



CANADIAN AGRIFOOD TRADE ALLIANCE

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Comments on Free Trade Negotiations with Korea
A Submission by
The Canadian Agri-Food Trade Alliance
To
The House Standing Committee on International Trade
June 14, 2006

Introduction

About CAFTA

CAFTA is the only trade advocacy organization that represents the entire agricultural value chain

CAFTA represents the majority of producers in Canada, and all of Canada's important export commodities.

If our sector is to make a growing contribution to the Canadian economy, we require an international market place that is free of these distortions.

CAFTA's long term objective is global free trade in agriculture and agri-food products.

This submission is made on behalf of the Canadian Agri-Food Trade Alliance (CAFTA) and its members (list attached).

CAFTA is a coalition of organizations and companies representing the majority of Canada's farmers, as well as processors, marketers and exporters of agriculture and food products. CAFTA's membership also includes companies that supply inputs to producers. As such CAFTA is the only trade advocacy organization that represents the entire agricultural value chain.

CAFTA's members together do about \$50 billion in business annually, providing over 500,000 Canadian jobs. Our members account for over 80% of Canada's agriculture and food exports and for almost 60% of Canada's total farm cash receipts.

While CAFTA's members are highly dependent on international trade, we continue to be forced to compete in a market that is highly distorted by subsidies, prohibitive tariffs, and non-tariff barriers. If our sector is to make a growing contribution to the Canadian economy, we require an international market place that is free of these distortions. A more open trading system would result in increased opportunities for Canadian producers, processors and exporters. Estimates of the benefits of more open trade for Canada and for the world are as high as \$US 56 billion annually.

CAFTA's long term objective is global free trade in agriculture and agri-food products. This will allow Canada's competitive, quality food and agriculture producers to capture opportunities world wide and return the benefits to Canadian producers, processors and to the economy of Canada.

Global vs. Regional Trade Agreements

Regional and bilateral agreements often exempt much of agriculture and food

The primary focus of CAFTA is on global trade reform and the current round of agricultural negotiations at the World Trade Organization. While we support all efforts to achieve liberalized trade in agriculture, for many of our members, regional and bilateral deals, in the absence of effective international trade rules, are not totally beneficial for the following reasons:

- Regional and bilateral agreements tend to exclude many agriculture and food products, with the result that the access deals are not equitable for the entire industry. For example, the NAFTA has separate agreements on agriculture between the parties, and many products are completely excluded from the agreements.

Regional and bilateral agreements do not address subsidies

One of Korea's most recent free trade agreements – with Chile, has exemptions on the parts of both countries for agricultural products. Many of the products of interest to Canada are identified in Korea's schedule as "DDA". For these products, tariff reduction or elimination will only be negotiated at the conclusion of the Doha Round of WTO negotiations.

- Regional and bilateral agreements are only market access agreements. They do not address the use of export and trade distorting subsidies, which have had such devastating impacts on our international market dependent sectors.

The international market in agriculture and agri-food is the most distorted of any market. 25 countries still use export subsidies, with commitments totaling \$US 25 billion.

The world's richest countries continue to spend well over \$US 300 billion to support agriculture. 80% of that support comes in the most trade and production distorting forms (market price support, input and production subsidies).

Korea is one of the world's biggest subsidizers. It provides support to its agriculture industry that is 63% of the total value of production. Korea's beef industry receives support that is 56% of the value of production, pork support is 39% of the value of production and oilseeds in Korea receive support worth 89% of the value of oilseed production.

- The increased access provided for some, often highly subsidized, products by bilateral agreements forces domestically produced product onto the international market, which as stated above is still very distorted by subsidies and access barriers internationally. This is of particular significance

Many sectors of our industry will only see real benefits when substantial disciplines and rules are imposed globally on all players in the international market.

Building on the WTO

When the international market place is more open and fair, bilateral agreements are effective complements

CAFTA supports regional and bilateral market access agreements that build on global trade agreements. When the international market place is more open and fair, bilateral agreements are effective complements.

It is noted that this was substantially recognized in the Korea/Chile FTA, where the negotiation of tariff elimination for many agriculture and food products was deferred until after the completion of the Doha Round of WTO negotiations.

