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The State of Play in the Trade Arena Canadian Sugar Perspective

Sandra Marsden, Canadian Sugar Institute
International Sweetener Colloquium
February 13, 2018



Starting point for negotiations ...



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Donald J. Trump @realDonaldTrump
We are in the NAFTA (worst trade deal ever made) renegotiation process with Mexico & Canada. Both being very difficult, may have to terminate?
9:51 AM - 27 Aug 2017
18,793 Retweets 81,177 Likes

Dark Mark @_Dark_Mark · 28 Aug 2017
Replying to @realDonaldTrump
You are a moron

Patricia Villaescusa @patyvilllaescusa · 29 Aug 2017
Replying to @realDonaldTrump
Trump, you are the man who's been bankrupt six times, and at this rate, you'll bankrupt the United States

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Canada supports modernizing NAFTA



Twitter interface showing a tweet from Chrystia Freeland (@cafreeland) dated 10:32 AM - 16 Aug 2017. The tweet includes a video titled "MODERNIZING NAFTA" with 46.6K views and 534 retweets. The tweet text reads: "Canada, the United States, and Mexico have a powerful shared interest in reaching a mutually beneficial agreement. #NAFTA #cdnpoli".

Chrystia Freeland @cafreeland

Canada, the United States, and Mexico have a powerful shared interest in reaching a mutually beneficial agreement. #NAFTA #cdnpoli

MODERNIZING NAFTA

1:33 | 46.6K views

10:32 AM - 16 Aug 2017

534 Retweets 968 Likes

141 534 968

Twitter interface showing a tweet from Chrystia Freeland (@cafreeland) dated 5:30 AM - 14 Aug 2017. The tweet text reads: "Thanks to #NAFTA, the NA economy is highly integrated, making our companies more competitive & creating more jobs on our continent. #cdnpoli".

Chrystia Freeland @cafreeland

Thanks to #NAFTA, the NA economy is highly integrated, making our companies more competitive & creating more jobs on our continent. #cdnpoli

5:30 AM - 14 Aug 2017

83 Retweets 173 Likes

19 83 173



Canada supports modernizing NAFTA



- The U.S. and Mexico are Canada's 1st and 3rd largest merchandise trading partners
- Canada is largest merchandise export market for the U.S. and one of the three largest merchandise export markets for 48 U.S. states
- Almost 9 million U.S. jobs depend on trade and investment with Canada

Chrystia Freeland
@cafreeland
Canada's Minister of International Trade and Development
Ministre de l'Économie et du Développement International
Liberal MP
Proud wife of...
Toronto
chrystiafreeland.com
Joined...

Follow
my is highly
s more
on our

5:30 AM - 14 Aug 2017

83 Retweets 173 Likes



19 83 173



U.S. Administration Concern with Trade Deficits Not a Useful Measure of Benefits of NAFTA

Trump says he and Trudeau disagree on trade deficit. U.S. stats seem to be on the PM's side

Despite Trump's insistence the U.S. has a trade deficit with Canada, statistics from the website of the office of the U.S. Trade Representative — the office handling NAFTA negotiations — paint an opposite portrait.



“Canada does not see trade balances as a useful measure of the benefits of trade, but since the U.S. does, we’re using their own data that clearly states the United States has a trade surplus with Canada,” Adam Austen, a spokesman for Foreign Affairs Minister Chrystia Freeland.



U.S. Administration Concern with Trade Deficits Not a Useful Measure of Benefits of NAFTA

- US trade surplus in goods and services with Canada \$US12.6 billion (2016)
- Total trade of \$628 billion with U.S. exports of \$320.1 billion and imports of \$307.6 billion
- Commercial flows swing between surplus and deficit but overall the trading relationship is relatively balanced
- Deficit (or surplus) is still small compared to total trade between the two countries — between 1 and 2 per cent of total trade



“Fair” and “Reciprocal” Trade must be NAFTA +

Canada hopeful as U.S. hears NAFTA counter-proposals — and keeps listening

Freeland, Lighthizer meet in Davos, Switzerland

By Mike Blanchfield, The Canadian Press | Posted: Jan 25, 2018 3:30 PM ET | Last Updated: Jan 25, 2018 7:09 PM ET



United States Trade Representative Robert Lighthizer, centre, with Canadian Minister of Foreign Affairs Chrystia Freeland, left, during the conclusion of the fourth round of negotiations for a new NAFTA in October. The pair met in Switzerland Thursday. (The Associated Press)

"There is a set of what we call the **unconventional U.S. proposals** in areas like rules of origin, particularly for the car sector, like the sunset clause proposal ... there is a greater distance between the parties."

