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TRADE RANKINGS 2020

*Opportunities and challenges to
diversify Canada's food exports*

Introduction

Canada has long been a major exporter of both agricultural commodities and food. Yet, in some ways, Canada’s position in global food exports indicates opportunity for growth. In 2019, Canada ranked fifth among global commodity exporters and 11th in food (i.e., processed commodities for consumption) – include beverages, and Canada’s position drops to 12th.

As the world’s population expands and incomes grow, demand for food climbs, creating opportunities for Canada to increase exports. Higher purchasing power in non-traditional markets and new trade agreements generate possibilities to diversify exports away from conventional destinations.

The COVID-19 pandemic put a strain on the global food industry and highlighted the importance of a robust agri-food supply chain. But Canada’s competitive advantages in agriculture and food production are still very relevant: abundant natural resources, productivity, innovative entrepreneurs and a stellar food safety reputation.

The Canadian government’s 2017 objective is for agricultural commodities and food exports to reach C\$75 billion by 2025. UN Comtrade data (expressed in USD and converted to CAD based on year-end CAD-USD exchange rate) reveals that total agriculture and food exports in 2019 were C\$67.2 billion (Table 1).

Canada’s food exports totaled C\$29.0 billion in 2019, up 27.9% since 2015, and represent 43.2% of total agriculture and food exports (Figure 1). Gains for food exports were largely driven by export growth to the U.S. which accounted for over 78.5% of exports and 77.3% of the export growth since 2015. Export food concentration is one business risk to monitor in this era of heightened protectionist tensions.

Figure 1:

Share of agriculture commodities, food, and beverages in total agriculture and food exports

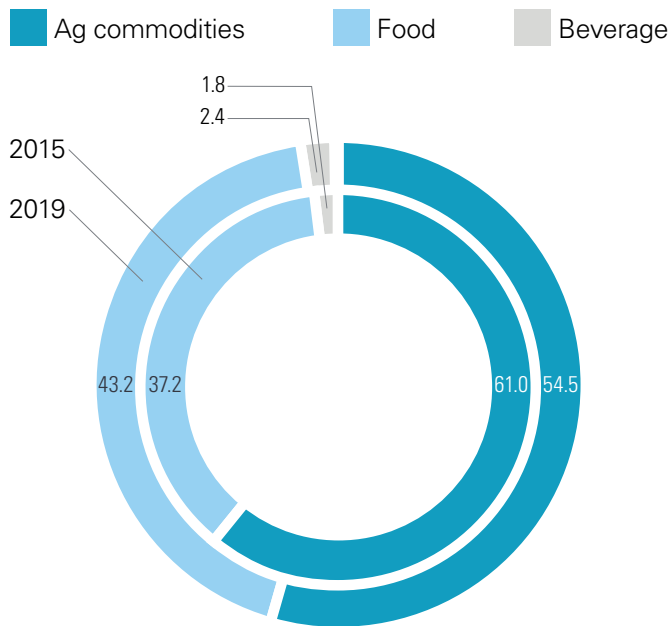


Table 1: Canadian exports in CAD billions

Year	2015	2019
Ag commodities	37.2	36.6
Food	22.7	29.0
Beverage	1.1	1.6
Total	61.0	67.2

Source: UN Comtrade data, accessed September 2020.

How we collected the data

We focused on processed agriculture products with the potential to be exported to non-U.S. markets. Food trade is defined as all products (or an HS6 subset of them) in HS codes 02 (meat), 03 (shellfish/fish), 04 (dairy), 07 (vegetable products), 08 (dried fruit/nuts), 09 (coffee), 11 (milled products), 15 (fats), 16 (preparations of meat), 17 (sugars), 18 (cocoa), 19 (preparations of cereals), 20 (preparations of vegetables), 21 (miscellaneous edible products). Beverages is defined as 22 (beverages).

The breakdown of food categories is based on the USDA processed food HS6 classifications with slight modifications.

