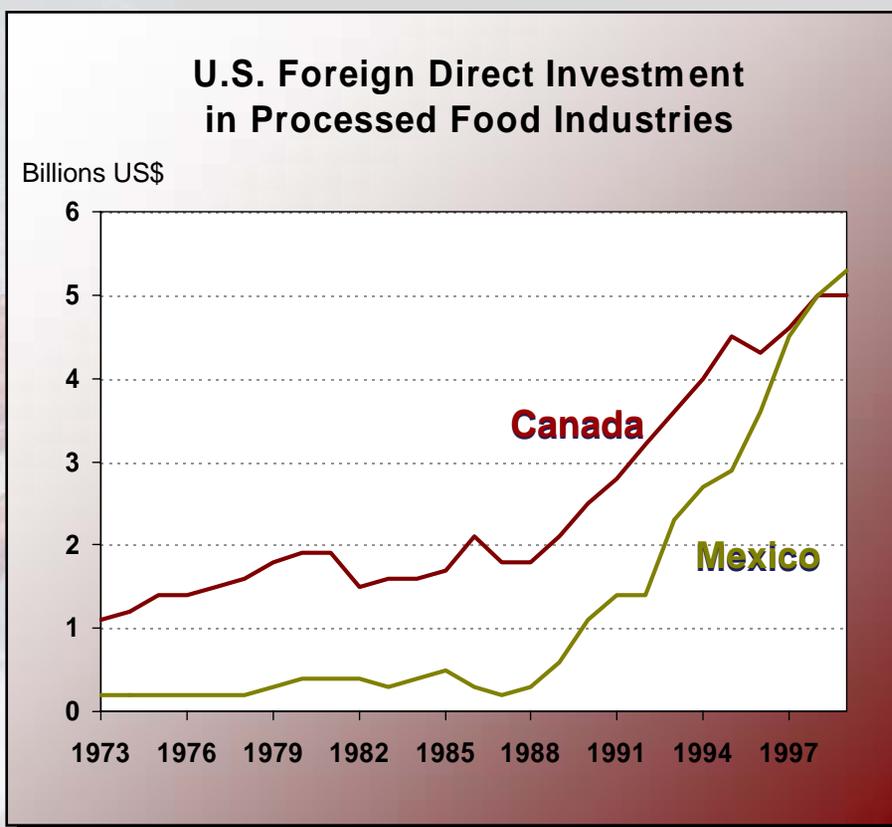
- Following trade agreements, agriculture exports destined to North American market have increased significantly
- Between 1990 and 2004, exports to North America
  - increased 162% for U.S.
  - increased 266% for Canada
  - Increased 141% for Mexico\*

\* For Mexico: 1990–2003 to the U.S. only.



# Industry is building more integrated supply chains...

- Industry increased ownership linkages, as they shifted from national to continental supply chains
- This shift has helped our industries
  - increase efficiency by better exploiting comparative advantage at all stages of food production
  - better respond to customers' shift towards NA-wide procurement
- The result is a more competitive, customer-focused industry



Source: Bureau of Economic Analysis, USDA, ERS.

**....that make each of us the most important suppliers, customers to each other**

- **Industry moved to an integrated market in a bigger way than most expected**
- **This makes our industries more inter-dependent than ever before**
  - **The rest of North America is most important market for each of us**

