

# Canada Needs to be More Proactive with its Industrial Policy, and Lead with Agri-Food



Independent Agri-Food Policy Note

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## The Issue

The pace of events in foreign affairs today is brisk, extending from geo-politics into commercial trade and trade policy, and quickly backing up into domestic policy. The matter focusing attention today in Canadian agri-food is the announcement of China's anti-dumping investigation of Canadian canola, only a short time following Canada's announcement of new duties on imports of Chinese electric vehicles (EV's) and steel.

As a mostly open economy sector heavily dependent upon trade, Canadian agri-food can become quickly drawn in and bounded to seemingly unrelated tensions and disputes. Today, the spillover of foreign affairs tensions- whether linked to trade or geo-politics- into Canadian agri-food, seems not only more common but perhaps even an imminent threat. Canadian agri-food can find itself tied up in trade and foreign affairs disputes with little relation to agri-food.

The multilateral rules-based trade framework intended to prevent and resolve most of these issues has struggled with challenges, in part due to large countries implementing sweeping industrial policies. Others, including Canada, are being driven to their own national industrial policies in its wake. This threatens yet more trade conflict. How can Canadian agri-food navigate this environment without compounding risk, decreasing investment, and hampering productivity and profitability?

These are vexing problems, and it presents the prospect that the current canola matter with China could be just an illustration of what is to come in a sharply shifting trade environment.

This policy note develops a framework through which to understand these issues, and proposes some ideas for how to move forward.

## Geo-Political Backdrop

Geo-political tensions resulting in more aggressive trade policies have been largely manifest by the US and China.

The US has been the standard bearer for more open and freer trade and a more liberal and rules-based multilateral system since the end of the Second World War. But for several years now, it has signaled its dissatisfaction with important aspects, most notably with the effectiveness of World Trade Organization (WTO) dispute resolution (by blocking appointments to WTO appeals panels) and with its ability to reign in what the US sees as certain unfair trading practices, notably by China in products such as steel, aluminum, batteries and EV's. In turn, the US has undertaken major industrial policy initiatives (such as the Inflation Reduction Act, and Worker Centered Trade Policy<sup>1</sup>) intended in part to reorient large segments of the US economy to climate change mitigation, improve security from supply chain disruption, and use trade to anchor communities.

Meanwhile, China has experienced impressive economic growth, and especially impressive export growth, much of it in technology-rich industries, including automotive and EV's. In April, 2024 the NY Times reported:

"China, the world's largest car market, became the largest exporter last year, having passed Japan and Germany. China's auto sales abroad are exploding. Three-quarters of China's exported cars are gasoline-powered models that the domestic market no longer

<sup>1</sup> <https://ustr.gov/about-us/policy-offices/press-office/blogs-and-op-eds/2023/worker-centered-trade-policy-peace-and-prosperity>

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needs, said Bill Russo, an electric car consultant in Shanghai. Those exports threaten to flatten producers elsewhere. At the same time, China’s electric vehicle companies are still investing heavily in new factories... China also has overcapacity in electric vehicle manufacturing, although less than for gasoline-powered cars. Price cutting for electric vehicles is common.”<sup>2</sup>

Other countries, such as the EU countries and Canada, have largely been left to respond to developments by the US and China, and on EV’s specifically the US and China initiatives appear to be at odds.

## Basics of the Multilateral System

The multilateral rules-based framework for international trade is built upon some basic concepts that abstract from the great detail and complexity evident in specific cases. Some essential aspects are (1) conditions for non-discrimination, (2) market access and barriers to market access, (3) subsidies, prohibited subsidies, and conditions for countervail and retaliation, and (4) provisions for developing countries. There are certain agreements within the WTO that refine the application of these concepts, such as the Agreement on Agriculture, but these concepts form the core outlined in GATT 1994.