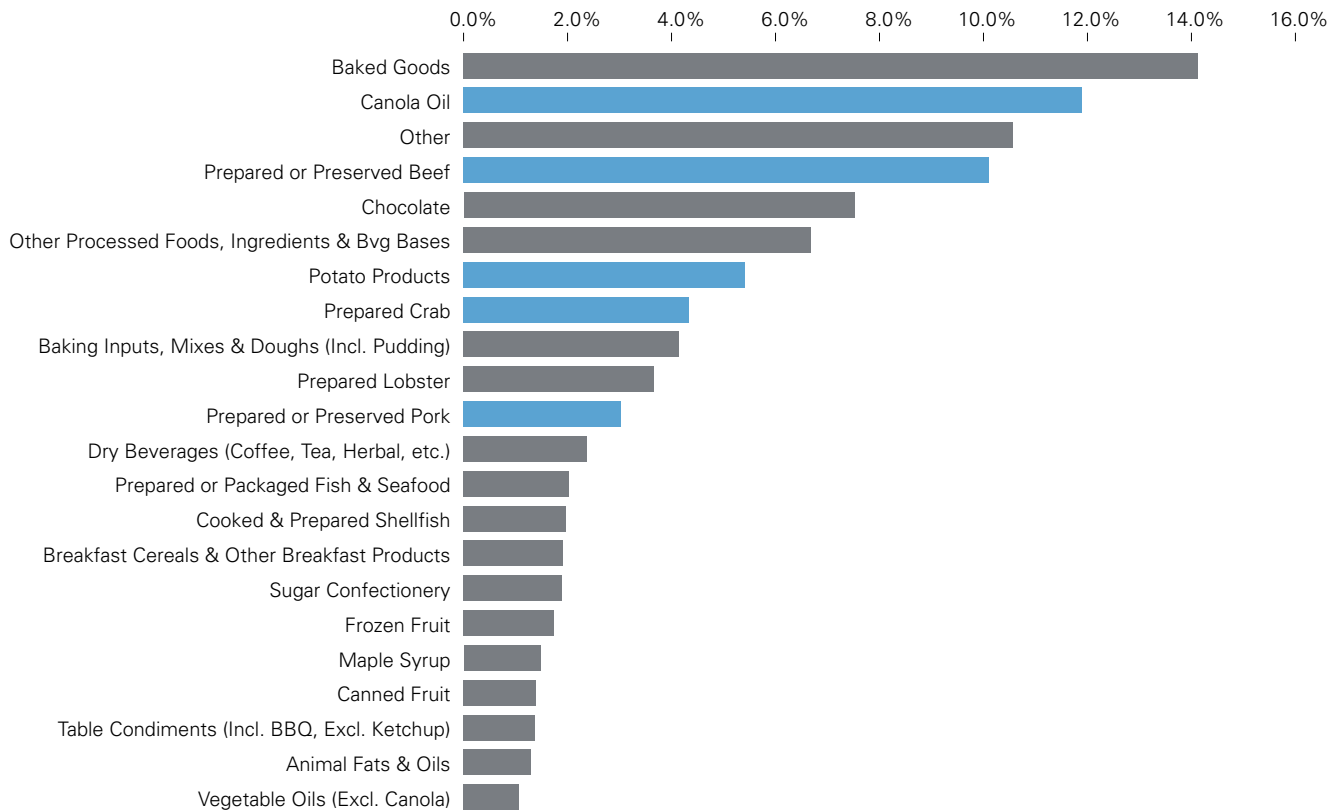
China's 2019 import data were unavailable from UN Comtrade at the time of publication. We used their 2018 import and export values throughout this report, except where data reflecting exports to China from Canada and elsewhere were available. All data were extracted from UN Comtrade in September 2020.

Canadian food industries with export opportunities

Export diversification opportunities are a function of logistical or transportation constraints, food preferences of buyers, import market size, and whether Canada also has any competitive advantage in producing the primary ag input or food product. These criteria do not necessarily make opportunities for the largest export industries. For example, Canada's largest food export is baked goods (Figure 2), but 95% of exports go to the U.S. due to proximity and the perishable shelf life.

Figure 2:

Export shares of food product categories relative to total food exports



Source: UN Comtrade data, accessed September 2020.

Table 2 lists the following five product categories selected to investigate export diversification possibilities.

Product category	HS6 codes
Canola Oil	151411/151419/151491/151499 (canola oil)
Prepared or Preserved Pork	020312 (fresh bone-in ham), 020322 (frozen bone-in ham), 021011 (salted, dried or smoked bone-in hams), 021012 (salted, dried or smoked bellies), 021019 (salted, dried or smoked other items), 160241 (ham preparations excluding homogenized), 160242 (shoulder preparations excluding homogenized)
Potato Products	071010 (frozen steamed potatoes), 110510 (potato flour), 110520 (potato flakes), 200410 (frozen french fries), 200520 (chips)
Prepared Crab	030614 (cooked crab)
Prepared or Preserved Beef	020120 (fresh bone-in cuts), 020130 (fresh boneless cuts), 020220 (frozen bone-in cuts), 020230 (frozen boneless cuts), 021020 (salted, dried or smoked), 160250 (preparations excluding liver)

Where can Canada expand our exports?

To identify opportunities for potential Canadian export diversification, FCC Ag Economics selected markets that are large and growing quickly. Many of these countries already trade with Canada, and some count among our largest export markets. Often, we have trade agreements already in force or are in the process of establishing formal trade relations.

We then defined markets that “preferred” Canadian food in 2019. That is, their imports of Canadian products were larger than normally would be expected, based on the world’s imports of those same food products from Canada. We define those large and quickly growing markets where Canadian food has an under-represented export presence as those with the greatest potential to grow our exports.

Revealed Market Advantage

Canada may be considered to have a revealed market advantage (RMA) over other exporters if a foreign market’s imports of a Canadian commodity represent a greater share of their total purchases than is found in world purchases of Canadian products.

An example looking at the U.S. market and exports of baked goods:

$$\text{RMA: } \frac{\text{U.S. import values of CA baked goods relative to their overall import values of baked goods}}{\text{Global import values of CA baked goods relative to overall global import values of baked goods}} = \frac{47.9\%}{9.2\%} = 5.2$$

A score above “1” indicates those markets whose imports of Canadian baked goods represent a greater share of their total purchases than is found at the world level of purchases of Canadian baked goods. These are our “preferred” markets. A diversification opportunity arises when a market is not labelled as “preferred.”

