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Canada–European Union Trade Negotiations
2. Market Access in Agriculture

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Canada–European Union Trade Negotiations: 2. Market Access in Agriculture

(In Brief)

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1 INTRODUCTION

While negotiations for a Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union (EU) cover more than 20 subject areas, there are nine of particular interest to Canadians and their EU counterparts. These nine topics are the most sensitive or difficult negotiating issues, or the source of the greatest estimated impacts should CETA negotiations succeed, or the areas of the more controversial elements. This paper discusses market access issues for agriculture and agri-food products.[1]

2 CANADA–EUROPEAN UNION TRADE IN AGRICULTURE

The EU is Canada's second-largest trading partner in agriculture and agri-food products. In 2009, two-way trade in agriculture and agri-food products between Canada and the EU totalled $5.5 billion. Canada's top agriculture and agri-food exports to the EU include wheat, oilseeds, pulses and processed foods. Canada's top imports from the EU include wine, beer, liqueurs and chocolate. Canadian exports to the EU are dominated by primary agriculture products whereas EU exports to Canada tend to be in value-added food products.[2]

In 2009, Canada exported $1.6 billion in bulk agriculture products to the EU, but less than one-half as much – $603 million – in processed foods. EU exports to Canada show the opposite trend. Bulk agriculture exports from the EU to Canada were valued at $158 million in 2009, while exports of processed foods totalled $2.6 billion.[3]

3 NEGOTIATION ISSUES

Agriculture is expected to be at the centre of Canada–EU negotiations relating to tariff reductions and non-tariff measures for goods. While market access in agriculture is often the most contentious issue in bilateral and multilateral trade negotiations, it is expected to be even more so in CETA negotiations, as both Canada and the EU have major sensitivities in agriculture.

3.1 MARKET ACCESS BARRIERS IN THE EUROPEAN UNION

The EU has one of the most lucrative markets in the world for agriculture and agri-food products because of its size, consumption patterns and generally high income per capita. It is nonetheless a difficult market to penetrate and in which to compete, in part because of strong partnerships among member states and an already mature market, but mainly because of relatively high protection through tariffs and non-tariff measures. The EU's average applied most-favoured-nation (MFN) tariff rate – the tariff it applies to all countries except those with which it has negotiated a preferential agreement – is 5.6%, but the average tariff rate for agriculture and agri-food products is much higher, at 16.0%.[4]

In addition to the relatively high tariffs on agriculture and agri-food products, there are two issues that Canadian exporters of agricultural goods are likely to face in the EU market. First, producers and companies seeking to penetrate the European market have noted that the EU restricts agriculture and agri-food trade through regulatory barriers. While the objectives of technical regulations (e.g., protecting the health and safety of citizens) are generally not problematic, the design and application of the regulations can make compliance difficult or time consuming for foreign companies. The EU's regulatory schemes for the importation of chemicals and meat are often cited by foreign governments and companies as technical barriers to trade. The CETA is anticipated to include a chapter on such barriers to trade, although it is expected to follow closely the wording of the World Trade Organization Agreement on Technical Barriers to Trade (WTO-TBT), as WTO members have been reluctant to exceed what has been agreed in a multilateral context.

Second, the EU provides significant subsidies to agricultural producers through the Common Agricultural Policy (CAP). Competitors of European firms, foreign governments and trade observers have often accused the EU of distorting production through subsidies as well as through programs implemented and managed under the CAP; these measures represent close to one half of the EU budget.

Bilateral trade agreements seldom address the issue of domestic support (i.e., subsidies), as there is an understanding among WTO members that this issue can be addressed more efficiently through multilateral negotiations. Most agreements to which Canada is a party encourage the parties to work toward domestic support measures that have minimal or no trade-distorting effects; however, those provisions are voluntary. Furthermore, the CAP has evolved since its inception, and is now more market-neutral and less production-stimulating than it was initially.

3.2 MARKET ACCESS BARRIERS IN CANADA

Canada has relatively high tariff protection on a number of agriculture and agri-food products. While the average applied Canadian MFN tariff rate is 4.7%, agriculture and agri-food products have an average tariff rate of 11.5%.[5]

High agricultural tariff rates in Canada are due in part to very high rates in certain protected sectors, most notably Canada's supply-managed sectors. When the CETA negotiations were launched, both parties agreed that they could make proposals on any sector of interest. Although supply management is a topic of negotiations, the Government of Canada has said that it strongly supports supply management and will defend the supply management system with the same vigour as in all of its previous trade negotiations.

Canada also stands apart internationally by maintaining the monopoly of the Canadian Wheat Board. The EU will likely want to negotiate changes in the way that Canada markets its wheat and barley.

3.3 Rules of Origin

Negotiations about rules of origin are likely to be problematic for negotiators. Whether it is a genuine concern or a strategic negotiation approach, the EU has expressed concerns that the United States might use the CETA as an indirect way of entering the European market tariff-free. Regarding livestock, for example, the EU is advocating that origin should be traced back to birth, while Canada considers the location in which the animal is slaughtered to confer origin.[6] Similarly, there has been discussion about whether territory of catch or registration of boat confers origin on fish. Sugar will also be considered, as most Canadian confections would not be considered Canadian under current EU rules because of the limited amount of Canadian-origin sugar.

3.4 Geographical Indications

Although Canada and the European Commission signed an agreement in 2003 for the protection of the names of wine and spirits, it is nonetheless expected that geographical indications (GI) will be discussed during CETA negotiations. The EU is expected to ask that GIs be expanded to include agriculture and agri-food products.[7]

NOTES

1. Other subjects covered in this series are non-agricultural market access, trade in services, investment protection, government procurement, technical barriers to trade and regulatory cooperation, intellectual property protection, labour mobility and dispute settlement.
2. Agriculture Canada, "Agri-Food Regional Profile: European Union 27," *Agri-Food Trade Service,* July 2010.
3. United States Department of Agriculture,"BICO reports."
4. World Trade Organization, the United Nations Conference on Trade and Development and the International Trade Centre, *World Tariff Profiles 2009*, Switzerland, 2009.
5. Ibid.
6. Many animals born in the United States are slaughtered in Canada.
7. The geographic indications issue is addressed in the following paper in this series: Alexandre Gauthier and Michael Holden, *Canada–European Union Trade Negotiations: 8. Intellectual Property Protection*, Publication no. 2010-59-E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, 3 September 2010.