- Countries agree to equity of treatment of others with respect to terms of trade, also called the Most Favored Nation concept (GATT 1994 Article I). Under this concept, an importing country offers the same terms of trade to all for the purposes tariffs, customs, etc., with only two exceptions. Countries that are not extended Most Favored Nation status (e.g. due to hostile foreign relations) can be treated differently than others. Countries that share membership in a plurilateral trade agreement can be treated differently and extended trade preferences (e.g. free trade among members). In this regard there are standards defining a plurilateral trade agreement,
  - Countries have the right to limit market access with barriers to trade, but these are constrained. Countries can use tariffs/duties, and tariff-rate quotas to limit market access, and must meet certain standards for the administration of barriers to trade. Countries cannot use quantitative restrictions, such as import quotas. Countries must exercise administration of tariffs and tariff-rate quotas on a non-discriminatory basis.
  - Governments can provide support (subsidies) and these can be specific to a person/company, an industry, or a region, or non-specific support in which all qualify. A subsidy confers a benefit, and can be a monetary payment, a tax forgone, provision of services by government other than general services, income or price supports, or payments into a mechanism to fund the foregoing.
    - A subsidy cannot be offered contingent upon export, or contingent upon replacement of an import with domestic product.
    - Subsidies cannot cause injury to another country, or undermine exporters’ access to a country’s domestic market.
    - Subsidies cannot be structured to cover ongoing operating losses of an industry, the ongoing

<sup>2</sup> ‘It Is Desolate’: China’s Glut of Unused Car Factories, Keith Bradsher, NY Times April 23, 2024

<https://www.nytimes.com/2024/04/23/business/china-auto-factories-price-cuts.html>

operating losses of an individual enterprise, or subsidies that exceed 5 percent of product value.<sup>3</sup>

- Dumping is the sale of product by an exporter into an importing country at less than normal value. If this can be demonstrated to cause injury to the importer, the dumping is actionable by the importer.
- Retaliation can occur on specific subsidies that are prohibited and/or cause injury to another country, and in relation to dumping. Retaliation must follow an established process, and be proportional to level of subsidy or dumping margin. Retaliation occurs through a duty established for this purpose. The duties have a sunset period, or are terminated pending a review.
- Developing countries have specific rights. Developing countries can limit trade in consideration of their macroeconomic requirements (balance-of-payments). Developing countries have some entitlements to provide protection to infant industries. Developing countries also have some special considerations regarding economic and regional development.
- There are exemptions to the above rules that deal with national security, and with emergency situations confronting countries, such as public health, and environmental concerns.
- State-owned enterprises (SOE's) have become a much larger portion of the global economy. The organization of an SOE surely complicates meaning of "subsidy" and the transparency of evidence.
- Two of the top five largest global economies- China and India- are classed as developing countries by WTO. This allows some of the largest economies advantages, such as the right of protection for industries claimed as "infant", that other large economies do not have. There is no process for a country to move from "developing" to "developed" status.
- Some new technologies appear to be characterized by increasing returns to size, such as some e-commerce technologies and advanced fission energy. This breeds natural monopolies and a race between companies and countries for global market dominance.
- With conflict and threat of conflict increasing in the world, national/regional security is of greater focus and importance.
- Economic and trade policy is seen as means of advancing geo-political agendas. Some countries wish to enlist trade in omnibus socio-economic initiatives- such as climate change mitigation and rebalancing of socio-economic inequality. These could greatly exceed the public funding thresholds in current trade rules. In other cases, trade policy is used to shore up existing market dominance.

which has ultimately caused the appeals function in the WTO Dispute Settlement Understanding to break down.

## Why the Friction?

The above concepts employed in the General Agreement on Tariffs and Trade (GATT) and the WTO have largely proven robust.

However, there have been important changes in global economic conditions since the mid-1990's as to create significant concerns:

- The dispute resolution function within the WTO has triggered differences of view among countries- for example in the use of precedence in litigating cases-

Moreover, growing geo-political rivalries appear to be impacting trade. In an article just published by Qui *et al* (2024), the authors find that more adversarial relations between countries (what they refer to as geo-political

<sup>3</sup> The Agreement of Agriculture contains further provisions governing agricultural support

distance) reduces growth in trade in terms of price and (especially) volume. Increasing geo-political distance was also found to increase the risks facing exporters and importers. If the multilateral rules-based system was addressing all the dynamics of international trade, presumably this would not be occurring. These factors have allowed China to enlist some aspects of trade policy as an element in economic growth and its geo-political agenda. The US, frustrated by the limits of the WTO to reign in the big issues, especially its concerns with China, is less the global champion for liberalized and rules-based trade. In this environment, the large economies are not walking away from multilateral rules-based trade, but are increasingly turning to industrial policy to address priority issues not effectively engaged by it.