In this report, we highlight opportunities for Canadian food processors to diversify exports by focusing on two key features of the world food markets:

1. World’s largest importers (2019 USD)
2. World’s fastest-growing markets (countries with at least 0.5% of total global imports and positive average growth between 2014 and 2019)

We also highlight which markets are already buying a disproportionately larger share from Canada (preferred countries with an RMA score of “1” or more and at least US\$1 million in global imports) and, as such, do not present significant diversification opportunities.

Canola oil

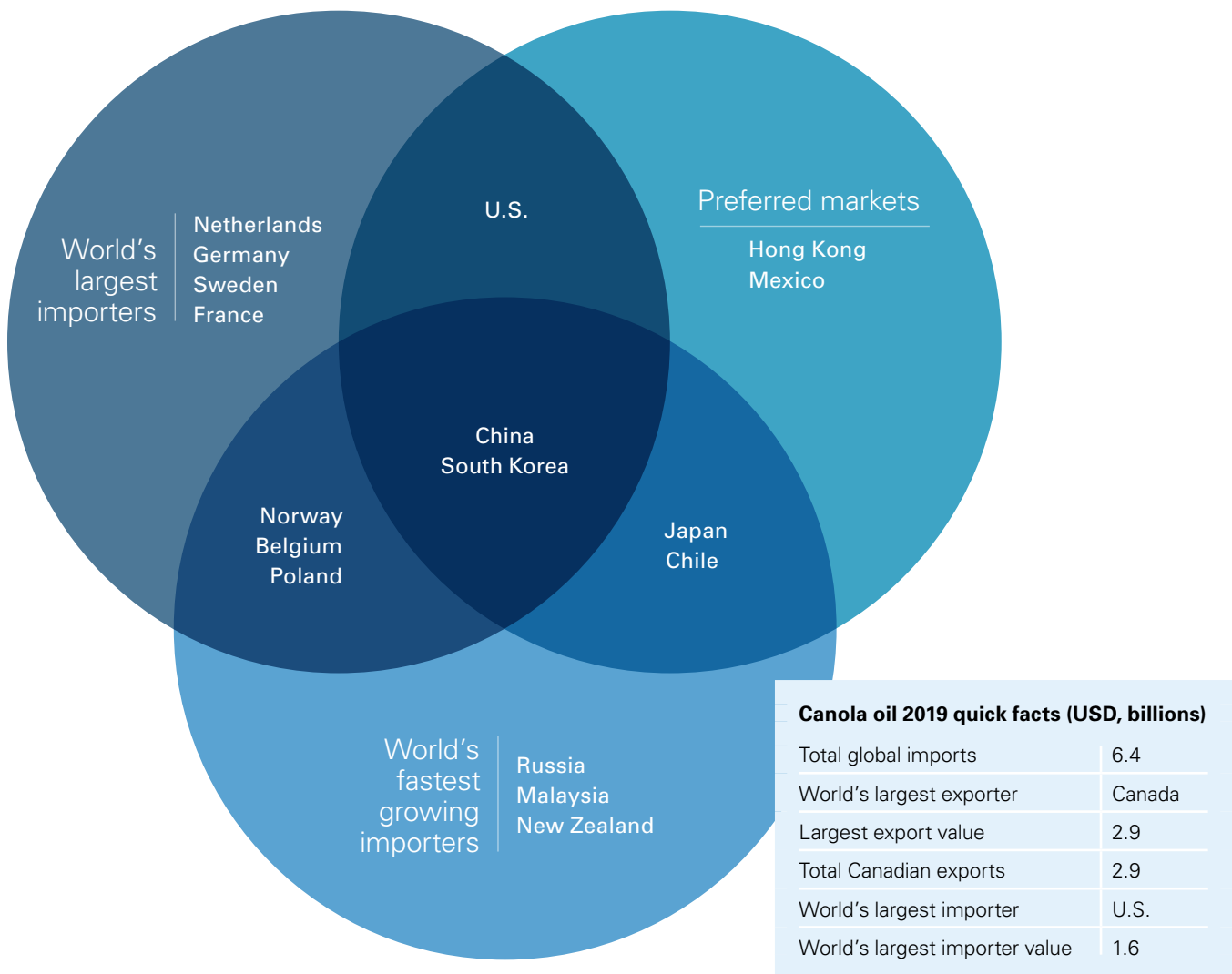
Global canola oil imports were valued at US\$6.4 billion, growing 31.8% from 2009 to 2019. Canada is the world's largest exporter of canola oil, supplying 44.9% of global imports in 2019, up from 30.3% in 2009.

Compared to total vegetable oil imports, Canada ranks 33rd, highlighting the size of the global oil market compared to strictly canola. Canada primarily exports to the U.S. and China (88.2% of our exports).

Of all vegetable oils, canola oil has been the fastest-growing behind coconut oil. Canola's global import share as a percent of all oil grew from 11.3% in 2009 to 13.0% in 2019. This has been a result of growing demand across the Pacific. 51.1% of global import growth since 2009 has come from China, Russia, South Korea, Japan, Vietnam and Hong Kong.

Figure 3:

World top importers, fastest-growing markets, and markets that preferred Canadian canola oil in 2019



Source: UN Comtrade, accessed September 2020.

