

**WRITTEN SUBMISSION OF
FOOD AND BEVERAGE ONTARIO (FBO)**

To: Parliamentary Standing Committee on International Trade (CIIT)
House of Commons

RE: Renegotiation of the NAFTA
Priorities of Canadian Stakeholders concerning Trade in North America
between Canada, United States and Mexico

Food and Beverage Ontario (FBO) is pleased to assist the Standing Committee on International Trade with its study concerning the priorities of Canadian stakeholders with respect to the current renegotiation of the North American Free Trade Agreement (NAFTA).

ONTARIO FOOD AND BEVERAGE SECTOR

The Ontario food and beverage processing sector is one of the largest in North America. The Ontario food and beverage processing sector is a critical contributor to Ontario's provincial economy. Over 3,800 provincial food and beverage processing businesses generate \$42 billion in revenue, support over 130,000 direct jobs and export \$9.6 billion in product.¹

Two-way agriculture and food trade between Ontario and the U.S. was valued at \$28.8 billion in 2016, with the U.S. registering a \$6.3 billion trade surplus. Some \$11.2 billion, or 76 per cent of Ontario's total agri-food exports, went to the U.S. last year.² Located

¹ See *Appendix* for more detailed information on this provincial sector's economic impact.

² *Ontario Agri-Food Trade by Region, 2016*, Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) International Trade Statistics.

in the vital Great Lakes regional trading hub, sector participants are within a one day's shipping radius of some 142 million consumers.³

Trade — particularly the unfettered movement of goods, services and people between Ontario and the United States — is critical to the ongoing success and competitiveness of the sector. The Ambassador (Detroit/Windsor), Blue Water (Port Huron/Sarnia, Peace (Buffalo/Fort Erie) and Lewiston-Queenston (Niagara) bridges are the sector's lifelines.

NAFTA RENEGOTIATION PRIORITIES

Given the significance of North American trade to Ontario food and beverage processors, the interests and concerns of the sector with respect to NAFTA renegotiation can be grouped into four general priority areas:

1. Protect existing market access terms,
2. Update border procedures,
3. Increase regulatory alignment, and
4. Preserve dispute resolution impartiality.

This brief will elaborate on each priority area below.

1. Protect existing market access terms.

Supply chain integration is one of the key successes of the NAFTA. The high level of integrated business operations that continental trade liberalization has encouraged underlies the strong competitive position of Ontario's food and beverage sector. Any new trade barriers that detract from the current levels of market access and supply chain integration would be unfortunate. FBO members are paying particular attention to the following negotiation proposals:

- **Country-of-Origin Labeling (COOL).** R-CALF (the U.S. Ranchers-Cattlemen Action Legal Fund) requested that the United States Trade Representative (USTR) revisit U.S. mandatory country-of-origin labeling⁴, despite being already

³ More than half of total Canada/US cross-border trade occurs in the Great Lakes region. *Great Lakes-St. Lawrence Region: Driving North American Growth and Trade*, Spring 2017, BMO Special Report, Robert Kavcic (Senior Economist).

⁴ *Request to Testify and Submission of Written Comments in Docket No. USTR-2017-0006*, June 12, 2017, R-CALF USA.

subject to lengthy litigation and deemed discriminatory. FBO members do not support any country-of-origin labelling measure that does not accommodate the intricate value chain integration upon which the global competitive position of North American industries are built.

- **Protectionist Duties.** In its stated negotiating objectives, the USTR seeks the ability to apply safeguard measures to protect against import surges.⁵ If allowed, the introduction of such measures should come with very narrow and defined conditions for triggering, be restrictive in allowable duration, and contain specific and defined terms for automatic termination.
- **Special Fruit and Vegetable Import Investigation Authorities.** The USTR has also identified new provisions for perishable and seasonal anti-dumping (AD) and countervailing duty (CVD) provisions as a negotiating objective.⁶ Acceptance of such provisions risks disrupting the intricate food distribution chains that currently exist to ensure consistent continental supply of seasonal food goods at low cost to North American consumers.⁷ Expanded trade remedy authorities triggered at the whim of small interest groups would severely interrupt this successful business model. FBO suggest that this proposal should be resisted outright.

2. Updated border procedures.

A modernized NAFTA should seek to streamline border crossings, reduce administrative burdens and facilitate timely, efficient border clearance. This is particularly relevant for food goods (often perishable with finite shelf-life), as well as for the cross-border flow of people who provide the technical and business expertise upon which continental value chain integration is built.