Specific to Korea

Korea is a very protected agriculture and food market. A beneficial FTA will address these and other specific issues.

In 2004, Canada exported \$2.25 billion in goods to Korea. Agriculture and food products accounted for just over 6% of total exports of goods in 2004. The largest export in 2004 was of wheat. Prior to the BSE crisis, beef was Canada's largest agricultural export to Korea.

In addition to be a highly subsidized market, Korea remains a very protected market when it comes to trade in agriculture and food products. It administers a large number of tariff rate quotas with very high over quota tariffs. Korean simple tariffs are also very high in many cases. Some of the products that are of specific interest to CAFTA's members are:

Barley – In its most recent WTO notification, Korea specifies two tariff rate quotas for barley. A malting barley TRQ of 30,000 tonnes, which it reports as filled in 1999. The over-quota tariff is 513%.

Barley other than malting barley - is also subject to a TRQ, of just over 19,000 tonnes. The TRQ is reported as filled, and the over-quota tariff is 299%.

Barley malt – is subject to a TRQ that is notified as 40,000 tonnes, and is notified as filled.. The tariff that applies over the TRQ is 269%.

Other Barley products - Some barley products such as groats and flakes are aggregated with other barley for the purposes of the TRQ, but the over quota tariffs are bound at over 800%.

Dried Beans – another very protected commodity, that is of interest to Canadian exporters is dried beans. Korea administers a TRQ on these products with an over-quota tariff of up to 420% for beans not used for seed. The bound tariff on seed beans is over 600%.

Feed Peas – Korea has a 27% bound tariff on dried peas over a TRQ of just under 12,000 tonnes. Until recently, there was no differentiation in the TRQ for food and feed peas. CAFTA is pleased that Korea has agreed to provide access to feed peas at a 2% tariff within a TRQ. However, it is important that Canada continue to pursue tariff parity with directly competing products such as feed barley, corn, feed wheat and lupins.

Canola oil – as do many other countries, Korea applies a higher tariff on canola products that it does on the direct competitor soybean products. The tariff on crude canola oil is 10%, and it's 30% on refined canola oil, and the tariff on sunflower oil is 8%, while the soybean oil tariff is 5.75%. Any bilateral agreement must, at the very least achieve parity. However full elimination of the tariffs on vegetable oils including Canadian canola, soybean, sunflower and linseed oil, is the preferred goal.

Tariff escalation – Currently, canola oil is the only vegetable oil that is subject to the practise of tariff escalation - applying higher tariffs on processed products as they move up the value chain. Currently the tariff on canola seed is 10% as is the tariff on crude oil, but the tariff jumps to 30% on refined oil. This must be eliminated.

Beef – A priority needs to be placed on re-opening Korea's borders to Canadian beef. Before the BSE crisis of May, 2004, Korea was Canada's third largest market for beef.

However, even once the border is re-opened, there are issues that will continue to hinder trade in beef between Canada and Korea, that should be included in FTA negotiations.

Beef Tariff – Korea has a 40% tariff on beef. Once trade in beef resumed, it is estimated that removal of that tariff could return an additional \$US 60 million to the agriculture and Canadian economies and creating almost 1,000 new jobs in the beef production, processing and supporting industries

Tariff Escalation – is also a concern for beef. Processed beef products such as beef jerky are subject to a tariff of over 70%, and processed products made from beef offal face a tariff that is more than 10% higher than the unprocessed products.

Other Access Issues - Some CAFTA members want to make it clear that all tariffs in Korea must remain on an ad-valorem basis. Specific tariffs such as a Korean Won denominated tariff do not reflect currency or product values and must be resisted. In addition, CAFTA's members would resist any efforts on Korea's part to implement any new tariff rate quotas.

These are just a very few examples of the very distorted marketplace that exists in Korea. A Canada/Korea free trade agreement that addresses these and other market access issues; which does not allow Korea to exclude products of interest to our members; and which is built on a solid WTO agreement, could provide substantial benefits to Canada's agriculture and agri-food sector.

