

TRADE POLICY TRENDS

March 2019

CHINESE PROTECTIONISM: RESTRICTION ON CANOLA IMPORTS FROM CANADA

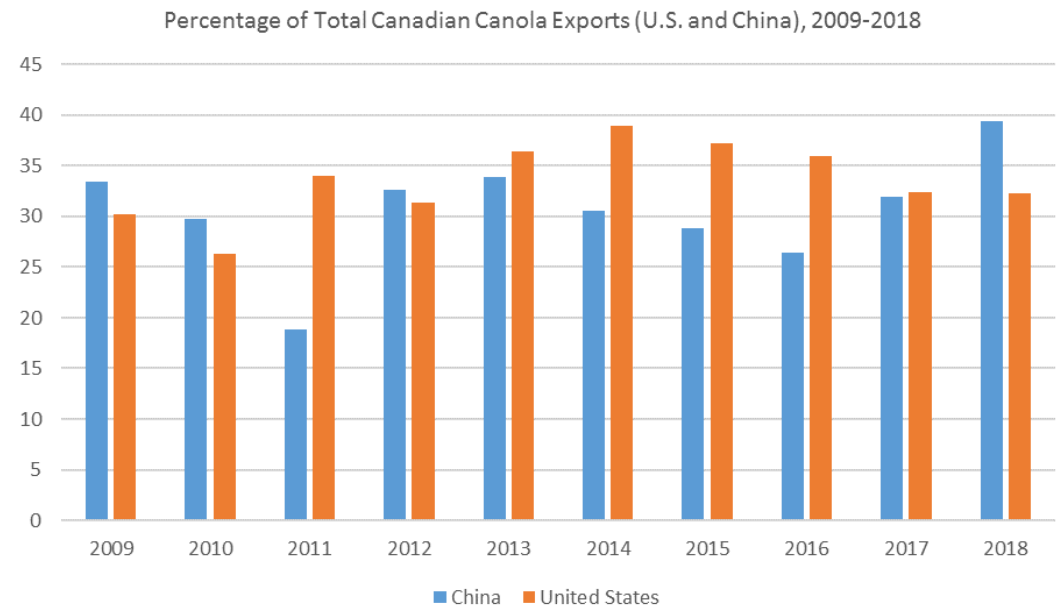
By Eugene Beaulieu and Dylan Klemen

On March 3, 2019, China revoked the import licence for canola from Richardson International Ltd. (a large Canadian processor of grain based in Winnipeg). Chinese officials have cited pests as the reason for their action. The licence revocation occurs amid a conflict between Canada and China over the arrest in Canada of Huawei's chief financial officer, Meng Wanzhou. Some see this as a retaliatory measure on the part of China, which has a history of using trade policy in political disputes.

Protectionism in such a sector from a very large country like China is a cause for concern. Moreover, this particular trade action seems to be part of a growing trend of large countries using trade sanctions for political purposes, as the U.S. has done with its national security tariffs on steel and aluminum.

Not only does this trade action coincide with a dispute between Canada and China over Meng's treatment, but it comes at a time when Canada is deciding on whether to allow Huawei access into the Canadian 5G network.

Figure 1: Share of Canadian Canola Exports to the U.S. and China



How important is this trade action on canola and how will it affect Canada? The data presented below clearly show that Chinese protectionism in this sector is worrisome. According to Statistics Canada, Canada was the top producer of canola in the world in 2014 and canola seed and oil were Canada's top agricultural exports in 2016.

As Figure 1 shows, China was the top destination for Canadian canola exports in 2018. In the last decade, it was the top destination in 2009, 2010 and 2012, and was second only to the U.S. in the remaining years. Figure 2 illustrates the value of Canadian exports of canola

products to China over the last 10 years. The figure indicates a marked increase in canola exports over this period.

Figure 3 provides a breakdown of Canadian canola exports by province. Certain provinces are potentially affected the most by Chinese protectionism in this sector. The data indicate that Saskatchewan is Canada’s top exporter of canola products to China, followed by Alberta and Manitoba respectively.

China denies that its restrictions are politically motivated and instead cites concerns about blackleg, a fungal disease that destroys canola crops. Whether the Chinese trade action on canola is purely retaliation against Canada, or a threat point in ongoing discussions about Huawei’s access to the Canadian 5G network, this is not the first time China has targeted Canadian canola.