Opportunities for further diversification of canola oil markets

There's a clear divide in the vegetable oil market: European importers often source European oil largely used in biodiesel production or source the primary commodity (canola seeds). Non-European importers prefer Canadian canola oil, largely used for consumption. The EU also announced in 2020 a ban on palm oil due to deforestation concerns, phasing it out by 2030. This could open the doors for Canadian canola oil.

Possible growth in diversification from non-European countries includes Malaysia, Japan, New Zealand and Chile. Malaysian imports have grown 103.5% since 2009, but imports coming from Canada have grown by 6.6%. Japanese imports have grown 87.2%, with imports from Canada growing by 77.0%. Both are examples where Canadian imports can be diversified along with growing Asian demand.

Factors likely to inhibit diversifying canola oil markets

Challenges include the fact that canola oil competes directly with palm oil, a much larger global food market. Palm oil is produced at a lower cost; however, canola oil production leaves a smaller environmental footprint, which could open export opportunities as consumers move towards greener food.

As of 2019, most of the large and fast-growing markets with no current advantage for Canadian canola oil were European (Netherlands, Norway, Belgium, Sweden, Poland, France). That has begun to change. Canada's canola oil exports to the EU increased in 2020 (specifically to the Netherlands), illustrating how market conditions can alter trade flows. Two unrelated things have happened: rapeseed production has been below the five-year average for the previous two years; and in 2019 compared to 2018, China limited its Canadian imports of canola and its oil, leading to a decline in exports to China. Canola oil exports that normally go to China are coming from Middle Eastern countries, and to a lesser degree European countries, using Canadian canola.

Despite this recent growth, there continues to be significant non-tariff barriers for Canadian canola in the EU market.

Prepared or preserved pork

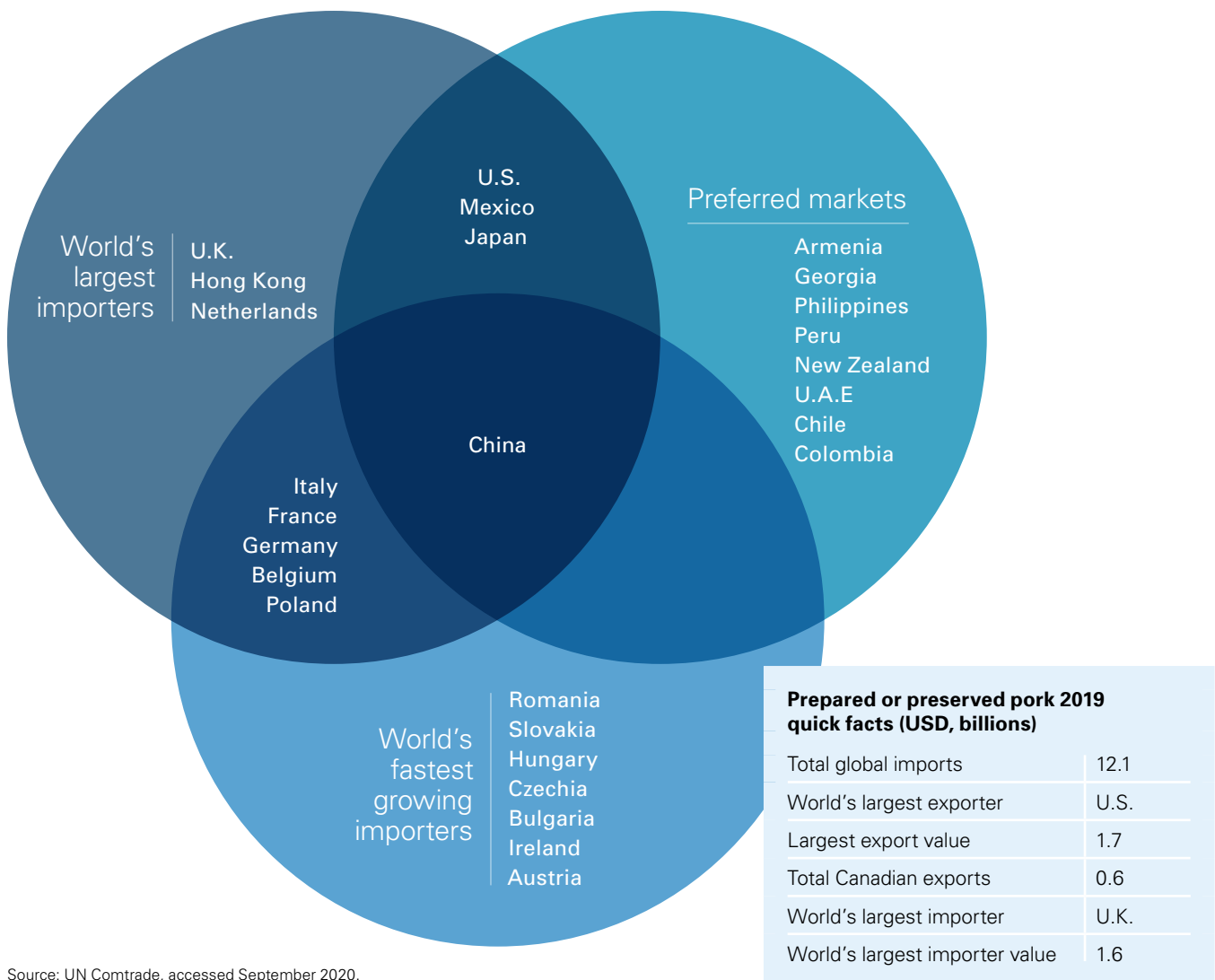
Global prepared or preserved pork imports were valued at US\$12.1 billion, growing 17.4% from 2009 to 2019. Canadian exports were valued at US\$0.6 billion, or 5.3% of global imports, making it the world’s seventh-largest exporter.