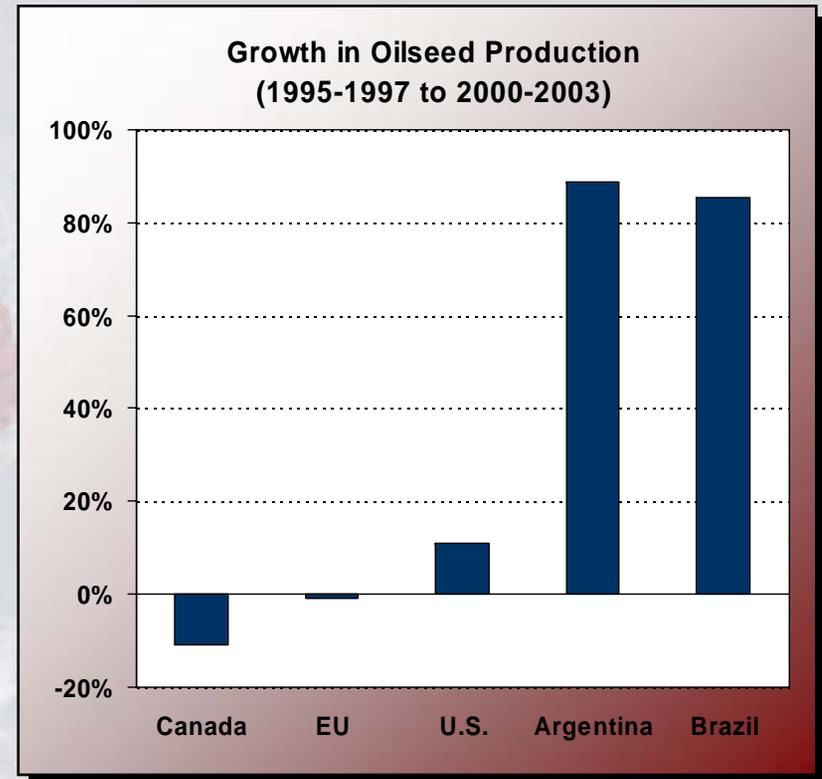
### **Agriculture and Food Exports to Rest of North America**

<b>Average 2000-2004</b>	<b>US\$B</b>	<b>Market Ranking</b>	<b>% of Total Exports</b>
<b>Canada</b>	13.7	1 <sup>st</sup>	67%
<b>U.S.</b>	17.1	1 <sup>st</sup>	29%
<b>Mexico</b>	7.1	1 <sup>st</sup>	85%

*Note: 2000-04 avg., with the exception of Mexico, 2000-03 avg.*

## *Integration helps us respond to the growing competitive pressures from overseas*

- In all sectors, new economic powers overseas are forcing change
- In agriculture, overseas producers have increased market share in many crops
  - And are positioned to do it in horticulture and meat





## ***But North American integration itself is under pressure***

- **Industry has made a big management shift to an integrated market but government less so**
  - Still too many barriers to integration
  - Growing risk of unintentionally moving backwards
- **Ongoing debate on integration that often fails to take into consideration the global economic context**
  - Sometimes dominated too much by narrow interests on all three sides of the North American borders wanting to stop it
  - May undermine our industries' competitiveness just when it is needed the most

