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COVID-19 Crisis Business Continuity and Trade Working Group

Communique #3: Champion Open International Trade and Safeguard Food Security, Public Health and Emergency Measures

In order to help Canadian governments confront the public health and economic crisis resulting from the spread of the COVID-19 virus, the C.D. Howe Institute has established several working groups to rapidly distill expert policy advice. The working group on business continuity and trade is co-chaired by Dwight Duncan (Senior Strategic Advisor at McMillan LLP and former Ontario Minister of Finance) and Jeanette Patell (Vice-President of Government Affairs and Policy for GE Canada). Its membership includes industry experts and economists. Meeting weekly, it identifies and prioritizes policy challenges and communicates members' views in published communiques. The group's third meeting was held on Tuesday, April 7, 2020.

At that meeting, the working group observed a worrisome tide of export restrictions on critical goods internationally. The working group emphasized that open international trade is essential to Canada – both in the immediate crisis and for the long-term. From the ingredients in hamburger buns to motor vehicle production, Canada's economy depends on integrated production across borders.

In this volatile international context, Canada must act on issues within its control. Specifically, Canada must invest in:

- Robust international relationships to draw upon in times of need;
- Strategic reserves of critical goods (e.g., personal protective equipment); and
- Long-run capabilities (e.g., skills and innovation) to support resiliency and rebound from this crisis.

In addition, Canada should take immediate measures to:

- Temporarily reduce import tariffs on critical supplies, including agricultural products;
- Reduce the risk of COVID-19 disruptions in essential sectors (e.g., food processing plants); and
- Aggressively address interprovincial trade barriers.



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The working group recommended that Canada champion the mutual benefits of international trade. Alarmed by the U.S. president's (subsequently reversed) prohibition on surgical mask exports to Canada, the working group urged a "Team Canada" approach to countering isolationism abroad – particularly to mobilize political support from allies whose supply chains depend on Canadian exports.

Nonetheless, the group noted a concerning trend toward "zero sum" thinking among Canada's trading partners. The group recommended that Canadian governments rapidly identify gaps in critical goods, coordinate procurement to build adequate stockpiles nationwide, and make smart moves to establish appropriate domestic capacity for production. The group is encouraged by current federal and provincial efforts to this end.

The meeting also addressed emerging concerns regarding Canada's domestic food security. Supply chains remain robust, and Canadians will continue to have enough food to eat. However, Canadians should prepare for less variety and higher costs – particularly for fresh and imported products. Certain working group members estimate that food prices may increase by 10 to 15 percent. Alongside price impacts from the depreciation of the Canadian dollar, members highlighted that food supply chains may face sourcing challenges from slowed international shipments and possible export restrictions or hoarding by certain countries. As well, as a result of reduced mobility for foreign agricultural workers, Canadian farms may face labour shortages over the coming growing season.

Working group members also highlighted risks of near-term bottlenecks in food processing, distribution and retail from COVID-19 related shut-downs and potential labour shortages. Specific processing plants are critical links for access to certain products for major population centres. Health and safety measures are therefore essential to safeguard these workplaces against transmission of the virus. To this end, the working group understands that the Canadian Food Inspection Agency is at full strength and is actively engaged with key food producers to ensure the integrity of these processing plants.

Canada Must Remain Open to Trade and Push against "Zero Sum" Thinking

Countries' conduct during a crisis will shape international relations in its aftermath. The rules-based, multi-lateral system for international trade, from which Canada has long benefited economically, depends on trust.

Working group members observed with dismay the growing list of countries that have imposed some degree of export restrictions during the current crisis. As of April 7, 80 countries had enacted some

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form of export restrictions.¹ Most of Canada's major trading partners have invoked such restrictions – notably including market-oriented democracies like the United States, almost all European countries and Australia. Export restrictions are primarily focused on medical devices and personal protective equipment, but restrictions on food exports are also increasing. Canada and Japan remain notable outliers among G7 nations in maintaining open trade for critical goods.

The working group underscored that Canada must continue to be an “honest partner” by honouring international commitments to trade openness and championing market principles. Notwithstanding that Canada immediately must import critical goods to supply our healthcare system, trade integration is essential for Canada's economy – in the recovery from this shutdown and in the long-term.

Canadian companies and governments should also pre-emptively mobilize political support among key trading partners to push back against moves to restrict exports to Canada. The U.S. president's threat to prohibit the export of surgical masks underscores the risks to Canada from fear-driven trade measures abroad. The U.S. president has wide executive authority in the current crisis, but Canada has many commercial and political allies in the United States who recognize the depth of cross-border economic integration. Working group members observed that Canada succeeded in the re-negotiation of the North American Free Trade Agreement through multi-partisan efforts by politicians and businesses to leverage these relationships. A similar “Team Canada” approach is needed in this crisis to reinforce foreign political support for trade openness.