Some suggestions for enhanced trade facilitation are as follows:

- continued adoption of U.S. initiatives to employ automated and paperless border documentation and “single window” coordination, as with the US Automat-

⁵ *Summary of Objectives for the NAFTA Renegotiation*, July 17, 2017, Office of the US Trade Representative, pg. 14.

⁶ *Ibid*, pg. 14.

⁷ See *NAFTA Mischief In Fruits and Vegetables*, July 26, 2017, Peterson Institute for International Economics.

ed Commercial Environment (ACE) and the US Public Health Information (PHIS) systems;

- reduction in duplicative sampling, inspection and warehousing requirements through recognition of equivalence in certification processes in each country; and,
- expansion of existing “trusted trader” programs to allow companies with continental reach and strong safety and reliability track records to be afforded streamlined border inspection requirements.

3. Increase regulatory alignment.

Food safety and health authorities from the three NAFTA partner countries have had extensive exposure to each other’s food safety and animal health standards, procedures, and practices. An opportunity exists therefore to better align the policies, standards, processes and verification procedures between NAFTA partners.

A template for updated sanitary and phytosanitary (SPS) and technical barriers (TBT) chapters has already been accomplished under the Trans-Pacific Partnership Agreement (TPP). The TPP SPS chapter introduces updates on adaptation to regional conditions, equivalence, science and risk analysis, audits, import checks, certification, transparency, emergency measures, and cooperative technical consultations. Likewise, the TPP TBT chapter illustrates that there is an opportunity for greater regulatory convergence on science-based, transparent technical requirements affecting food safety, nutrition and labeling standards.

In terms of NAFTA improvement, this may be the opportune occasion to consider better alignment and strengthening of food safety outcomes, especially given shared health and safety risks regarding North American food production and food imports, and the shared goals for achieving the highest possible levels of consumer health protection. Stronger collaboration between the U.S. Food and Drug Administration (FDA), the U.S. Department of Agriculture (USDA), Health Canada and the Canadian Food Inspection Agency (CFIA) on performance and process standards, policies, and resource allocation would achieve cost efficiencies and benefit continental consumers and busi-

nesses. FBO recommends consideration of a joint Canada/U.S. agency⁸ to achieve the following:

- undertake science-based food safety risk assessments using common data (hazard identification and characterization, exposure assessment, and risk characterization);
- recommend best practices in food safety risk management along the farm-to-fork continuum; and
- collect, analyze, and communicate food safety knowledge for the benefit of consumers, government agencies, food producers, exporters and importers.⁹

Bilateral collaboration between Canada/US on food safety risk assessment would significantly and positively impact public health protection, cross-border business competitiveness and efficiencies in regulatory program delivery.

FBO further suggests that consideration should be given to expanding and making permanent the work of the U.S./Canada Regulatory Cooperation Council, the U.S/Mexico High Level Regulatory Cooperation Council, and other mechanisms working towards trilateral regulatory cooperation. NAFTA renegotiation presents an opportunity to advance regulations that facilitate trade in food and consumer products by better aligning food safety and animal health standards, approval requirements, and labeling.

4. Preserve dispute resolution impartiality.

The USTR has included the elimination of NAFTA Chapter 19 as one of its negotiating objectives.¹⁰ Chapter 19 provides for independent bi-national panel review on anti-dumping and countervailing duty decisions.

⁸ Initially this initiative might be pursued bilaterally between Canada and the U.S. given common food (and feed) safety standards and enforcement processes; the proposed joint agency could evolving over time to adopt trilateral collaboration.

⁹ *Risk and Reward: Food Safety and NAFTA 2.0*, Rory McAlpine and Mike Robach, The Canadian Agri-Food Policy Institute (CAPI) and the Canada Institute of the Wilson Centre, September 2017.

¹⁰ *Summary of Objectives for the NAFTA Renegotiation*, July 17, 2017, Office of the US Trade Representative, pg. 14.

Since the implementation of the NAFTA, the U.S. has been the target of most cases brought before Chapter 19 panels. Canada's success rate under Chapter 19 has been positive, whereas its success rate in US courts under similar circumstances has been limited. NAFTA Chapter 19 panels (which consider compliance with international law) have been found to reverse U.S. agency decisions at a greater rate than U.S. courts (which consider compliance with domestic law).¹¹

The USTR would prefer that judicial review of AD/CVD decisions be heard in domestic court settings. This could potentially translate into years of litigation in the U.S. court system on matters where the final AD/CVD decisions of U.S. trade agencies are often perceived as biased towards U.S. interests. The FBO concurs with the Government of Canada that an impartial dispute resolution mechanism is essential to an assurance of fairness and objectivity in how disputes are eventually resolved under the NAFTA.