Figure 3: Canola Exports to China by Province

Canola Exports to China, Distribution by Province, 2009-2018
(Canadian current millions of dollars)

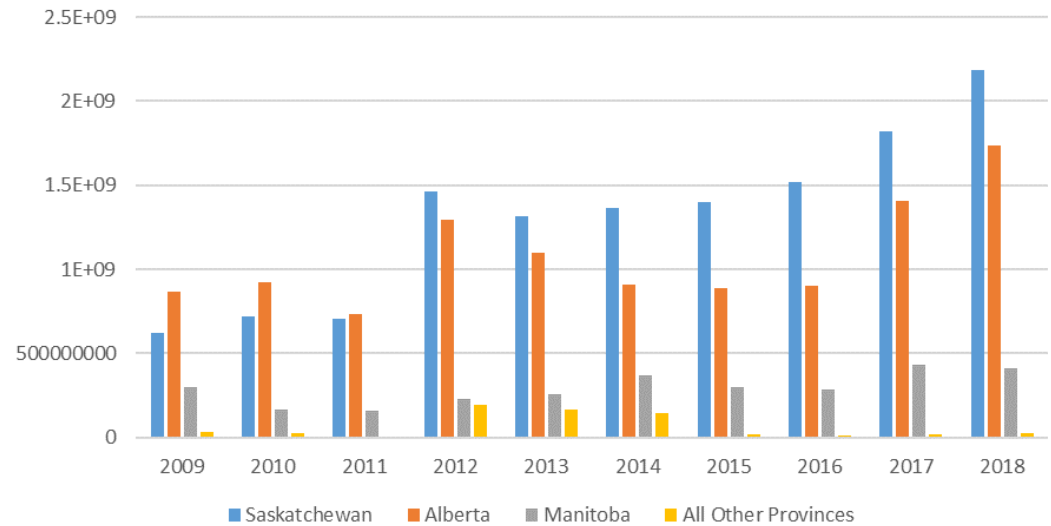
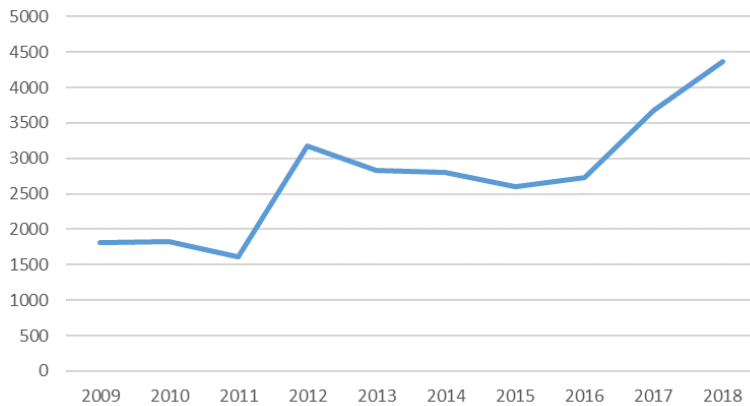


Figure 2: Canadian Canola Exports to China 2009-2018

Canadian Exports of Canola Products to China
(in millions of Canadian current dollars), 2009-2018



In 2009, China restricted imports of Canadian canola, causing Canadian exports to decline, along with the price of canola. Chinese officials say that blackleg risks spreading to their own canola crops. However, Canadian and Chinese scientists have worked together to mitigate and largely eliminate this risk.

In fact, Canadian canola is shipped directly to crushing facilities in China and does not reach farmers’ fields in that country. As the graph shows, when science managed the risks, trade escalated dramatically. In 2016, China again restricted canola imports from Canada, citing blackleg concerns, even though the risk factors hadn’t changed. The 2016 restrictions coincided with a bumper crop in canola in China that year. Prime Minister Justin Trudeau and Chinese Premier Li Keqiang resolved the dispute on Sept. 24, 2016 in Ottawa, when they signed an agreement stating that the trade in canola would continue while both countries co-operated on science-based risk management. They agreed this pact would be in force until 2020.

Canada appears to have the following options to respond to Chinese protectionism as well as protectionism from other countries like the U.S.

First, Canada could retaliate with trade actions. However, Canada inevitably harms itself more economically than bigger countries when it engages in retaliatory trade policy. Diplomacy is another – and probably essential and inevitable – option. Diplomacy surely must be pursued; however, it is not likely to reduce systemic protectionism enough. Related to this, Canada could – and has tried to – negotiate a free trade agreement with China. This would have benefits, including to industries like canola. However, this is not going to happen soon and it is not without challenges and risks.

Last, Canada can resort to the World Trade Organization and the rules-based international trading system. Canada has made three complaints against China at the WTO, with each resulting in some degree of action on China's part to address Canada's complaints. Further supporting a rules-based system in general is beneficial to a small, open economy like Canada. The incident with Richardson International Ltd. highlights the importance of a rules-based global trading system for an economy such as Canada's.

Currently, many see the WTO has having lost relevance in the global economy, but Canada has recently taken a leading role in attempting to reform the WTO. This is a step in the right direction. However, these efforts have not included China and the U.S. Any efforts to reform the WTO without these two countries are likely to remain irrelevant.

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