As recommended in an earlier communique,² the working group also noted that Canada has rightly waived tariffs on critical medical imports.³ Certain working group members encouraged the temporary reduction of tariff barriers on a broader range of goods. In particular, certain working group members pointed to an average tariff of roughly 15 percent on agricultural imports across almost half of agricultural goods. Particularly given the risks of increased consumer costs for food, certain working group members encouraged governments to reduce agricultural tariffs.

1 International Trade Centre. Market Access Map – COVID-19 Temporary Trade Measures. Available online: <https://www.macmap.org/en/covid19>.

2 Business Continuity and Trade Working Group. 2020. “Communique #1: Subsidize Wages, Backstop Credit, Protect Supply Chains.” C.D. Howe Institute. Available online: <https://www.cdhowe.org/council-reports/subsidize-wages-backstop-credit-protect-supply-chains-cd-howe-institute-business-continuity-and>.

3 Canadian Border Services Agency. 2020. Customs Notice 20-12: COVID-19: Tariff Classification and Other Information to Import Medical Supplies. March 31. Available online: <https://www.cbsa-asfc.gc.ca/publications/cn-ad/cn20-08-eng.html>.

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In the immediate crisis, the working group supported the rapid development of certain strategic domestic production capacity for critical supplies and procurement efforts by governments to this end. Given the threats to global trade, the working group recognized the risk of “new normal” for global integration post-crisis, noting calls for greater self-reliance during this crisis and in its aftermath.⁴

To enhance Canada’s economic resilience, working group members support reducing internal barriers to trade, boosting domestic innovation and incenting skill-building. In the wake of this crisis, Canada will need to reflect on gaps for critical goods and invest in adequate stockpiles for emergencies. Working group members cautioned that the immediate crisis should not spur a wholesale overhaul of Canada’s economic structure or more directive industrial policy. Nonetheless, Canada must reflect on what strategic actions and investments are needed to position our economy for long-run resilience.

Enough to Eat but Expect Crisis-related Disruptions, Higher Prices and Less Variety

Working group members reviewed the status of Canada’s food supply. Supply chains remain robust, and it is clear that Canadians will continue to have enough food to eat. However, Canadians should prepare for less variety and higher costs. Depreciation of Canada’s dollar will increase the costs for imports. Obstacles to international movement of goods, as well as the likelihood of increasing restrictions on agricultural exports, will likely increase the prices of foreign food products. Domestically, with approximately 60,000 foreign workers annually employed in Canadian agriculture, Canadian farms will likely face labour challenges in the coming growing season given reduced mobility of foreign workers.

More immediately, the working group highlighted that Canadians could face disruption to normal access to food as a result of COVID-19-related closures or work stoppages in grocery retail, distribution or food processing. The working group urged cooperation and transparency around workplace health and safety practices to safeguard critical links and processing facilities.

For example, working group members pointed to certain large meat processing plants that are integral to regional supplies of meat products. This risk of disruption is exhibited by the recent shutdown of large meat processing plants in Yamachiche, Quebec and Brampton, Ontario following confirmation

4 McKay, David. 2020. “How to make Canada a more self-reliant country in the aftermath of the coronavirus pandemic” April 5. Available online: <https://www.theglobeandmail.com/business/commentary/article-how-to-make-canada-a-more-self-reliant-country-in-the-aftermath-of-the/>.

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of several workers infected by COVID-19 at each. Nonetheless, the working group understands that Canadian Food Inspection Agency is actively engaged with major food producers to develop health and safety practices to prevent workplace transmission. The working group pointed out that protocols developed for such essential facilities during the crisis may provide models for measures in other workplaces to facilitate the restart of the economy while minimizing the risk of transmission.

Working group members noted that grocery retailers face challenges for preventing in-store transmission of COVID-19, as well as pressures around worker retention and supply chains. The working group highlighted that grocery workers seek increased wages to compensate for exposure to the public and possible risk of infection. As well, working group members noted that certain grocery workers may chose to refrain from work in order to avoid exposure and instead apply for emergency benefits to offset income loss. Grocery retailers will need to innovate to safeguard workplace safety while sustaining access. The increased adoption of online ordering and curbside pick-up indicate that that retailers and consumers are rapidly adapting.

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