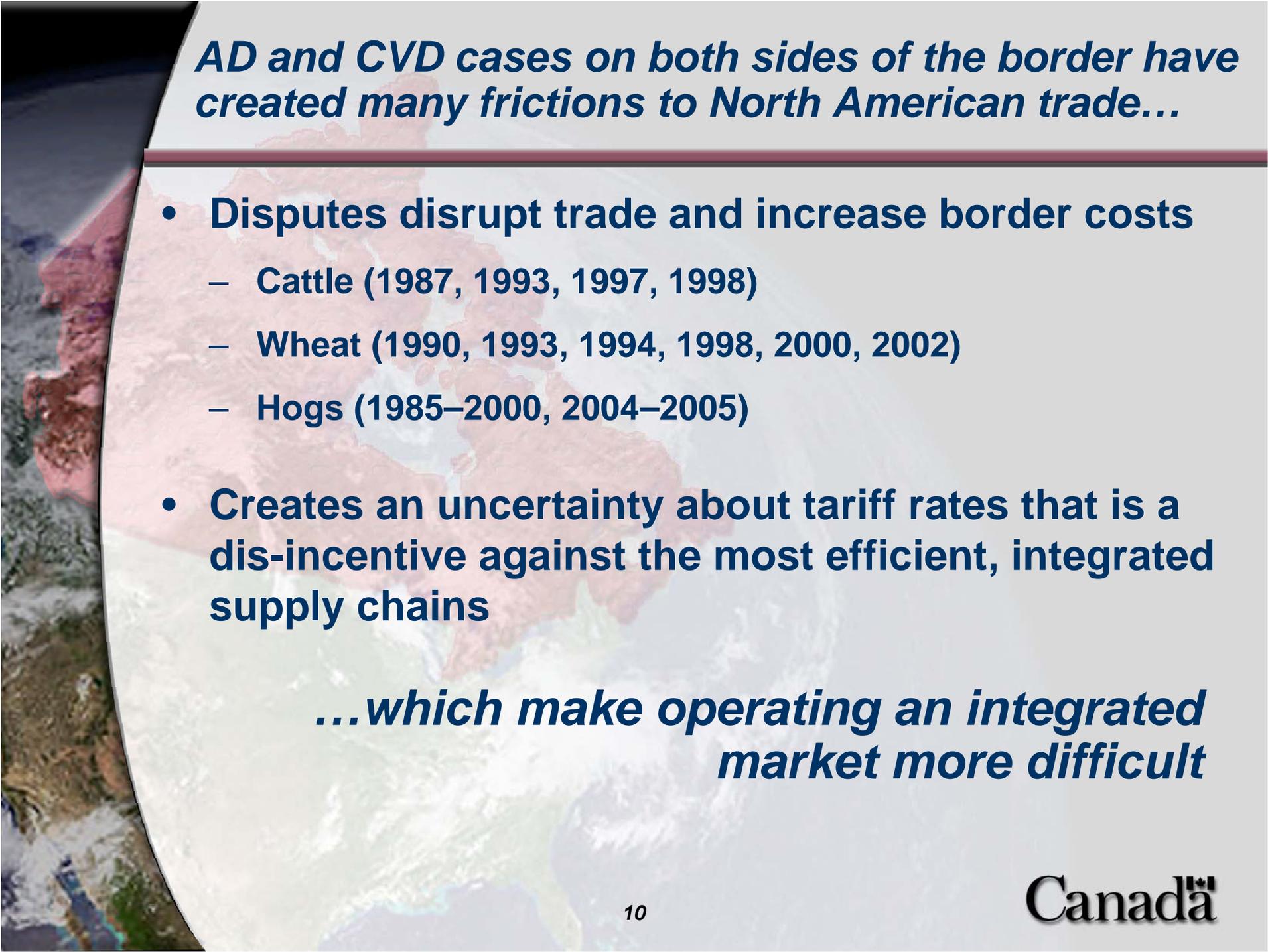


## ***Global competition adds urgency to need for better managing risks to North American integration***

- **Making progress on long-standing barriers to complete integration**
  - **General border costs (border delays, regulatory differences)**
  - **Trade remedy laws**
    - **Constant possibility of anti-dumping and countervail cases creates added uncertainty around cross-border transactions**
- **And finding a better way to address uncertainty of market access due to safety concerns**
  - **Issues related to animal, plant and human health concerns create risk of complete loss of market access — at any price**
  - **For integrated sector, border closure completely disrupts industry structure**
  - **Growing perception of this risk is creating a possibility of de-integration**

# ***Regulatory differences can impose needless economic costs***

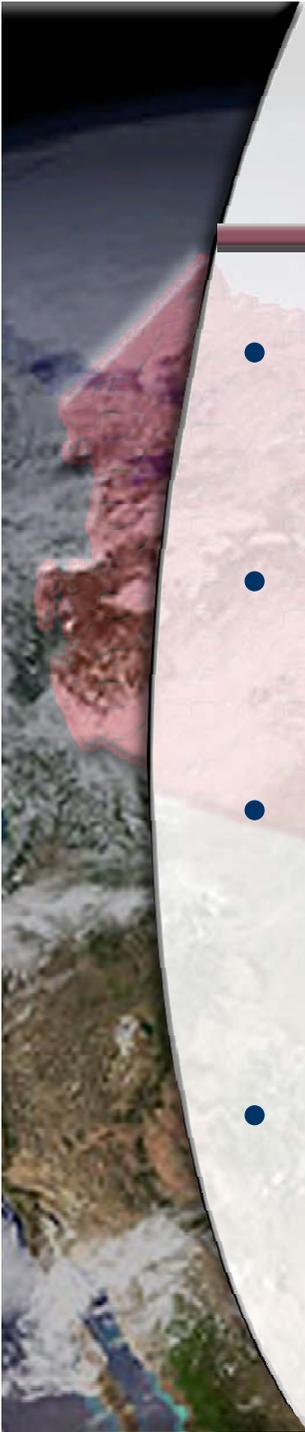
- **There are many legitimate reasons for having different regulations and standards**
  - Different risks (e.g. due to environment)
  - Different policy objectives or consumer preferences of different sovereign nations
- **However, some regulatory differences cause needless frictions to trade — and integration**
  - Not needed to achieve different policy objectives
  - More result of different regulatory methods, procedural requirements, historical circumstance

A satellite-style map of North America is visible in the background, with the United States and Canada highlighted in a light red/pink color. The map is partially obscured by a white semi-circular shape on the left side.