## Industrial Policy

According to the OECD “Industrial policy refers to government assistance to businesses to boost or reshape specific economic activities, especially to firms or types of firms based on their activity, technology, location, size or age. Governments use industrial policies to address important economic, social and environmental challenges that markets cannot address on their own, such as to accelerate the green transition, or improve the robustness of value chains for critical products and services.”<sup>4</sup> These policy choices are driven by strategies for industries.

Bown (2023) observes that “Industrial policy today is also sometimes motivated by objectives other than increasing firm-level productivity or generating spillovers to other sectors and thus enhancing national economic growth. Instead, industrial policy is aimed at diversification in the name of supply chain resilience, fear over the weaponization of exports by trading partners, maintenance of technological supremacy, or

the desire to offer future policymakers more control over economic activity in response to expected shocks.”

Industrial policy can be difficult to do well. The historical record of industrial policies is littered with unintended side effects, egregious inefficiencies, and public liabilities. The “British disease” that impacted the UK in the 1960’s and 1970’s provides an illustration- Cole and Muhtar (2021) observe “Accounts identify industrial policy mishaps in the 1960s and 1970s... Nationalization and subsidies were the primary tools of choice from the postwar years up to then, and were used to resist de-industrialisation by supporting declining industries such as steel producer British Steel Corporation, auto maker British Leyland, and machine tool manufacturer Alfred Herbert.” (Coyle and Muhtar, 2021). Alternatively, industrial policies appear to have enjoyed greater success in eastern Asian economies such as Japan, South Korea, and China.

Most of Canada’s economy, and agricultural economy, is integrated with the global economy, so Canadian industrial policies do not start with a clean slate- and could adversely impact others, and be adversely impacted by others. Conversely, Canada can be badly disaffected by other’s industrial policies- particularly those of larger economies, and in industries where Canada has critical interests.

Adversely impacted countries will not hesitate to retaliate. However, to the extent that this system struggles to effectively address the milieu of policy instruments of large economy industrial policies, and their sheer magnitude of effect, some disaffected parties may seek to retaliate in whatever manner that they see as effective and in a manner that addresses their sensitivities.

Thus, an industrial policy intended to promote specific industries must anticipate prospective international blowback, the nature and targets of the blowback, with

<sup>4</sup> <https://www.oecd.org/en/topics/policy-issues/industrial-policy.html>

secondary policy prepared to address the collateral damage. It makes holistic industrial policy difficult, risky, and requiring of greater depth of analysis, strategy, diplomatic effort, and bold action than has previously been required.

## **Multilateral, rules-based trade and national industrial policies are substitutes, but they are not equivalent**

Under multilateral, rules-based trade, exporting countries can have some assurance regarding market access, the behaviour of international competitors, and the behaviour of import customers. Importing countries have some assurance that if they outsource products and services, there will be secure access to imports, and the behaviour of exporters and rival importers will be circumscribed. In this framework, international competition occurs. Multilateral, rules-based trade was designed to constrain national industrial policies, particularly the trade policy components. However, in many cases, the policies to respond to other country's industrial policy lie beyond the boundaries set in the WTO, but with no teeth left in the dispute resolution process, industrial policies remain the only instrument to respond.

With weakened multilateral, rules-based trade, or important gaps in it, countries turn more definitively to industrial policy to secure and promote critical industries. Countries identify strategic industries that will be favored because they provide for national needs and/or are a source of national competitiveness/economic development, and/or support important national or regional interests. Key markets and competitors are identified, and instruments are deployed that support the domestic industry in priority markets and defend it relative to competitors.