"We have put forward some **creative ideas** on the sunset clause, on ISDs (investor state disputes) and creative ideas on rules of origin which we hope will help us have a real conversation on these issues."

- The negotiations are proceeding in two baskets – “bread and butter” issues, where talks are going “quite well,” ... though “there’s a lot of work that we can do.”
- The second basket is where those “unconventional” proposals reside, “and there is more distance there” “Some of the distance is about a different approach to trade.”



Agri-food Trade Views in Canada

Modernize and Strengthen vs. Balance and Do no harm



Canadian Agri-Food Trade Alliance

Modernization of NAFTA could serve as a model agreement that can be used by the partners to promote trade liberalization in other multi-lateral and plural-lateral negotiations. CAFTA has identified several areas where improvements to NAFTA could enable further growth.



Canadian Federation of Agriculture

Maintain, and build on, the agricultural benefits of NAFTA which have grown significantly over the years.

Focus on regulatory harmonization without compromising health, safety and the environment.

Eliminate non-tariff trade barriers.

Avoid re-negotiation of the agricultural components of NAFTA.

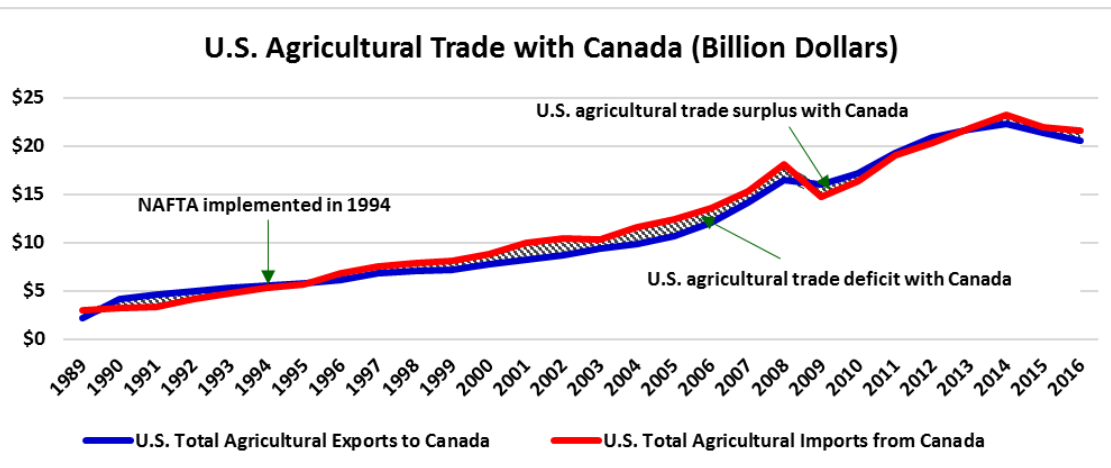


Dairy Farmers of Canada

“Our message to the Canadian government as it is negotiating NAFTA is simple: no more concessions - enough is enough, they cannot continue to carve out portions of the dairy sector.”



Canada-US Agri-food Trade – Fair & Reciprocal?