Conclusion

Many sectors of our industry will only see real benefits when substantial disciplines and rules are imposed globally on all players in the international market. The WTO must take first priority. Bi-lateral and regional free trade negotiations must not divert resources from Canada's WTO effort.

A free trade agreement with Korea, built on solid rules at the World Trade Organization, and which does not exclude products of interest to CAFTA members, could provide a substantial benefit to Canada's agriculture and agri-food sector

The Canadian agricultural production, processing, marketing and exporting systems are among the most efficient and effective in the world. We have developed and grown, even in an environment where production and trade are distorted by subsidies and tariff and non-tariff barriers. This history, combined with the quality of our products and the efficiency with which we produce them, puts Canada in an excellent position to compete and benefit if disciplines can be enforced on unfair trading practices

Our primary focus is on global trade reform and the current round of agricultural negotiations at the World Trade Organization. Many sectors of our industry will only see real benefits when substantial disciplines and rules are imposed globally on all players in the international market. The WTO must take first priority. Bi-lateral and regional free trade negotiations must not divert resources from Canada's WTO effort.

A free trade agreement with Korea, built on solid rules at the World Trade Organization, and which does not exclude products of interest to CAFTA members, could provide a substantial benefit to Canada's agriculture and agri-food sector.



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CAFTA's Members June, 2006



Agricore United - is one of Canada's leading agri-businesses. The prairie-based company is diversified into sales of crop inputs and services, grain merchandising, livestock production services and financial markets. 12 of the 15 members of the board of directors are active farmers, democratically selected by AU's farmer members. Agricore United's shares are publicly traded on the Toronto Stock Exchange under the symbol "AU.LV".



Alberta Beef Producers – was established in 1969 at the request of five widely diverse farm groups (Alberta Cattle Breeders Association, Alberta Dairymen's Association, Alberta Federation of Agriculture, Farmers Union of Alberta and the Western Stock Growers Association). Today Alberta Beef represents the interests of more than 35,000 beef producers in Canada's largest beef producing province - Alberta. Alberta Beef Producers mission is: "To strengthen the sustainability and competitiveness of the Alberta beef industry. One of its main objectives is to increase beef demand domestically and internationally by implementing a coordinated approach to global market development.



Alberta Pork - is a self-sustaining, non-profit oriented association that operates on behalf of Alberta pork producers. Established in 1969 Alberta Pork represents the interests of Alberta's more than 1000 pork producers. Alberta is Canada's 4th largest pork producing province, raising over 3.5 million pigs annually. Alberta Pork's mission is: to position Alberta pork producers and the industry as vital, sustainable and valued in the agri-food business and society, through the continuous advancement of initiatives that enhance prosperity."



Canada Beef Export Federation - The Federation's mission is to expand and diversify export sales and market share of; Canadian beef and veal products with sustained profit based on brand value and unique Canadian advantages. The Federation's Mandate is to identify and develop markets to increase the sale of Canadian beef and veal products with the cooperation of all companies, organizations and institutions which will benefit from this success. In 2005, Canada exported 458,000 tonnes of beef valued at over \$1.9 billion to 76 countries around the world. The Canada Beef Export Federation is clearly focused on the development of new international markets for Canadian beef and veal.



Canadian Canola Growers Association - is the national association that represents all of the provincial canola grower organizations in Canada. CCGA represents over 60,000 voting members - approximately 95 percent of canola growers in Canada, with a mission to influence national issues and policies to enhance the profitability of Canadian canola growers. CCGA is governed by a Board of Directors made up of growers who are appointed by its member organizations.



Canadian Cattlemen's Association - represents the interests of 100,000 beef producers across Canada. Canada's beef industry is the largest single source of farm cash receipts - \$5 billion annually. This represents 19% of total Canadian farm cash receipts. Normally, more than 60% of all beef produced in Canada is exported, making Canada the third largest beef exporter in the world.