<sup>5</sup> [https://www.bloomberg.com/news/articles/2024-09-09/us-trade-rep-katherine-tai-describes-the-new-era-of-globalization?cmpid=BBD090924\\_TRADE&utm\\_medium=email](https://www.bloomberg.com/news/articles/2024-09-09/us-trade-rep-katherine-tai-describes-the-new-era-of-globalization?cmpid=BBD090924_TRADE&utm_medium=email)

A type of mid-point between the two is plurilateral agreements. These agreements are sufficiently substantive that they facilitate economic integration among countries, and as such, allow for trade preferences that favour members. The Comprehensive and Progressive Agreement of Trans-Pacific Partnership (CPTPP) is an example. Plurilateral agreements provide assurances of market access among member countries. They can also establish standards (e.g. labour standards, environmental standards) that members must maintain uniformly. Where plurilaterals lag multilaterals that cover the bulk of global trade, is in certain trade policy disciplines. For example, plurilaterals do not discipline domestic agricultural support- as does the WTO Agreement on Agriculture.

Under each of these scenarios, competition among companies/countries occurs. However, with weakened multilateral, rules-based trade, market discipline is attenuated, and the most efficient will not necessarily prevail, nor will the same level of investment and supply/demand balance occur. The idea of national treatment- equal treatment of imports with domestic products- is essentially lost.

## **An Inflection Point in International Trade Policy?**

Even as this occurs, geo-political trends are favoring national industrial policies and the formation of international blocs and spheres of influence.

Recent remarks (September 9, 2024) by US Trade Representative Katherine Tai<sup>5</sup> remind us that it is now 80 years since the Bretton Woods Agreements following the Second World War which brought us a world of considerable peace and prosperity. However, she makes it clear that era is over as she says "there is no such thing anymore as free trade". The growth of state subsidized monopolies and what she refers to as the "weaponization" of "monopsony" power in certain

[https://www.bloomberg.com/news/articles/2024-09-09/us-trade-rep-katherine-tai-describes-the-new-era-of-globalization?cmpid=BBD090924\\_TRADE&utm\\_medium=email&utm\\_source=newsletter&utm\\_term=240909&utm\\_campaign=trade&sref=ZcpONEpZ](https://www.bloomberg.com/news/articles/2024-09-09/us-trade-rep-katherine-tai-describes-the-new-era-of-globalization?cmpid=BBD090924_TRADE&utm_medium=email&utm_source=newsletter&utm_term=240909&utm_campaign=trade&sref=ZcpONEpZ)

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traded goods, together have created what she describes as a race to the bottom – low cost, low standards and less sustainable world. She states that we have moved into a new trading world which requires both trade defense instruments (or what Europe calls trade remedies) as well as offensive strategies which involve investments in people, green energy and new technology- industrial policies.

On the same day, Premier Mario Draghi was delivering his report on Economic Competitiveness<sup>6</sup> to the EU executive. Draghi followed many of Tai's themes calling for a "new industrial strategy for Europe" saying that the era of open, rules-based trade is on its way out and is "proposing more aggressive (offensive) measures in response to the massive green tech subsidies offered in China and the US." As well he recommends "a joint plan for decarbonization and competitiveness which could entail, in specific circumstances, defensive trade measures to level the playing field globally and offset state-sponsored competition abroad". He also recommended coordinated screening of foreign direct investment, referencing "fears that China is hoovering up expertise vital to European innovation and security".

What Tai and Draghi are independently telling us is that there are important issues and irritants the existing multilateral rules-based trade system has not evolved to address, and that there are other issues that it perhaps can address, but the system is not working properly. This can be true even if there are wide swaths of trade matters in which the existing multilateral trade system is proving effective.

## Agri-food is particularly vulnerable, and especially Canadian agri-food

Food is scarce in the world. Increases in the production of staple products have been insufficient to build storage stocks, as consumption has increased concomitantly. Increases in income and associated elasticities of

demand for many food products imply desired consumption for more of many products, especially proteins, than capacity exists to produce.