In 2019, 64.2% of global imports were going to European countries, mostly from other Euro-nations. While this percentage has been declining, it is largely due to the growth of the Chinese market. China, Hong Kong and Macau account for 33.3% of the global import growth since 2009.

If the three Chinese markets are excluded, the remaining markets show diversification potential. The share of total imports held by the top 10 largest importers has dropped from 72.9% in 2009 to 64.9% in 2019, suggesting real market diversification is occurring.

Figure 4:

World top importers, fastest-growing markets, and markets that preferred Canadian prepared or preserved pork in 2019



Source: UN Comtrade, accessed September 2020.

Opportunities to diversify prepared or preserved pork markets

Outside of China, most of the markets in which Canadian pork has an advantage are small and well-established with slow recent growth.

Markets with the greatest potential for Canada to diversify future prepared or preserved pork exports are European countries: Italy, France, Germany, Belgium and Poland.

Factors likely to inhibit diversifying prepared or preserved pork markets

Despite the reductions in tariffs from CETA and African Swine Fever concerns in Europe, European authorities' reluctance to trust and recognize health and safety regulations in Canada makes it difficult to enter the European market.

Canadian exports to the largest European importers totalled US\$6.6 million in 2019, a meagre 0.2% of Canadian exports. Diversifying exports to Europe is possible, and more work is needed to open markets.

Potato products

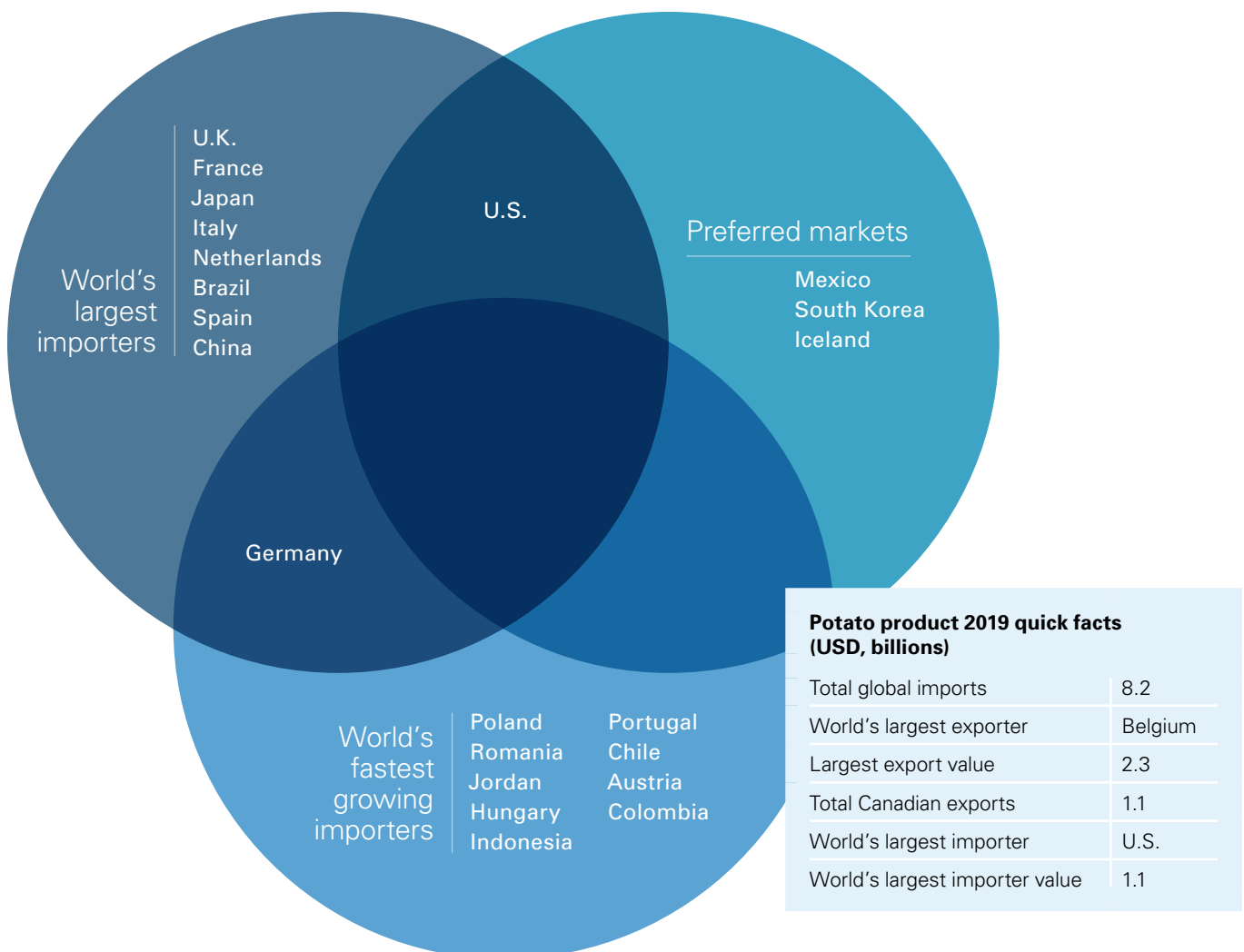
Global potato product imports in 2019 totalled US\$8.2 billion, growing 56.7% since 2009. Canada exported US\$1.1 billion in 2019, or 12.8% of total imports making it the fourth largest exporter behind Belgium, Netherlands and the U.S.