Canadian Meat Council - is Canada's national trade association of federally-inspected meat packers/processors. The red meat industry is the largest sector - \$18 billion - of Canada's food processing industry and is the fourth largest of all manufacturing industries in the country. It employs directly over 48,000 Canadians and is the second largest agri-food exporting commodity following grains and oilseeds



Canadian Oilseed Processors Association - is a federally incorporated industry association of Canadian oilseed crushers and processors. COPA's members own and operate 14 oilseed crushing, refining and packaging plants in Alberta, Saskatchewan, Manitoba, Ontario and Quebec. Together they crushed 4.5 million tonnes of oilseeds in 1997, producing 1.5 million tonnes of oil and 3.0 million tonnes of meal, with a total value of \$2.4 billion. Over 60% of the oil produced by COPA's members and almost half of the meal is sold on the export market to 22 different countries.



Canadian Sugar Institute - represents all manufacturers of refined sugar in Canada. The industry produces over 1.1 million tonnes of refined sugar annually with a value of shipments of about \$700 million. The industry provides approximately 1,450 direct full time jobs as well as employment for 450 sugar beet growers in western Canada. Canada's low-cost, high quality sugar is an important competitive advantage for Canada's food/beverage processing sector, however exports of both sugar and sugar-containing products to the United States and other countries are restricted by significant trade barriers.



Canola Council of Canada - is an association of all sectors of Canada's canola industry. The Council represents the common interests of producers, processors, grain handlers, exporters, food and feed manufactures, and the seed trade in promoting the production and utilization of canola and canola products. The value of canola production at the farm gate in Canada now regularly exceeds \$2.5 billion per year. Just under 50% of that products is exported in the form of seed. The balance is processed in Canada. Over half of canola products processed in Canada is exported. The USA, Mexico, Japan, China and other Pacific Rim countries are the key market regions for canola and canola products.



Food and Consumer Products Canada - is the industry association representing approximately 150 Canadian-operated member companies that make and market retailer and national brands sold through grocery, drug, convenience, mass merchandise and foodservice distribution channels. Last year, the industry employed 325,000 Canadians across the country, making it the largest employer in the Canadian manufacturing industry, and generated over \$25 billion in GDP representing 14% of the Manufacturing Gross Domestic Product.



Grain Growers of Canada - is a federation of provincial and regional grain and oilseed producer associations that represents Canada's grain farmers, from British Columbia through to Atlantic Canada, in public policy development. A Board of Directors, comprised of representatives appointed by each member association, sets Grain Growers' policy nationally. The largest contributor to the agri-food economy, Canada's grain farmers operate over 80,000 grain & oilseed farms, with typically 30 million tonnes of the grains and oilseeds produced being exported annually. Exports are worth roughly well over \$5 billion annually, which in turn contributes to Canada's economy, its trade surplus, and to rural well-being. Established in 2000, the GGC is the only national farm organization dedicated to advocacy on behalf of Canada's grain & oilseed producers.



Malting Industry Association of Canada - represents four malting companies which operate six malting plants in Quebec, Ontario, Manitoba, Saskatchewan and Alberta. The industry processes over 1 million tonnes of Canadian malting barley per year, accounting for 50% of all Canadian Wheat Board malting barley sales. The Canadian malting industry is the world's second largest exporter of malt, with export sales of over 500,000 tonnes valued at over \$200 million. Over 65% of Canada's malt production is exported, making the industry the largest exporter of value-added grain in Canada.



Sask Pork - is the representative organization of all Saskatchewan pork producers. It was established in 1998 to lead and provide industry programs and services to producers province wide. Sask Pork represents Saskatchewan's 500 pork producers, and about 10% of Canada's total production of pork comes from Saskatchewan.



Sunterra Group - is a family owned operation that incorporates farming, processing and retailing. Sunterra Farms produces grains and livestock. Sunterra Farms crops about 13,000 acres of land, has beef feedlot capacity of about 45,000 head in 3 locations, and about 7,500 sows on farms in Alberta. Sunterra Meats operates federally inspected meat processing plants, and exports to the United States, Mexico and Japan. Sunterra Markets supply fresh food to consumers in 6 markets across Calgary and Edmonton. Started by Stan and Flo Price, Sunterra is now operated by the 5 Price brothers : Glen, Ray, Dave, Doug and Art. It is truly a Canadian success story, presently employing over 650 Canadians.