Figure 1 at the end of this note provides some context, based on total global grains data compiled by the International Grains Council for 2015/16 up to the present. Total global production of grains has been broadly increasing, but increasing consumption has more than kept pace, mostly preventing the buildup of stocks. Production exceeded consumption in 2015/16, 2016/17, and 2021/22; for the other years in the period, including the most recent estimates and forecasts, global consumption exceeds production and as a consequence, stocks have not increased. In the face of adverse impacts on agricultural systems, especially in equatorial parts of the world, it would be logical to build stocks as a hedge; but at a global level this has not occurred.

Brett Stuart of Global Agri-Trends has compared projected global consumption of meats 10 years out, based on projected GDP, with the long-run outlook for global production.<sup>7</sup> He observes major gaps opening up between desired consumption based on household incomes and forecast production, especially for chicken and pork.

These findings are consistent with Zhou *et al* (2020) that observed sharply increased Chinese demand for staple foods based on forecast increases in income by 2030. Compared with a 2012 baseline, 2030 demand for general cereals is expected to increase 29 percent, and general meat demand expected to increase by 65 percent. They do not speculate as to where the increase in production to fill these demands will come from.

The growing imbalance of world production and consumption has attracted considerable attention by many countries in attempting to assure domestic food supply. Examples include stockpiling food supplies in major importing countries, and limiting or banning

<sup>6</sup> [https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead\\_en](https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en)

<sup>7</sup> Global Demand, Global Supplies?  
<https://agritrends.com/blog/global-demand-global-supplies/>

exports. But agri-food exports and imports have also attracted attention as weapons in trade disputes far removed from the agri-food sector.

There is a pattern of agri-food becoming the go-to target for trade retaliation, and for political tensions spilling over into agri-food trade. To illustrate, in the wake of the Section 232 duties issued by the US on imported steel and aluminum, India retaliated against the US on chickpeas, lentils, almonds, walnuts, and apples; the EU retaliated on US corn, rice, orange juice, whiskey and a range of other food products; China retaliated against US pork, soybeans, wine, fresh fruits, and nuts. In the Boeing-Airbus dispute between the US and the EU, the EU retaliated against US seafood, cheese, fruits, vegetables, nuts, wheat, fats and vegetable oils, sugar, chocolate, and wine. Agri-food has become a common weapon in trade issues, regardless of whether the cause of the problem far removed from the agri-food sector.

In a recent paper, Steinbach *et al* (2024) observe that “Protectionist policies are once again threatening to reshape agricultural trade, as the U.S. administration escalated tariffs on Chinese electric vehicles (EV) in May 2024,... These policy shifts are reminiscent of past actions that led to significant retaliatory measures from China and other countries, severely impacting U.S. agricultural exports”. They estimate reactions to a range of protectionist measures discussed for the future in the US, and the potential cost of blowback on US agriculture from retaliation.

Jeffrey Wilson (2021) observed “In the first half of 2020 there was a sudden and rapid deterioration in the Australia-China relationship... China would apply massive retaliatory duties to Australian barley exports, as the result of a long-standing anti-dumping investigation. In subsequent months, similar coercive trade measures were applied to Australian beef, education and tourism, wine, cotton and coal exports”. Around the same time, China suspended imports from four Australian beef plants, citing technical issues. China removed the dumping duties on Australian barley in August 2023; earlier this year China restored Australian beef market access. Previously, China suspended imports from two major Canadian canola

traders citing contamination with pests, coincident with a diplomatic dispute involving China and the US (the Meng Wanzhou case). When the diplomatic dispute was resolved, it paved the way for resolution of the trade dispute. The timing of this Chinese dumping investigation on Canadian canola is thus intriguing.

Agri-food products as the go-to or default target in retaliation have become sufficiently common and problematic (“weaponization” of food) that prospective WTO agreements to constrain it have been in discussion for years, without agreement so far. Weaponization generally deals with withholding of food supplies from importing countries by exporting countries (imposing economic and humanitarian costs on importers); however, the reverse is the denial/constraint of market to exporting countries by large importing countries, and, as a result, reduced investment and capacity in exporting countries (imposing economic costs on exporters). Thus both aspects of weaponization ultimately result in reduced availability of agri-food products.