Larger trade flows have come from top importing countries instead of an increase in the number of importers. Ten countries represent 63.9% of the growth, with the U.S. leading the way at 12.3%. Growth in the EU has also been substantial. The top five EU nations (Belgium, Netherlands, Germany, France and Poland) saw imports grow by an average of 73.8% since 2009.

Canada's export position has dropped significantly since 2009 when it exported 15.9% of total trade flows, ahead of the U.S. In 2009 Canada exported potato products to 82 markets, compared to 71 in 2019. Our dependency on the U.S. grew from 74.0% of Canadian exports in 2009 to 86.9% in 2019.

Figure 5:

World top importers, fastest-growing markets, and markets that preferred Canadian potato products in 2019



Source: UN Comtrade, accessed September 2020.

Opportunities to diversify potato product markets

The expansion of the Western diet globally has increased demand for french fries and potato products, which is good news for Canadian producers.

The U.K. is the largest and fastest-growing importer with no current preference for Canadian products. Other possible importers are CETA trade partners: France, Italy, Netherlands, Spain, Germany and Eastern European countries. Concerns around low potato prices in Europe can lead to fewer planted acres and open the door to Canadian potato products.

The Chinese market also presents an opportunity for Canada. Canada exported US\$4.6 million of potato products to China despite Chinese imports growing over 458% between 2009 and 2018.

Factors likely to inhibit diversifying potato product export markets

Strong demand for potato products in the northeast U.S. continues to be a growth opportunity for eastern Canadian producers and manufacturers. Ease of shipping product to the U.S. outweighs Europe, and until that growing demand has been fully met, diversification to Europe may be harder to achieve.

The COVID pandemic has dramatically impacted the global food service industry, a large business for the french fry industry. Diversification opportunities might have to wait for a recovery.