***AD and CVD cases on both sides of the border have created many frictions to North American trade...***

- **Disputes disrupt trade and increase border costs**
  - Cattle (1987, 1993, 1997, 1998)
  - Wheat (1990, 1993, 1994, 1998, 2000, 2002)
  - Hogs (1985–2000, 2004–2005)
- **Creates an uncertainty about tariff rates that is a dis-incentive against the most efficient, integrated supply chains**

***...which make operating an integrated market more difficult***

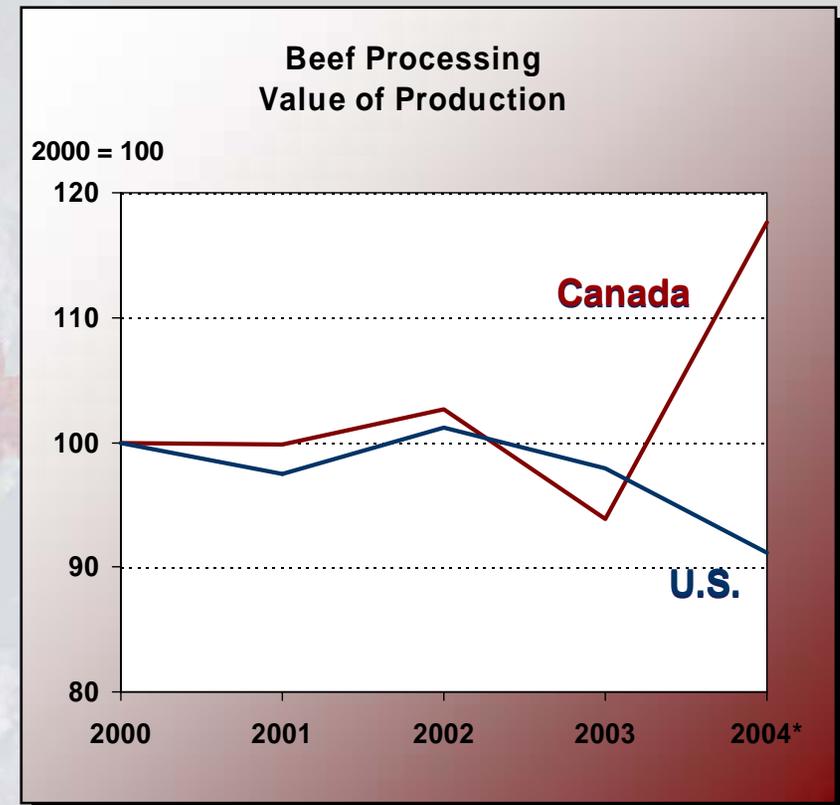


## ***For agriculture, AD and CVD cases are a major challenge***

- **In all three countries, agriculture accounts for more than its share of cases**
- **Even the initial filing of AD or CVD petitions can be disruptive, regardless of final outcome**
- **Under current rules, complainants can win countervail case even though they are getting higher subsidies than defendants**
- **Anti-dumping rules do not recognize the reality of economic cycles**

## *Discovery of an animal, plant or human disease can be highly disruptive*

- Prior to BSE, cattle and beef sector had made a very successful shift to integration
- But border closure rendered integrated structure non-operable
- Result is a temporary de-integration
  - Processing is shifting from U.S. to Canada
  - Canada is exporting only meat