Bilyea (2023) illustrates that Canada is one of only a handful of countries heavily leveraged toward agri-food net export and operating at significant scale. Conversely, Canada can be highly vulnerable from the direct effects of retaliation to its industry strategies against its agri-food sector. The direct effect of market denial or constraint is lower prices to Canadian farms and the downstream export supply chain.

There are secondary effects possible as well. Denial or constraint of market access by importing countries, which initially appears counterintuitive, can have the effect of “softening up” the exporting country for later foreign direct investment/acquisition by the importer, after which the importing country will resume imports on terms more advantageous to the importer. Moreover, certain types of actions taken by importers against exporters- such as increased tariffs or duties- serve to strengthen development of the importing country’s domestic production sector through higher prices, even if the price increase decreases consumer demand in the

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importing country (although this must eventually become a constraint).

## Canadian Policy Directions

In this environment, size matters. Large economies that wield both hard and soft power are influential in international great power politics, and can advance the interests of their industries accordingly- and are less dependent on multilateral, rules-based trade institutions for economic security. Moreover, large countries that invoke industrial policies pose particular problems as their effects are much more apt to extend internationally. Bown (2023) observes that because of the multitude of ways in which large country industrial policies can create adverse external effects on others, WTO dispute resolution mechanism may be less effective.

Canada is a mid-sized economy with little hard power and poorly defined soft power, and thus has much less size from which to independently assert its interests internationally. The US and China are the two largest economies, with conflicting industrial policies that are more clearly coming into view.

Canadian agri-food has been greatly advantaged by the multilateral, rules-based international trading system. In the main, that system is working well in the products traded by Canadian agri-food. But by focusing narrowly on preservation of the existing system and on domestic and foreign/trade policies assuming that it will operate as effectively as it has, Canada risks being taken advantage of by others operating under different assumptions, and who are better equipped to influence the international sphere. This suggests that while it hopes for the best, Canada should also prepare for the worst- and pursue industrial policies in tandem with its efforts to support multilateralism. So Canada needs a mixed strategy.

This is not a contradiction. Canada has limited ability to influence the international system, and trade is central to its prosperity- in agri-food, and also in other sectors. This is the rationale for Canada to hedge its bets and both work toward rejuvenation of the international

rules-based system, and at the same time develop a secondary plan to secure and support its agri-food industries.

At the same time, Canada is squeezed as China, the US, and to a lesser extent, the EU, enact major industrial policies to counteract China's industrial policies.

In the case of EV's, Canada has had industrial policy for the automotive sector dating back at least to the 1950's, most recently illustrated in major public investments made by Canadian governments in new EV plants with Volkswagen, Stellantis, and Honda. In making the public investments, policy alignment with the US has been seen as fundamental through the Auto Pact, the Canada-US Trade Agreement, and with the US and Mexico in the North American Free Trade Agreement and the Canada-US-Mexico Agreement. General alignment in trade policy between Canada and the US relative to Chinese EV's is consistent with this; both countries are aligned in their concerns regarding subsidization of Chinese EV manufacturing capacity, and the EU has enacted provisional duties against imports of Chinese EV's.

If Canada cannot rely on the multilateral system for protection from the adverse effects of the industrial policies of large economies, and these foreign industrial policies come into collision with Canada's own industrial policies, Canada will have no choice but to take sides. Given proximity and existing economic integration, this pushes Canada to greater alignment with the US.

The implication is more of a North American architecture facing Canadian trade in the future, which is not ideal for the Canadian agri-food sector. In food, the North American market is in large part mature, so it presents the prospect of facing slower market growth in the future.

There are some products, such as some pulse crops or livestock offals, that are produced and processed in Canada but do not have a strong customer base in North America. An orientation of Canadian trade and trade policy to North America and away from other parts of

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the world would thus impose costs on Canadian exports. It also serves to narrow the range of international markets, which carries implications for negotiation on business-to-business relations, as well as on trade policy.