CONCLUSION

The NAFTA has benefited Ontario's food processing sector overall. Food and beverage companies are no different than other businesses in finding instability and unpredictability challenging. The prospect of protracted NAFTA negotiations does not lend to an ideal business environment. With this in mind, below is a list of three negotiating principles that hopefully will guide the negotiations going forward.

1. Do no harm.

These negotiations are an opportunity to improve border efficiencies and cement the high level of value chain integration upon which continental competitiveness in agriculture and food has been built. The existing trade benefits should in no way be negatively impacted or reversed.

2. Conclude negotiations quickly.

The uncertainty and unpredictability regarding the breadth and length of these NAFTA negotiations has already cast a chill on future business investments. Business planning thrives on stability and accuracy in forecasting. As such, it is important that these

¹¹ As an example, in the past an acute difference in Chapter 19 panels and U.S. courts arose concerning the U.S. Department of Commerce's practice of "zeroing" out positive price margins when assessing whether dumping had occurred. U.S. courts would defer to DOC's approach. Chapter 19 panels (later confirmed by the World Trade Organization) found such practices to be inconsistent with international trade obligations.

negotiations reach a timely conclusion, and that governments offer sufficient transparency in the negotiating process to keep impacted stakeholder groups well informed regarding progress.

3. Ensure a seamless transition.

Once a revised NAFTA is finalized, governments must ensure a seamless transition to any changes in the continental trading landscape. Businesses will require sufficient time to understand, adapt to and modify (as necessary) established processes and supply chain relationships to achieve and ensure compliance.

With these negotiation principles serving as a guide, perhaps the ‘win-win-win’ which we all aspire to in a revised and updated NAFTA can be attained.

ABOUT FBO

Food and Beverage Ontario (FBO) is the provincial professional leadership organization for food and beverage processors across Ontario.



Established in 2003 as the Alliance of Ontario Food Processors, FBO has evolved into the organization of choice for members of the processing community - a community that contributes over \$40 billion annually and is the number one employer in Ontario.

Governed by an industry-led Board of Directors with guidance from a stakeholder Advisory Council and support from a dedicated staff team, FBO is a powerful advocate and facilitator of success for all categories of Ontario processor business.

Our goal at FBO is to promote and support a competitive Ontario industry locally and within the global marketplace.

APPENDIX - ECONOMIC IMPACT OF SECTOR

Economic Impact of Ontario's Food and Beverage Manufacturing Sector

February 2017



INDUSTRY OVERVIEW

The Ontario food and beverage manufacturing sector is a significant contributor to Ontario's economy. Table A summarizes the key statistics of the Ontario food and beverage manufacturing sector in 2015.

Table A: Key Statistics of the Sector in 2015¹

- The sector generated over **130,000 jobs** within the province.
- The sector generated approximately **\$42.0 billion in total revenues**, accounting for 14 percent of Ontario's total manufacturing revenues.
- Ontario **exported approximately \$9.6 billion** worth of food and beverage processed products, which accounted for 31 percent of Canada's total food and beverage processing exports.
- There were over **3,800 food and beverage processing businesses** in Ontario, of which many were located in rural communities.

ECONOMIC IMPACTS OF THE SECTOR

In 2015, the Ontario food and beverage processing sector was estimated to have generated the following economic impacts in Ontario:

- Approximately **\$71.8 billion in total output**, consisting of direct output of \$42.0 billion, indirect output of \$24.5 billion and induced output of \$5.2 billion.
- Approximately **\$28.5 billion in total GDP**, consisting of direct GDP of \$13.6 billion, indirect GDP of \$10.7 billion, and induced GDP of \$4.2 billion.
- Approximately **387,786 total full time equivalent (FTE) positions**, consisting of 139,549 direct FTEs, 174,600 indirect FTEs, and 73,637 induced FTEs.
- Approximately **\$5.6 billion in total federal, provincial, and municipal tax revenue**, consisting of direct tax revenue of \$2.6 billion, indirect tax revenue of \$2.2 billion, and induced tax revenue of \$890.0 million.

Since the previous economic impact study of the sector was conducted (using 2012 data), the sector's total output, GDP and government tax revenues increased by approximately 3 percent.