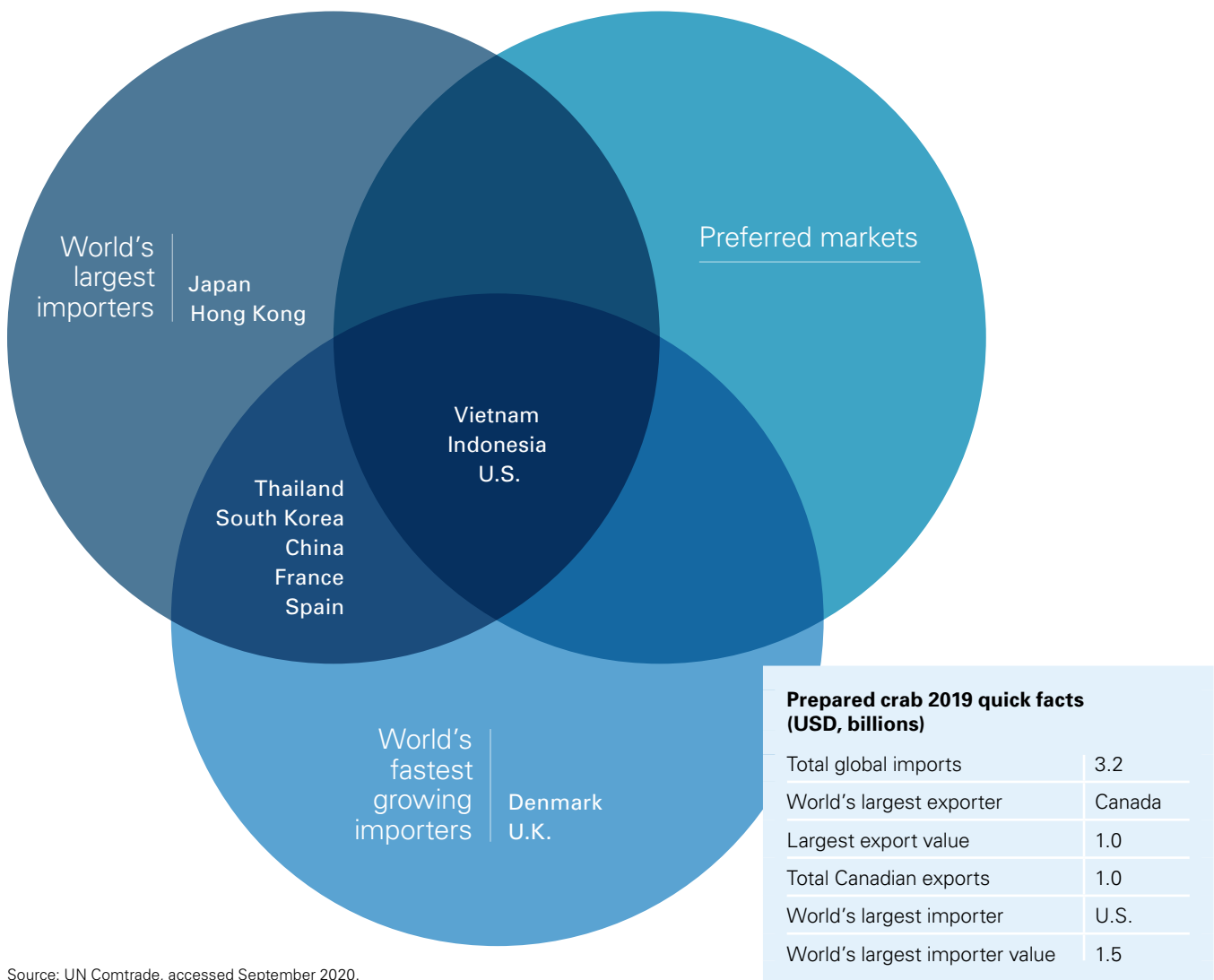
Prepared crab

Global prepared crab imports totalled US\$3.2 billion in 2019, growing 108.5% since 2009. Over that time, Canada has been the world’s largest exporter. In 2019 Canada exported US\$1.0 billion or 32.8% of total global imports.

The U.S. is the world’s largest importer of crab (45.8% of total trade). American imports have remained relatively stable in terms of import share since 2009, with import growth happening in Asia. China, Korea, Indonesia, Vietnam, Thailand and Hong Kong represent 33.3% of global import growth.

Figure 6:

World top importers, fastest-growing markets, and markets that preferred Canadian prepared crab in 2019



Source: UN Comtrade, accessed September 2020.

Opportunities to diversify prepared crab markets

Opportunities are limited given the import dominance of a small number of markets but are nonetheless present in countries under the CPTPP (Japan), CETA (European nations) and CKFTA (South Korea). Canada has had preliminary discussions on free trade with Thailand. These countries represent 44.1% of the global prepared crab import market, but Canada only provides 25.6% of their imports.

Factors likely to inhibit diversifying prepared crab export markets

Competition within export markets have intensified from Russia over the past 10 years. Russian prepared crab exports are more diversified, have grown by over 608% and are on pace to surpass Canada as the world's largest exporter in 2020. Russia primarily exports to the Netherlands and South Korea, two markets in which Canada has free trade agreements.