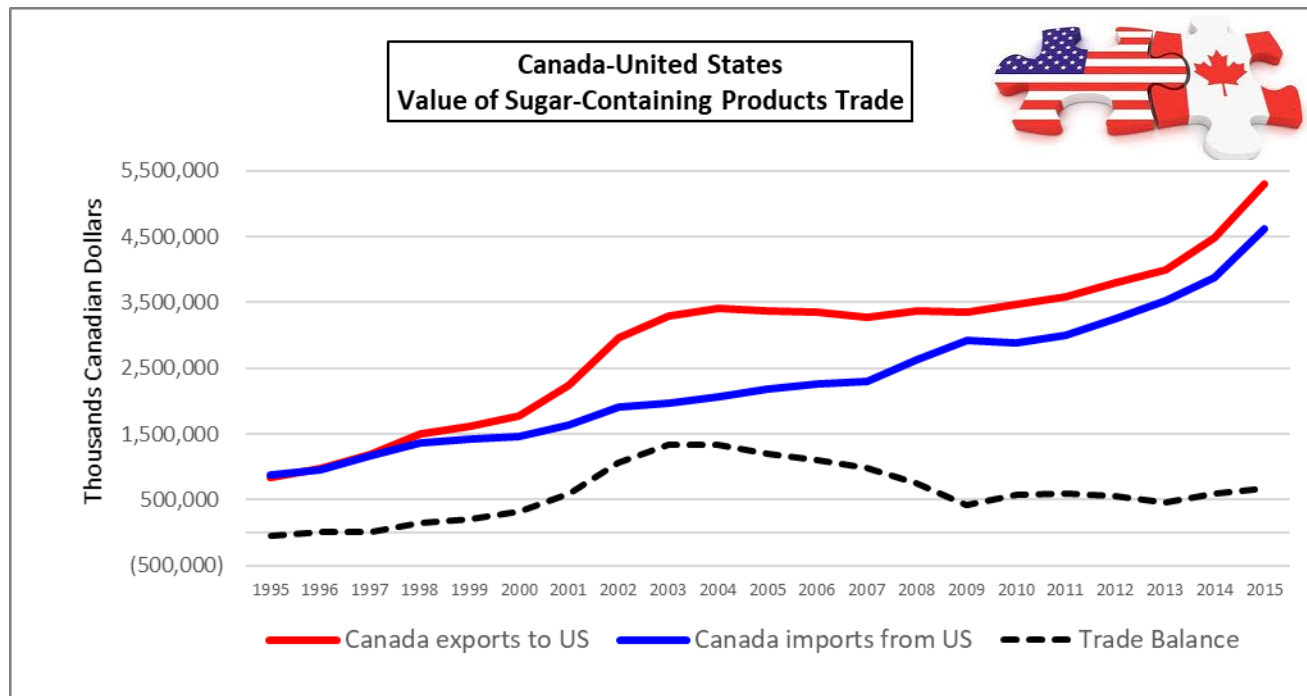


- U.S. exports of agricultural products to Canada \$23 billion in 2016
- U.S. imports of agricultural products from Canada \$22 billion in 2016

- Canada is leading foreign source of bulk material for agri-food processing in the US (about \$US 1.67 billion)
- Canada is leading imported source of intermediate products for agri-food processing in the US (about \$US 6.5 billion)
- Canada is the leading foreign market for consumer oriented food products, at almost \$US 16.2 billion; Mexico is second at about \$US 8 billion



Canada-U.S. trade in Sugar containing products (SCPs) Fair & Reciprocal?



- Majority of SCPS are freely traded between the countries
- Two way trade valued at \$Cdn 9.9 billion in 2015; up from \$1.7 billion in 1995
- Trade is complementary and both countries benefit