Canada has not taken seriously the role that agri-food could play as an element of soft power in its international relations. The best illustration is that agri-food does not have a featured role in Canada's Indo-Pacific Strategy, as does critical minerals and energy. It suggests a gap of understanding- Canada is among few countries with significant surpluses of staple agri-food products available to export, and the Indo-Pacific region is where the largest growth in incomes and increased demand for food will occur.

A mitigating option could be new plurilateral trade agreements that draw upon countries that have similarities and aligned interests with Canada- perhaps in agri-food, or more broadly. In a recent interview, former Canadian trade negotiator Steve Verheul remarked, "Those countries that rely on a rules-based system, and which are significantly less powerful than the U.S. and the EU, such as Canada, would do well to start working together on ideas on how to renew the rules-based system to address current and future challenges."<sup>8</sup>

Canada is increasingly looking at and pursuing industrial strategies, such as lithium battery production, and shifting from gasoline/diesel fueled vehicles. It should assume that its industrial strategies will be met by strategic or opportunistic retaliation, targeting its agri-food sector. These measures may be simply focused on pressuring Canada's industrial policies; or they may have a secondary intent to injure Canada's agri-food sector so that it can be targeted for easier acquisitions as part of an importing country's food security strategy.

Agri-food companies can be targets of retaliation and predatory foreign investment/acquisition, along with or

in addition to producers and farm commodities. Protection and financial support for agri-food companies may be needed to counter these contingencies.

Consistent with the above, Canada should be prepared with rules to review foreign direct investments that exceed a threshold level, and deepened due diligence in general. In some agri-food product supply chains, Canada has only a few, large processors. The capture of one of these entities through acquisition by a foreign investor more interested in securing food for its home country to import than it is conducting a profitable business within a Canadian supply chain could be catastrophic.

In addition to shielding agri-food from the retaliation to Canada's industrial strategies outside of agriculture, agri-food is likely to require industrial strategies of its own. The most developed industrial strategies that apply to agri-food in Canada are in supply-managed commodities; bio-fuels represent another industrial strategy. But Canada may need to develop deep industrial strategies for its export-oriented commodities such that their competitiveness and capacity can be defended and export orientation retained, which focus on value added and differentiation with strong consumer pull - a radical departure from the past, and with no template as to how best to proceed.

A clear challenge to new industrial policy in agri-food is how to facilitate capacity at the entire breadth of supply chains to match farm product output. Canada has struggled to obtain requisite investment in processing and elsewhere in agri-food supply chains even when the multilateral, rules-based trade system was more aligned with the overall global situation.

Canada's business risk management programming suite is rooted in the multilateral, rules-based trade system. This requires renewal, as the risks are shifting and increasing. For example, AgriStability employs a

<sup>8</sup> See The Hub article "Canada is by no means alone in this" August 20, 2024 <https://thehub.ca/2024/08/20/canada-is-by-no->

[means-alone-in-this-steve-verheul-on-whether-or-not-it-makes-sense-for-canada-to-impose-tariffs-on-chinese-goods/](https://thehub.ca/2024/08/20/canada-is-by-no-means-alone-in-this-steve-verheul-on-whether-or-not-it-makes-sense-for-canada-to-impose-tariffs-on-chinese-goods/)

definition of loss and an Olympic average concept to adjust its reference margin, closely tied to the Agreement on Agriculture, Annex II, Article 7. The stability and credibility of this reference margin concept assumes that within three years, stability or “normalcy” has been restored in a farm’s costs and returns. However, if the international market risk situation is devolving, this assumption may not be valid in the future, and programming effectiveness could suffer unless program parameters are changed.

Agri-food needs the requisite human resource capacity to meet the challenges of this environment. Canadian agri-food companies will need to place greater emphasis on strategy and high level risk management in international operations. Agriculture ministries- federal, provincial, territorial- will need to work together effectively, and provide region-based responses in support of industrial policies and if/when retaliation occurs. In turn, this demands a human resource complement in ministries of agriculture qualified and trained for this purpose.