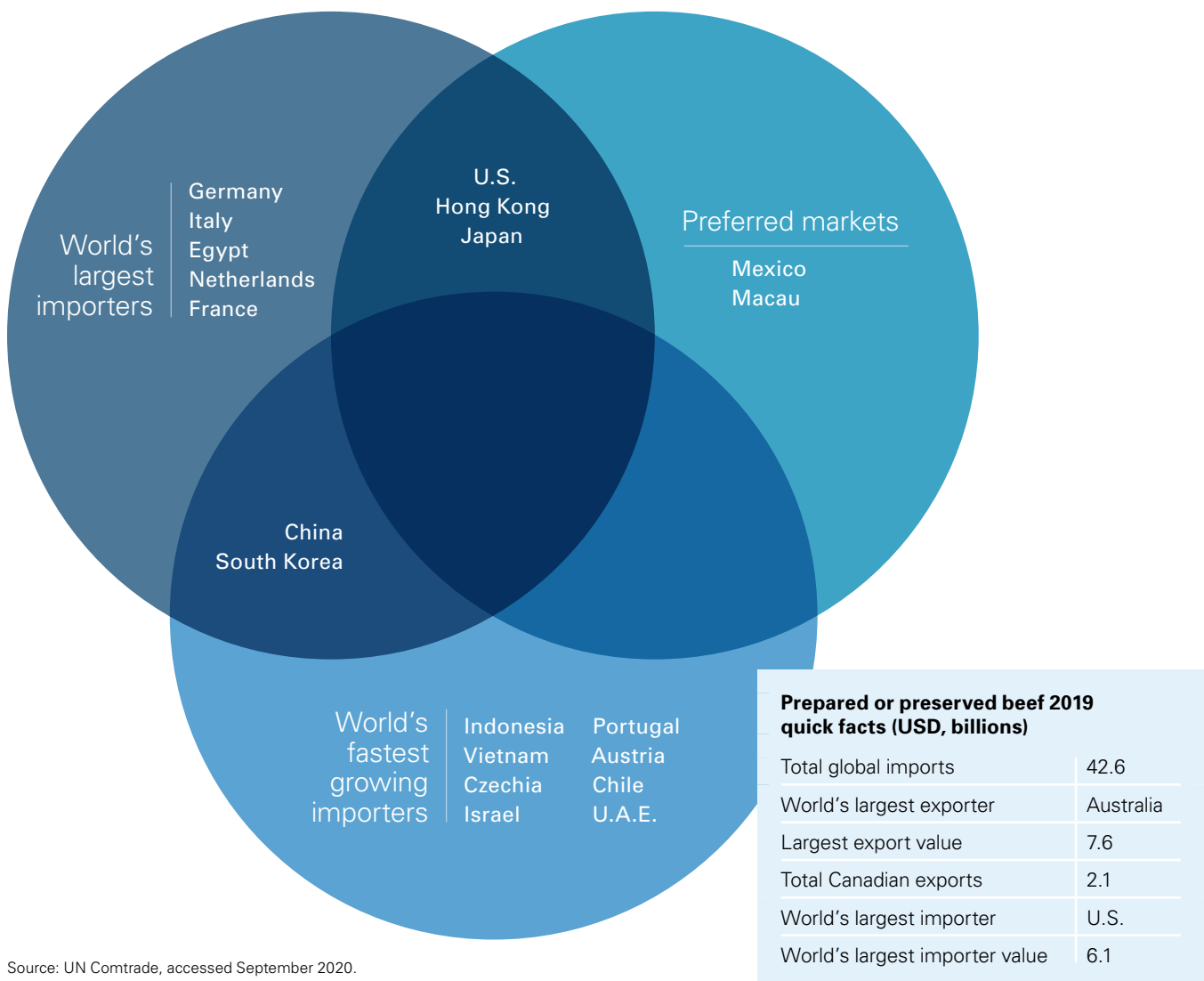
Prepared or preserved beef

Global prepared or preserved beef imports totalled US\$42.6 billion in 2019, growing 58.5% since 2009. Chinese markets account for 39.0% of this growth, with strong consumer demand and limited domestic production. In 2019, China surpassed the U.S. as the largest beef importer, including prepared or preserved beef.

Canadian exports were valued at US\$2.1 billion in 2019, supplying 5.0% of global imports and ranking ninth. Despite the growth in Asian imports of Canadian-prepared beef (largely in Japan, growing 372% or US\$152.6 million from 2009 to 2019), our reliance on the U.S. has been strong and stable for 10 years (around 77.0% goes to the U.S.).

Figure 7:

World top importers, fastest-growing markets, and markets that preferred Canadian prepared or preserved beef in 2019



Source: UN Comtrade, accessed September 2020.

Opportunities to diversify prepared or preserved beef markets

As for other food sectors, primary opportunities lie in Europe. The world's largest importers where Canada does not have an advantage include Germany, Italy, Netherlands and France. Opportunities also exist in China, as only 3.2% of Canadian imports went to China in 2018.

Canada also has free trade agreements with some of the fastest-growing importers. Agreements are in place for Vietnam, Israel, Chile, Portugal, Austria, Czechia, with negotiations with the U.A.E occurring.

Factors likely to inhibit diversifying prepared or preserved beef export markets

Non-tariff trade barriers to the EU continue to be an issue. Europe will only buy beef products from certified farms with fully inspected cattle for antimicrobial use. There needs to be clear records that no banned European substances are used. It is not necessarily cost-effective for farmers and producers to implement this program for the European market.

How Canada can diversify export markets amid competition

Diversification is desirable from a risk management perspective, but economic arguments also run against efforts to diversify Canada's food export markets:

- 1. Selling into one or two markets provides economies of scale.** It might be cheaper to maintain markets than establishing an export presence in a new market, even when formal trade agreements lower these costs. Diversification almost always entails seeking markets that are further away and more expensive to develop.
- 2. Input and manufacturing costs (not accounted for in this report) play an important role.** Price-sensitive markets can offer limited potential, especially for higher-quality Canadian products. While Canada enjoys a stellar supplier reputation, pricing plays a major role for some international buyers. Costs related to implementing additional safety and environmental regulations (as required by the EU), also need to be considered.
- 3. China often bears at least as much weight in global ag and food markets as the U.S.** It can engage in the protracted tensions that have shaped much of global trade since 2019 and lead to shifts in trade flows that do not truly reflect diversification.
- 4. A slower pace of economic expansion worldwide can mean more timid growth in food demand, impeding diversifying efforts.** The pandemic has reminded us of the importance of a robust food supply chain and economic consequences for some countries may last years.

Further diversification is possible and offers advantages

Diversification allows export flows to continue when trade partners become unavailable. Re-allocating exports among other buyers is a healthier option than the possible decline in exports and lost revenues with border closures.

Secondarily, in categories like beef and pork, export diversification maximizes the value of the animal. Exporting to markets with a preference for offal, cuts and byproducts that are not prevalent in the North American diet limits waste.

Research also shows that high export intensity (measured by export sales over total sales) is necessary for diversification. In other words, businesses need to start exporting to a few destinations before being able to successfully diversify. We may expect small and medium-sized businesses to focus first on the U.S. market before developing sales elsewhere.

Formal trade relations – either in force or being formalized – clearly make a difference to the largest importers of Canadian food. Beyond such agreements, [trade commissioner services](#) can provide the necessary support to smaller businesses looking to enter new markets.

Trade tensions from the last three years continue to reverberate throughout the world economy. Global supply and demand balances of food are becoming increasingly difficult to gauge, adding to greater uncertainty with the COVID pandemic. Underlying all of that is increasing competition among exporters jockeying for their own advantage. That will not pose a problem, but only if Canada can continue to count among the strongest in that field.

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