Table B: Economic Impacts of the Sector in 2015²

	Output (Millions)	GDP (Millions)	Employment (FTEs)	Federal Tax (Millions)	Provincial Tax (Millions)	Municipal Tax (Millions)
Direct	\$42,007,175	\$13,569,699	139,549	\$1,532,933	\$962,438	\$82,145
Indirect	\$24,544,606	\$10,740,090	174,600	\$1,260,513	\$783,785	\$127,979
Induced³	\$5,230,469	\$4,217,201	73,637	\$505,060	\$312,994	\$71,915
Total	\$71,782,250	\$28,526,990	387,786	\$3,298,506	\$2,059,217	\$282,039

¹ Statistics Canada, Input Output Model; Statistics Canada, Annual Survey of Manufacturers and Logging, 2015 (Accessed February 2017); Statistics Canada, Trade Data Online, 2015; Statistics Canada, Canadian Business Patterns, 2015

² Statistics Canada, Input Output Model

³ Induced impacts are due to shifts in spending on goods and services as a consequence of the payroll of the directly and indirectly affected businesses. In the case of food and beverage processing, induced impacts reflect the additional spending by the employees of the processors' suppliers (primary suppliers) and their suppliers' suppliers (secondary suppliers).

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APPENDIX - ECONOMIC IMPACT OF SECTOR (CONTINUED)

Economic Impact of Ontario's Food and Beverage Manufacturing Sector

February 2017

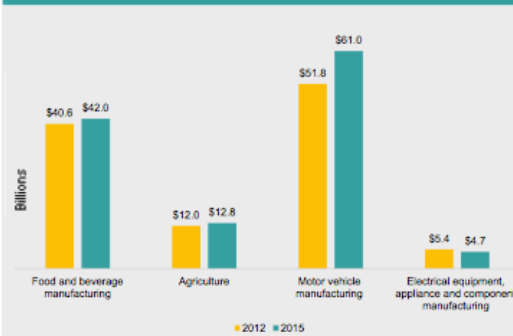


COMPARISON WITH OTHER INDUSTRIES

In 2015, the food and beverage manufacturing sector was the second largest out of the four comparator sectors shown in Figure A, in terms of total revenues in Ontario.

All comparator sectors except the electrical equipment, appliance and component manufacturing sector experienced an increase in total revenues between 2012 and 2015.

Figure A: Total Revenues by Sector, 2012-2015

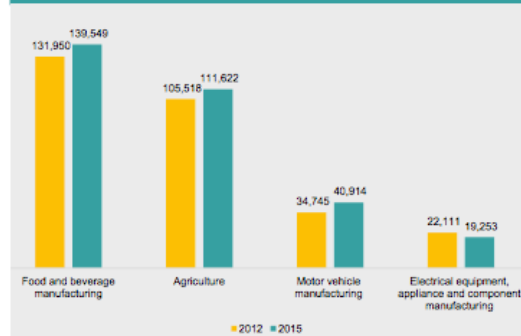


Sources: Statistics Canada, Annual Survey of Manufacturers and Logging, 2015 (Accessed February 2017); Statistics Canada Farm Cash Receipts, 2015

In 2015, the food and beverage manufacturing sector was the largest out of the four comparator sectors shown in Figure B, in terms of direct employment in Ontario.

All comparator sectors except the electrical equipment, appliance and component manufacturing sector experienced an increase in direct employment between 2012 and 2015.

Figure B: Direct Employment by Sector, 2012-2015

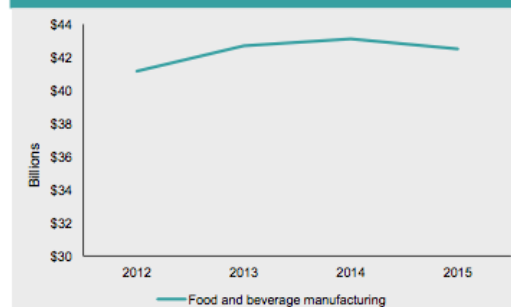


Source: Statistics Canada, Input Output Model

HISTORICAL TREND ANALYSIS

- Between 2012 and 2015, the sector's total revenues increased 3 percent from \$40.6 billion in 2012 to \$42.0 billion in 2015. Food and beverage subsectors that experienced particularly large increases in total revenues from 2012 to 2015 were other food manufacturing (37 percent increase) and animal food manufacturing (25 percent increase).
- Between 2012 and 2015, the sector's exports increased 27 percent from \$7.6 billion in 2012 to \$9.6 billion in 2015. The sector's imports increased at a faster pace than its exports. The sector's imports increased 29 percent from \$14.1 billion in 2012 to \$18.2 billion in 2015.

Figure C: Sector Revenues, 2012 to 2015



Source: Statistics Canada, Annual Survey of Manufacturers

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