Commentary

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Canadian Food Companies Need to Find New Export Markets

With some exceptions, Canada's trade relations with the US have been relatively smooth and reliable for many years. Canada's trade with the US was guided by trade agreements starting with GATT in 1948. GATT, signed by 23 countries, brought international tariffs down from the 20% level to about 5% for many products for the signing countries.

Later agreements specifically dealing with US-Canadian trade were the Canada-US FTA was signed in 1989, NAFTA in 1994 and CUSMA in 2020. These agreements provided rules, guidelines and stability to Canadian-US trade allowing companies to make long term export plans including plant and investment decisions. The CUSMA agreement allowed for a review in 2026. Clearly, Trump does not abide by trade provisions.

Trade agreements were based on a recognition that reduced or zero tariffs benefit participating countries by encouraging innovation, enhancing productivity and efficiencies and leveraging countries' comparative advantages. However, the Trump administration has thrown out long-established trading practices with its on-again, off-again tariff threats with Canada. Then on April 2, Trump imposed high world-wide tariffs. For Canada, this announcement spared tariffs on across-the-board products but kept 10% tariffs on Canadian steel, aluminum and a crippling 25% tariff on autos.

It is understandable that Canadian food companies like to sell to the US market given its size and proximity. Total Canadian food and beverage revenues reached $156.5 billion in 2022 with exports accounting for $54.3 billion or 35% of this total. Most of these exports, 77% or $41.8 billion, go to the US.

The April 2 pronouncement allowed Canadian food products to enter the US under the existing CUSMA provisions. However, this too could change. Fully expect Trump to demand major concessions from Canada on the agri-food industry as part of his push for a renewed trade deal. Chaos will likely continue for some time. The US tariff threats to Canadian exports, including agri-food products, has shown that access to the US market is not assured. Canadian food companies need to forge relationships with new export customers as well as more fully compete in the Canadian market to be successful.

I conducted interviews with a selection of Canadian food companies to identify what their next steps might be if tariffs on their US exports were imposed. Some of the larger domestic food companies felt it might be possible for them to set up some of their production in the US, however, this would be very costly and could take considerable time. Some mid-size and definitely smaller Canadian food companies that export to the US would be very vulnerable to a permanent US tariff as setting up a US facility would be beyond their financial capability. Given that about 92% of Canada's 8,500 food processors have fewer than 100 employees (however, not all export), a permanent tariff on food exports to the US would be very damaging to the Canadian food processing sector.

Summary of Canadian Trade Agreements

The following provides a brief overview on some of the key elements of three main agreements of the 15 Canada has in place now. This outline also provides a perspective of the size of these three important trading regions for the reader. The population of the three active trade agreements covered below totals 999 million!

The key elements and value of a trade agreement include tariff reductions, streamlining customs, trade facilitation, rules of origins, product specific rules, origin quotas and countries obligations. These agreements make trading with member countries significantly easier.

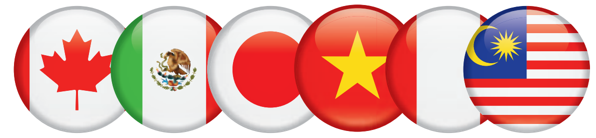
1 Canada-European Union Comprehensive Economic and Trade Agreement (CETA)

Canada entered into the CETA agreement provisionally in 2017 with 27 countries. It is provisional as 10 countries have yet to ratify the agreement. The larger holdout countries are Belgium, France, Greece, Ireland, Italy and Poland. The larger countries that are in the CETA agreement are Austria, Denmark, Germany, the Netherlands, Portugal, Spain, and Sweden. Just because a country is not a signatory to CETA, does not mean you cannot export to them. For example, the tariff rate for food products imported to Italy is 5.24%. So, the entire EU is open for you.

CETA is a big market. The total population of CETA countries is 448.4 million. The population of the ratified countries is 237 million. The EU has a total of 4.7 million people working in the food industry generating €1.2 trillion in revenues per year. The EU imported €158.6 billion worth of agri-food in 2022.

2 Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

Canada entered into the CPTPP agreement with 10 countries and was ratified in December, 2018. The five largest countries in the CPTPP are Mexico, Japan, Vietnam, Peru and Malaysia with a combined population of 425 million. The total population of all 10 CPTPP countries is 483 million. In addition, the UK will formally be recognized as a member of CPTPP once ratified by all CPTPP members.



A trade agreement does not necessarily mean a "free trade" agreement. For example, Japan and Vietnam have high tariffs for beef and pork and some processed foods.

Key products imported by CPTPP countries include pulses, fruits, vegetables, grains, cereals, animal feeds, maple syrup, wines, and spirits.

3 Canada-United Kingdom Trade Continuity Agreement (Canada-UK TCA)

Canada entered a Trade Continuity Agreement with the UK in April, 2021 after UK's exit from the EU. This agreement essentially carries over Canada's trading benefits it had with the UK when the UK was in CETA. This agreement gives Canada preferential access to the UK market with a population of 68 million.

The UK's food and beverage manufacturing sector generates sales of £35.1 billion per year. Approximately 42% of the food consumed in the UK is imported, primarily from the EU, South Africa and Morocco. The main food imported to the UK are fresh fruits and vegetables, meat, dairy, beverages, processed foods, and specialized/global foods.

Entering new export markets isn't easy or quick — but you must start.

While the US will remain an important export market for Canadian food processors, the actions of the US government clearly demonstrates that Canadian companies need to start selling to new markets such as the EU, South-east Asia and other world markets. After fully evaluating your opportunities in specific foreign markets you need to:

1. Determine how to best sell to these export markets
2. Develop effective and actionable plans with budgets and timelines.
3. Set export objectives and goals
4. Develop an export strategy and an export marketing plan and act on it.

Be prepared to do a lot of hard work. But start now! **WFP**

Douglas is president of Hart & Associates Management Consultants Ltd., a firm that has been providing business development services to the food and agriculture industry across Canada for over 30 years. Hart & Associates provides clients with business plans, marketing and strategic plans, feasibility studies, export marketing and market research to help companies improve their sales, profit and organizational performance.