

Regional Trade Agreements Will Shape the Future of International Food and Agricultural Trade



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“Canada must pursue trade agreements with emerging markets”

What’s going on?

The most recent round of multilateral trade negotiations, under the auspices of the World Trade Organisation (WTO¹), failed in establishing a new framework of rules for international trade. WTO negotiations have become increasingly intractable as the large number of member countries (159 members and 25 observers) each push for very different objectives. Negotiations to liberalise trade in food and agricultural industries are particularly difficult because these industries are characterised by high import barriers and high levels of government support in many countries. It is unlikely that we will witness another multilateral trade deal that will discipline these policies and liberalise agricultural trade flows across numerous countries over the next several years. The failure of negotiating countries to agree to a new multilateral trade deal means that the rules agreed to under the 1995 Uruguay Round Agreement on Agriculture will remain in force.

What’s coming up?

The future of international food and agricultural trade in the Prairie Provinces through 2050 will be shaped by two factors. The first is a patchwork of regional trade agreements that will emerge from the rubble of the failed Doha Development Round negotiations of the WTO, and the second is growing demand for protein from emerging markets in Asia.

Canada is likely to negotiate regional trade agreements that will reduce barriers with important trading partners, in lieu of a multilateral deal in the tradition of the WTO agreements. Smaller regional trade deals are often simpler to negotiate because each country can focus on a handful of trade policy objectives, without having to satisfy the demands of 150+ WTO member countries in a single undertaking. Canada has recently entered into a trade agreement with the European Union, and is negotiating with South Korea and a group of countries under the banner of the Trans-Pacific Partnership. These types of agreements are becoming much more common (Figure 1), and are likely to proliferate in coming years.

A second important factor in the future growth of Prairie agriculture will be the global demand for meat products as incomes grow and people migrate from rural to urban areas in emerging Asian markets, especially China. China’s market for meat products is currently supplied mostly by domestic production, however demand is expected to outstrip supply in coming years, necessitating more imports. Prairie agriculture is well positioned to take advantages of increased demand for swine and bovine meat products on the world market. However growing demand in emerging markets will not increase dairy and

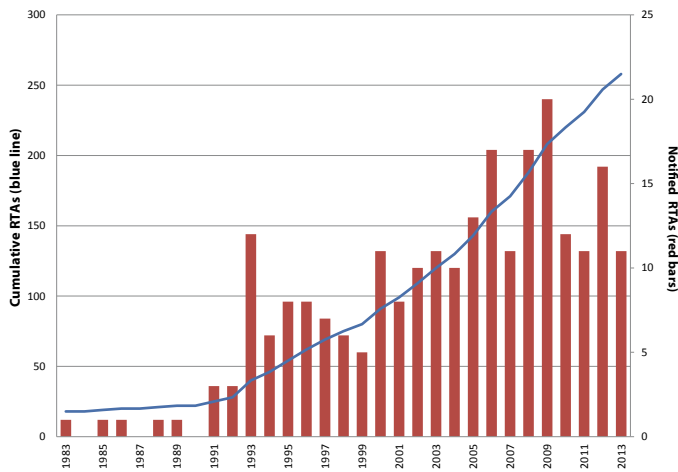


Figure 1: Prevalence of regional trade agreements (RTAs) (Source: WTO (undated), author's calculations).

poultry exports from the Prairies because production quotas and high production costs keep these off the world market (Figure 2). Increased meat consumption and production in emerging markets will also buoy demand for coarse grains for animal feed.

Does this matter?

The recent failure of WTO-member countries to conclude a multilateral trade deal bodes badly for future multilateral trade deals between large blocs of countries, and there are several shortcomings of the regional trade agreements that will emerge in the absence of a WTO deal. First, regional trade agreements typically don't include disciplines on domestic government support for agriculture. This means that Canadian exports will have to compete with products that are produced under subsidy in importing countries, most importantly in the U.S. and the European Union. However, this also means that Canada's future agricultural subsidy policies (current examples include AgriStability and AgriInvest)

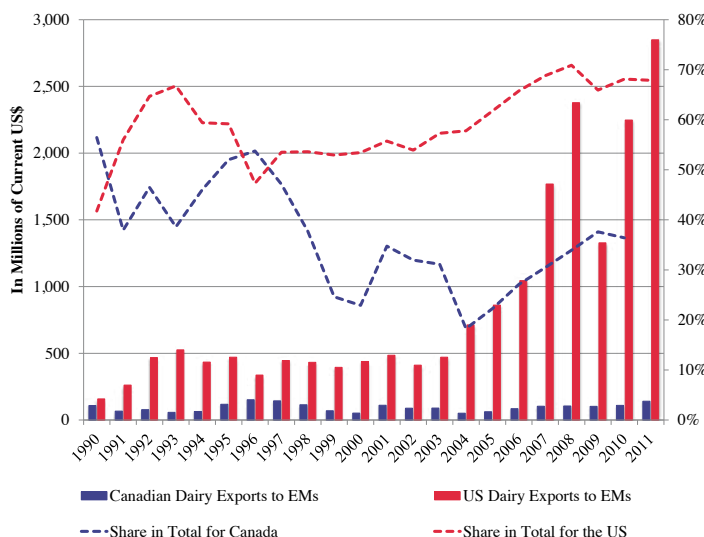


Figure 2: Canadian and US dairy exports to emerging markets (EMs)².

will not be bound by new obligations to WTO countries, as long as they conform to existing rules under the 1995 Uruguay Round WTO agreement.

A second shortcoming is that the disciplines in these agreements are not subject to strong dispute-settlement procedures, as are the agreements of the WTO. The WTO Dispute Settlement Understanding has been an important venue for handling disputes related to exports from the Prairies (e.g., beef hormones, mandatory country of origin labelling). Third, a patchwork of overlapping agreements between Canada and its trading partners complicates (and therefore increases the cost of) exporting to different countries because each export destination may impose different regulatory requirements (e.g., inspection, country-of-origin regulations). This means that producers and exporters from the Prairies must incur the costs of complying with numerous regulations instead of one standard, as would be the case under a comprehensive multilateral trade deal.

Canada's supply management regime, which controls supply and excludes the importation of most dairy and poultry products into Canada, is not likely to be subject to fundamental restructuring because of international trade agreements in the short term. The current supply management regime enjoys broad support across national political parties, so Canada's bargaining positions in future regional agreement negotiations are likely to be built around the maintenance of high import barriers for dairy and poultry. This means continued high producer and consumer prices for dairy and poultry products in the Prairies.

What is being done about it?

The U.S. remains the primary market for Prairie food and agricultural exports. Canada must pursue trade agreements with emerging markets if exporters hope to access markets where population and income growth will be strongest. Import barriers for food and agricultural products remain relatively high in many of these countries. Some commentators have argued that the Canadian dairy and poultry industries are missing the opportunity to export to emerging markets by limiting production with quotas². However, major changes to the current system of production and import controls do not appear to be on the horizon.

So how might a changing climate influence these trade agreements in the future? The current pattern of comparative advantages in food production across countries may evolve as production costs change in response to weather and climate influences. The incentives to engage in trade agreements with new countries will evolve accordingly, with importing countries looking to acquire low-priced food imports.