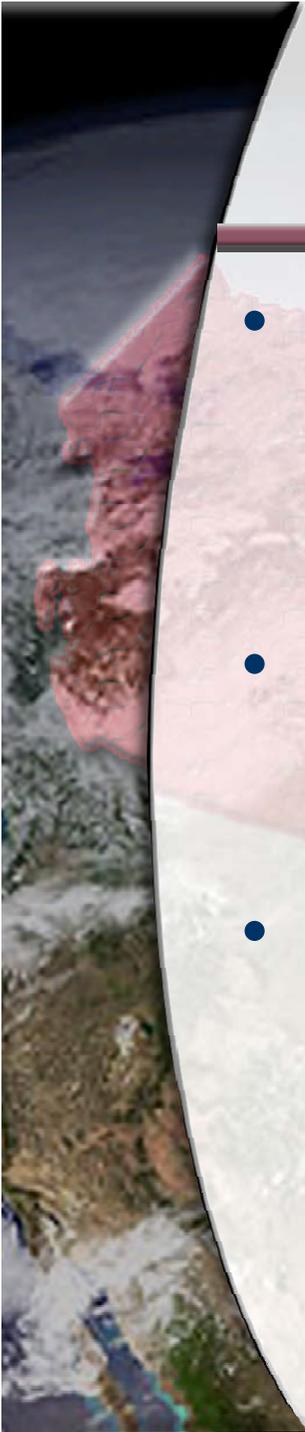




## ***This highlights the new risk of unintentional disintegration...***

- **Border closure has created a deep disruption to North American beef and cattle sector making it much less efficient**
  - **No longer optimally marketing animals, or beef**
  - **Forcing Canadian plants to pay large overtime bills, while idling some US plants**
- **And weakens our ability to get back in third markets**
- **Created a “chill” effect that may have long-term consequences beyond cattle sector**
  - **New industry perception of market access risks that discourages integrated, efficient supply chains**

***...that weakens North America's ability to respond to the competition from overseas***



## ***Moving forward with North American integration...***

- **For Canada growing recognition that meeting challenge from new global competitors requires a more integrated, efficient North American economy**
- **All three countries face this mutual challenge and may have mutual interest in overcoming barriers to North American integration**
- **Key question: How can we better support our industries' efforts to unlock the potential from North American Integration?**

***...to achieve global success***

A stylized map of North America is overlaid on the slide. The map shows the outlines of Canada, the United States, and Mexico. The colors are muted, with Canada in a light pinkish-red, the US in a light blue, and Mexico in a light green. The map is semi-transparent, allowing the text to be read through it.