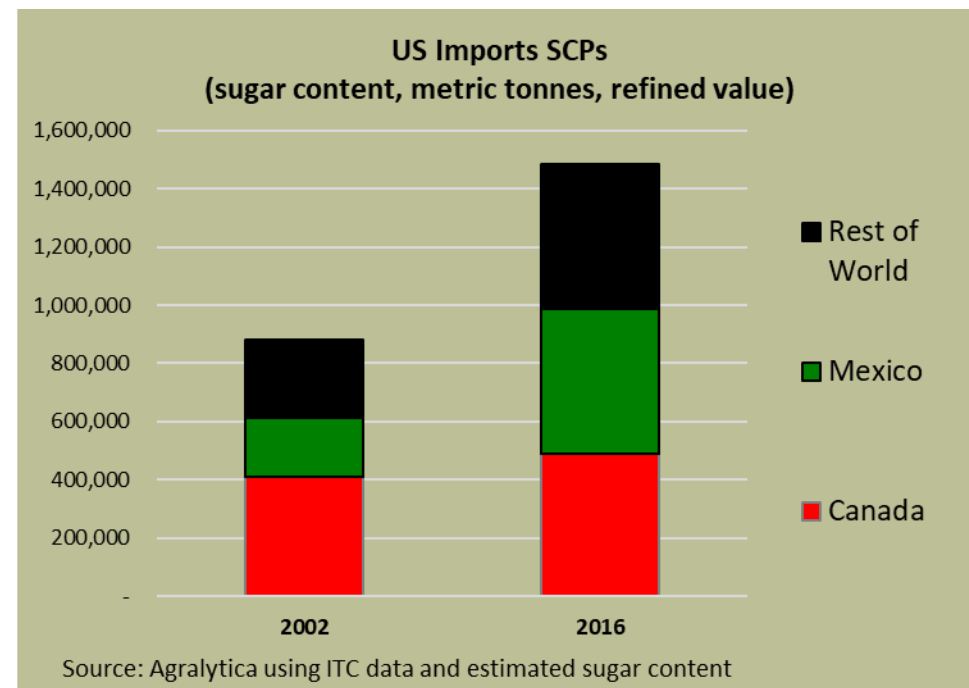


NAFTA Modernization Issues

Sugar and Sugar-containing products

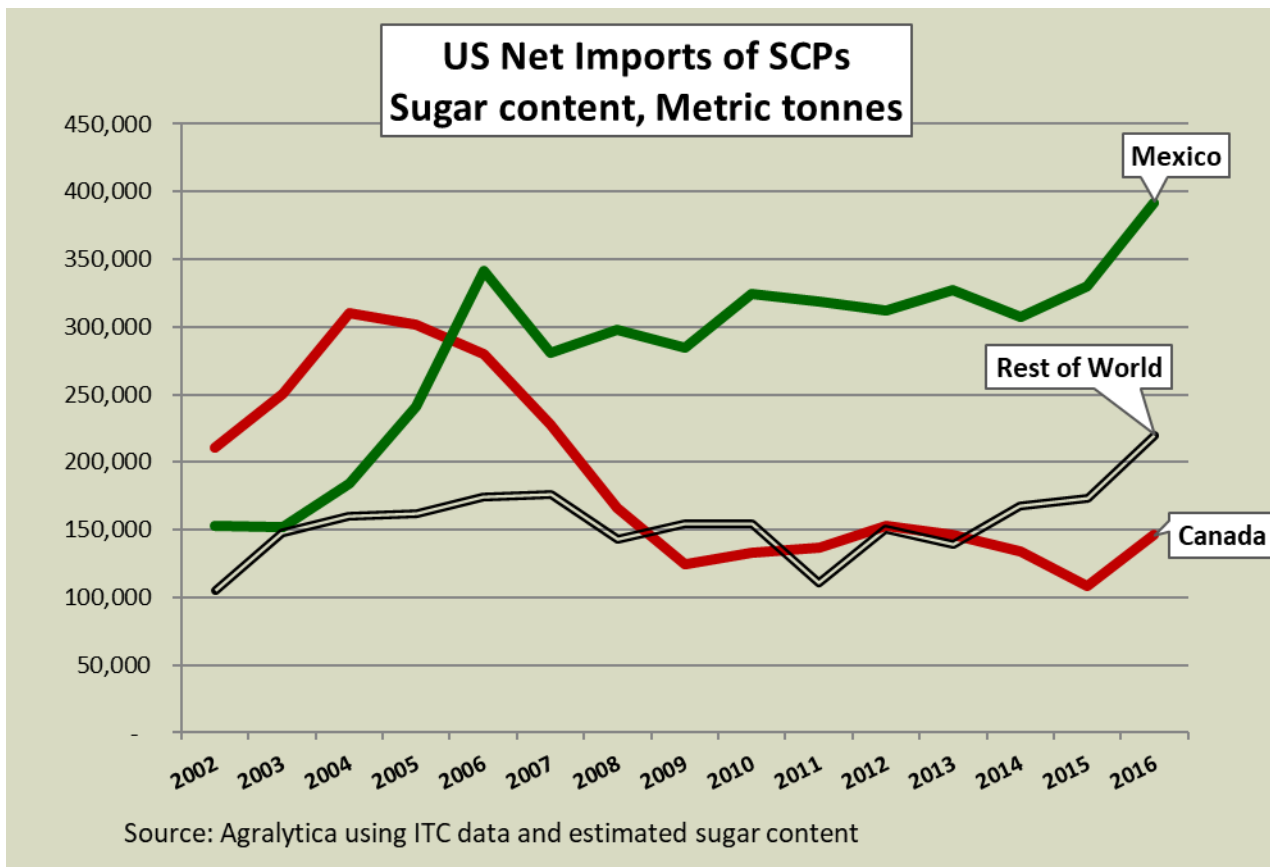


- NAFTA provisions for trade in sugar and SCPs was bilateral, not trilateral
 - Canada protected dairy / U.S. protected sugar
- Canada continues to face quota restrictions on refined sugar and many SCPs that date back to the early 1980s
- Mexico's access was liberalized under the NAFTA;
 - Access for SCPs was liberalized in 2003
 - Access for sugar was liberalized in 2008
- US quotas on refined sugar and SCPs for Canada are increasingly putting Canada at a competitive disadvantage relative to Mexico and other preferential suppliers.



NAFTA Modernization – Balance of Trade

US Net imports of Sugar-containing products



Mexico ↑ **240,000 tonnes**

ROW ↑ **115,000 tonnes**

Canada ↓ **65,000 tonnes**



Canadian Sugar in NAFTA context



\$ Canadian market tracks world prices

🍴 95% of sales are domestic for consumers and food processors

🔒 Canada fixed share of US quotas and no opportunity to grow

- Beet sugar – 10,300 tonnes (< 0.1% US sugar market)
- Sugar-containing products >10% sugar – 59,250 tonnes
- End-use restrictions prevent SCP shipments to US food processors and food service; no value-added in the US other than the addition of water by the consumer
- US maintains SCP Re-export Program to Canada that was scheduled to terminate under the NAFTA