## Conclusions

The immediate term impact of the Chinese dumping duty investigation into Canadian canola is to depress the price of Canadian canola and raise the price of canola/rapeseed elsewhere as well as soybeans and competing oilseeds. This creates pain for Canadian canola growers who have not yet priced the current crop, and comes in a year when crop prices were already markedly lower than previous years. It can be anticipated that China will issue a preliminary decision on dumping with preliminary duties (just as Canada would) and that a full investigation could take quite some time- exacerbating the uncertainty and pain for Canadian canola.

No formal connection has been made between the duties introduced by Canada on Chinese EV’s and steel, and the announcement of a dumping duty investigation by China on Canadian canola. However, it is consistent with the observations above on the realities of a decaying

multilateral, rules-based trade system and clashing international industrial policies.

It is also an indicator of the new, much more uncertain policy paradigm Canada is in. We must assume that Canada will face the increased prospect of retaliation against agri-food. It may need its own agri-food industrial policies, which we have little direction for, and which could themselves be subject to trade relation. It has a major interest in the multilateral rules-based trade system working effectively, but cannot be naïve to the reality of large economy industrial policies. So it needs a mixed strategy.

In replying to a critic’s challenge, the great economist John Maynard Keynes once quipped, “when the facts change, my opinions change- what do you do?”. The facts facing Canadian agri-food are changing deeply. In turn, Canada’s policy approach must change. This is not a problem that can be kicked down the road; it is both important and urgent.

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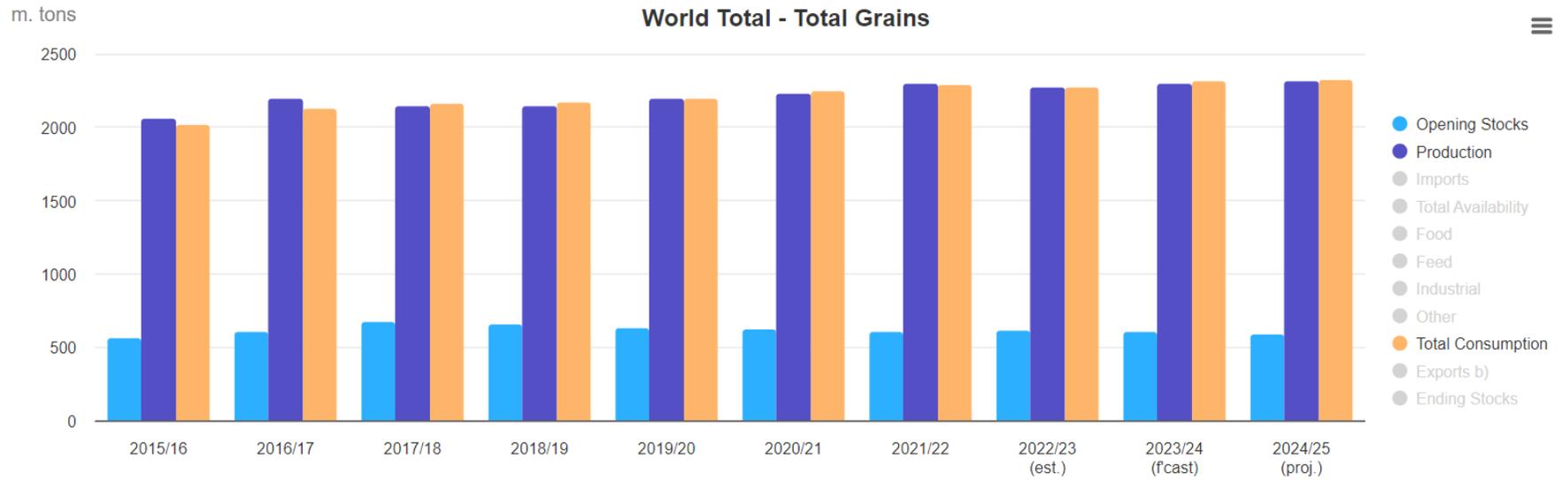
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**Figure 1**



Source: International Grains Council

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