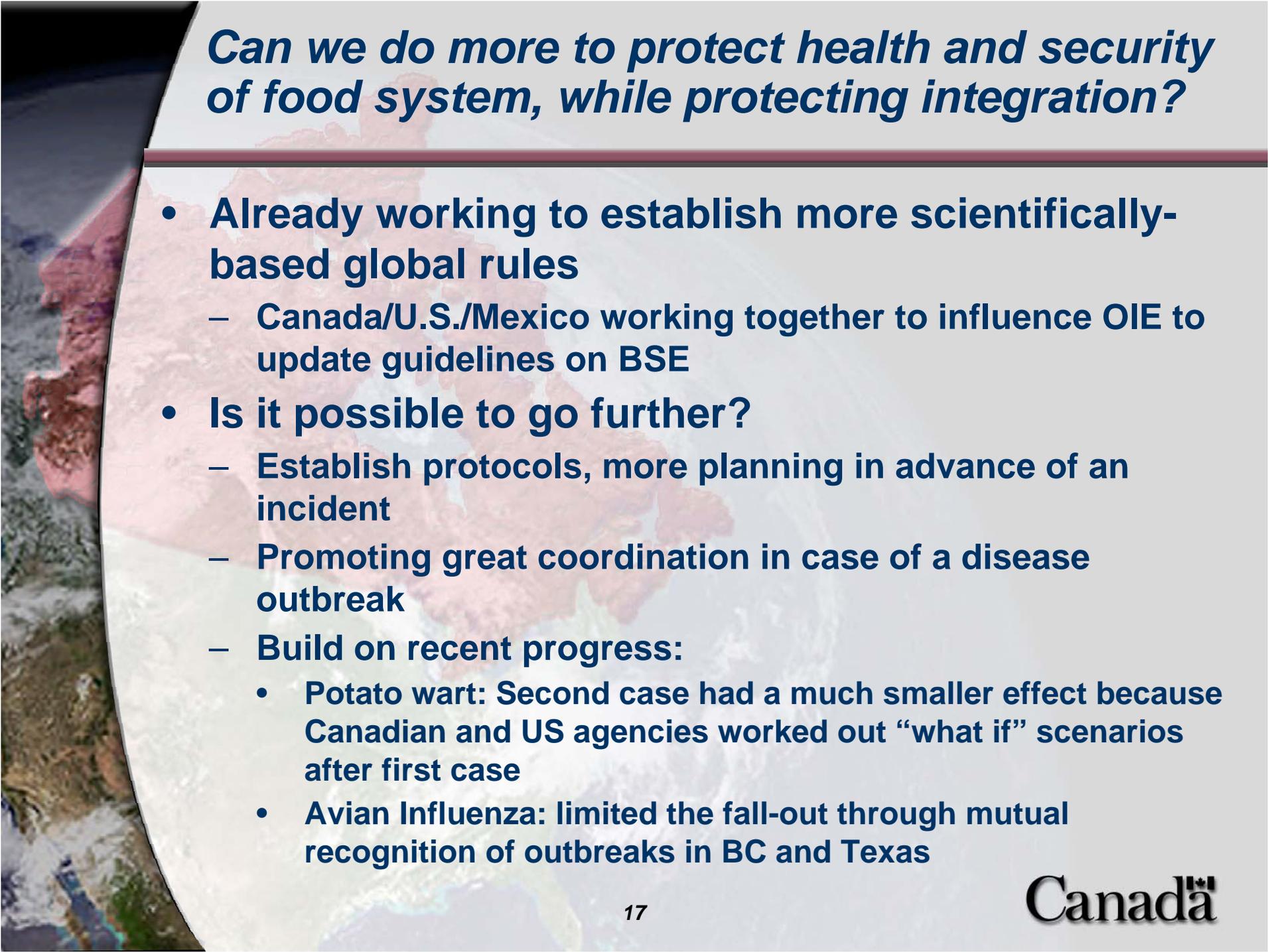
## ***On border costs, we have some successes to build on...***

- **North American Smart Border Initiative**
  - Primarily about border security
  - Also about facilitating trade
    - e.g., Joint program — Free and Secure Trade (FAST)
- **In Canada, developing an agenda for Smart Regulations that may help reduce needless regulatory differences**
  - General focus on considering the broader North American market when making regulations
  - Specific focus on eliminating small regulatory differences that impede growth of North American industry

***... but a lot more needs to be done***

## ***Can we find ways to improve how trade remedy works within North America?***

- **Can we find a way for the dispute process to:**
  - better evaluate the dispute's effects on the broader public interest?
  - replace cost of production methodology with something more economically reasonable?
  - take into account the level of domestic subsidies received by the complainants in the calculations of duties?
- **Current WTO negotiations may fine-tune these rules globally, but is it possible to go further within North America?**
  - e.g., recognize our market is integrated and eliminate AD suits among ourselves
    - Already in place in Canada/Chile, Australia/New Zealand



## ***Can we do more to protect health and security of food system, while protecting integration?***

- **Already working to establish more scientifically-based global rules**
  - Canada/U.S./Mexico working together to influence OIE to update guidelines on BSE
- **Is it possible to go further?**
  - Establish protocols, more planning in advance of an incident
  - Promoting great coordination in case of a disease outbreak
  - Build on recent progress:
    - **Potato wart: Second case had a much smaller effect because Canadian and US agencies worked out “what if” scenarios after first case**
    - **Avian Influenza: limited the fall-out through mutual recognition of outbreaks in BC and Texas**

# ***Industry leadership is essential***

- **In some ways, industry already ahead of governments on North American integration**
  - **Industry structure, marketing and branding has shifted**
- **Need to encourage industry groups in development of North American strategies**
  - **Coordinated efforts for common grading in fresh produce is one example**
- **Common industry positions will help governments “catch up” on North American integration**

# ***Conclusion***

- **As we focus on the challenge of increasing competition from new global players, the benefits of North American integration become more important**
- **At the same time, the risk of losing these benefits has never been greater**
- **We have to work harder and be more innovative to find solutions that support integration**
- **What avenues can we pursue to do that?**