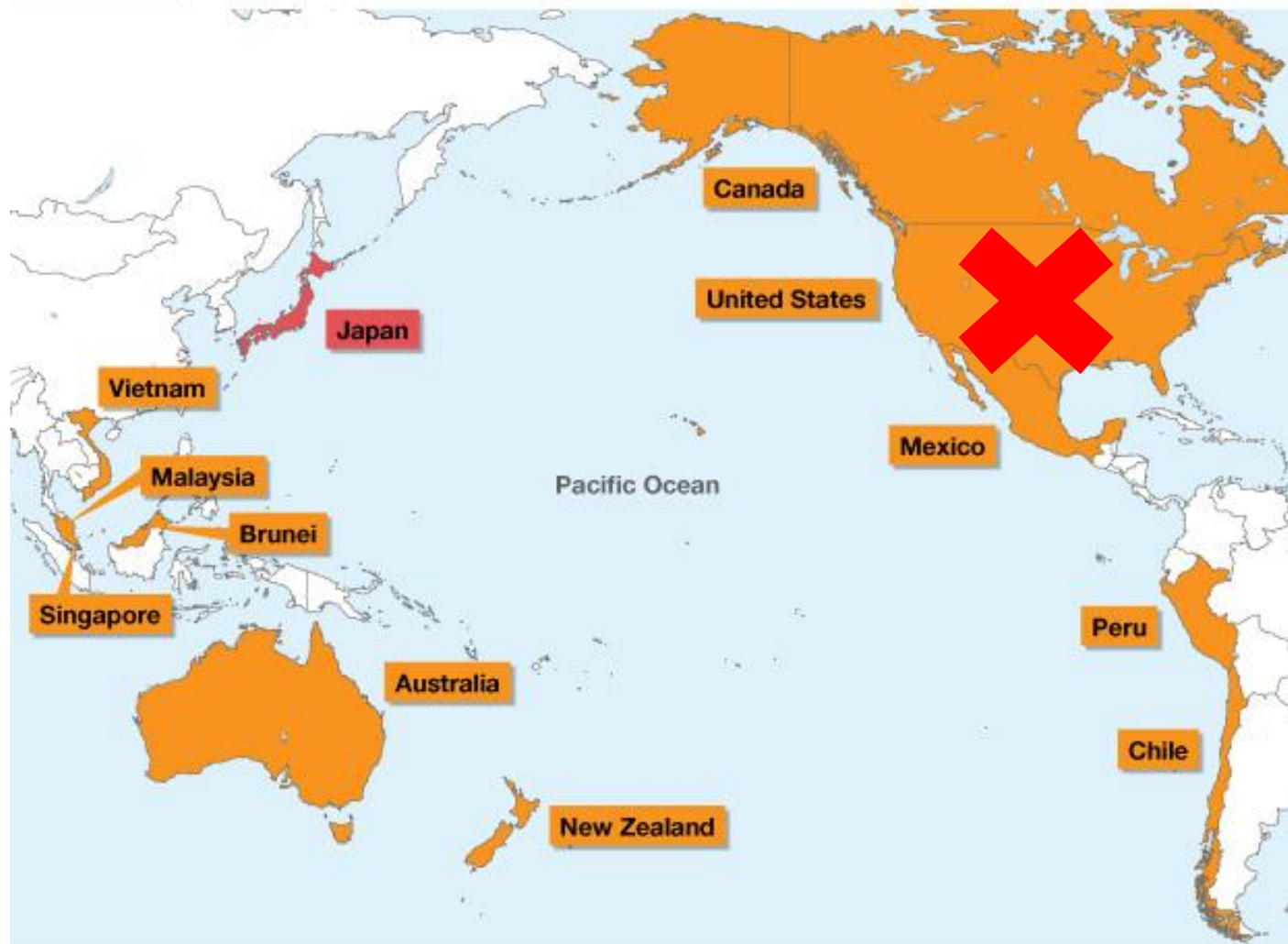
Canadian Sugar in Modernized NAFTA



- Canada's capacity limitations pose no threat to oversupply in the US sugar market.
- Canada is a reliable supplier and an "orderly marketer" in the NAFTA region.

CPTPP – ~~12~~ 11 Countries

Figure 1 Countries Participating in the TPP Negotiations



TPP would have provided modest additional access for Canada:

- 9,600 MT sugar
- 9,600 MT SCPs without end-use restrictions



CPTPP OUTCOMES

Key Benefits for Canada



- Modernized trade agreement
- Catch up with foreign competitors like Australia who are way ahead on market access to Asia
- Opportunity to link supply chains across region and compete globally
- Expected economic benefits to Canada bigger than TPP (without U.S. competition)
- Canadian agriculture and agri-food among the biggest winners
- *Canadian Sugar and SCPs may benefit in long term*
- Other countries already lining up to join CPTPP
- *U.S. may join at later date?*



Key Issues – NAFTA Modernization



- ✓ NAFTA modernization should reflect the integrated nature of Canada-US trade, supporting supply chains and reducing, not increasing trade barriers.
- ✓ Canada is a reliable supplier and an “orderly marketer” in the NAFTA region.
- ✓ Newer agreements such as the CETA and TPP provide important learning for modernizing sugar and SCP trade with the US under NAFTA.
- ✓ Flexibility in supplying the US market is essential to meet the needs of US retail, food service and SCP manufacturers who depend on integrated supply chains in the NAFTA region and are familiar with the quality and reliability of Canadian sugar and SCPs.



What if U.S. Withdraws from NAFTA?



- ❑ Economies of Canada and the U.S. are highly intertwined and supply chains influenced by wide range of factors
- ❑ Not viable to snap back to Canada-U.S. Free Trade Agreement which is outdated
- ❑ Negotiating outlook is not as pessimistic as it was in the earlier rounds
- ❑ Nevertheless, Canadian government and companies are evaluating various scenarios
- ❑ Complexities for sugar and SCP trade mostly linked to Mexico
- ❑ Opportunities for Canada and other TRQ sugar and SCP suppliers?



Trade will continue

