

# Canada Trade Priorities

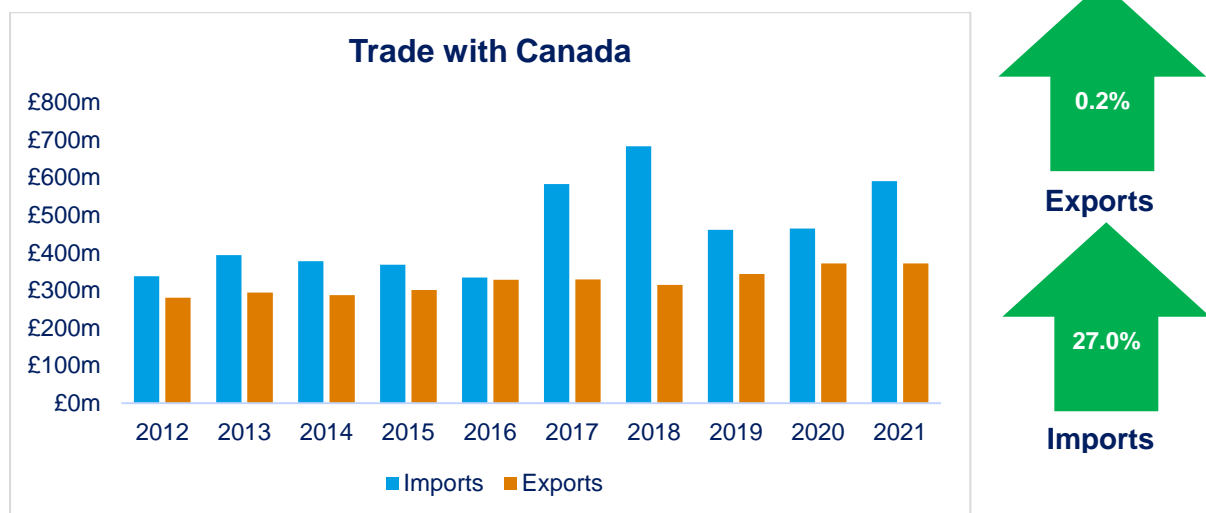


## Introduction

Canada is a major trading partner for many UK food and drink manufacturers. It is a valuable market for exports of high-quality UK manufacturing worth **£372.0 million** in 2021, a slight rise of 0.2% since 2020. It is also an important supplier of ingredients and raw materials that aren't produced in sufficient volumes domestically, that are essential for UK manufacturers to produce their full range of products and complement their use of domestically produced inputs. Imports from Canada were worth **£590.2 million**, increasing by 27% in 2021.

The UK and Canada aim to improve on the continuity trade agreement, ensuring it meets the needs of businesses on both sides. This presents opportunities to secure terms that better benefit food and drink manufacturers, increasing trade and driving growth and job creation.

This paper sets out an overview of priorities for the renegotiation of the existing UK-Canada preferential trade agreement that have been identified in discussion with the FDF's members.



Top five products (2021)			
Imports		Exports	
Wheat	£145m	Whisky	£106m
Cereals	£72m	Beer	£30m
Kidney beans and lentils	£68m	Chocolate	£30m
Oilseeds	£60m	Gin	£23m
Crustaceans	£54m	Sweet biscuits	£16m

## Executive summary: ten priorities for UK Government



We have identified the following key opportunities and concerns for the renegotiation of the existing preferential trade agreement with Canada:

1. **Tariff reduction** in most areas is welcomed to increase exports and help deliver continued competitive prices for UK consumers and manufacturers. While the overwhelming majority of products are already tariff-free in the existing agreement, there remain significant exceptions in the food and drink sector.
2. The complete removal of all agri-food and drink tariffs may not be in the best interests of UK manufacturing or consumers. Some **sensitive UK sectors** may require ongoing protection in the form of phased tariff removals, quotas or a safeguard clause to ensure ongoing competition and supply chain resilience.
3. **The EU** remains crucial for most UK manufacturers and in updating the existing trade agreement with Canada, Government must ensure that this doesn't undermine UK producers' ability to export to the EU.
4. We anticipate the loss of extended cumulation of EU inputs and processing and it is vital that **generous tolerance provisions and product-by-product solutions** are put in place to ensure UK exporters are not disadvantaged by a more restrictive approach to rules of origin. We are keen to work with Defra/DIT to ensure the best possible outcomes.
5. The agreement should deliver improved, **business-friendly rules of origin** that do not act as a barrier to trade. The use of 'wholly obtained' rules should be kept to a minimum and the use of detailed and complex exceptions included in the UK-EU Trade and Cooperation Agreement (TCA) should be avoided.
6. A mechanism should be included in the rules of origin that would enable the establishment of **full diagonal cumulation** between the UK, Canada and EU in the future, should all parties be willing to do so.
7. Significant improvements are needed in UK export access in **the dairy sector**, especially for producers that have been disadvantaged by the loss of access to EU cheese export quotas. Many of these businesses are based in areas that the Government is seeking to target through its levelling up agenda.
8. More efficient **border and customs processes** should be targeted, ensuring that the UK Government's 'Borders 2025' work links in closely with key trade partners including Canada to expedite the flow of perishable goods.
9. DIT should create a **dedicated online trade platform** that provides access to vital information that will enable SMEs to effectively export to or import from Canada, or other markets. The UK offering on Gov.uk lags significantly behind the clarity and business friendly communications of Canada, the EU, the US and most of our key trade partners.
10. The UK and Canada have both put in place important **climate ambitions** and as leaders in tackling climate change should include an ambitious commitment in the updated trade agreement on the future collaboration between our two countries.

# Canada: trade priorities in detail

## 1. Tariffs

The liberalisation of goods tariffs is welcomed in the UK-Canada continuity agreement.

The FDF urges the Government to **aim for the highest possible tariff liberalisation** for most sectors to help boost UK food and drink exports to Canada, targeting agri-food sectors where liberalisation was not achieved in the existing agreement or where the speed of phased tariff reductions could be more ambitious. There will doubtless be competing views within our industry on how these should be handled due to potential implications for domestic UK production in sensitive sub-sectors of the industry.

However, **the UK will need to maintain protections for certain sectors**, in a revised agreement. Canada is a major agri-food and drink exporter and large increases in flows of certain products could undermine UK production. Some protections, in the form of phased tariff reductions, quotas or safeguard clauses may be required.

**Improved access for UK cheese producers is an essential** outcome and should be prioritised in negotiations. The UK exported **£15 million** of cheese to Canada in 2021, accounting for 2.7% of that sector's overall exports, having increased massively since 2010, in part when exporters could access an EU cheese TRQ into Canada. Significantly more could be exported with the right market access in place.



UK cheese exports since 2010

Supporting UK cheese producers will benefit local economies around the UK, especially in the South West, Wales and parts of the North. This would benefit rural economies, many of which have been classified as low productivity regions. By cutting prohibitively high tariffs and at a minimum delivering generous tariff-free TRQs for UK exports of cheese, these regions can begin recovering lost exports and in time grow this trade further in support of the Government's wider levelling up objective

While a reduction in tariffs could increase the competitiveness of UK goods, it remains a priority for our industry to ensure **that new UK preferential trade agreements do not undermine existing UK market access via other trade deals, including our agreement with the EU.**

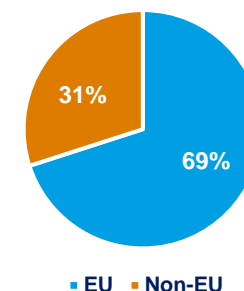
A significant challenge presented by the Government's trade strategy is how new trade agreements – including the conclusion of a revised deal with Canada – will work for producers in Northern Ireland seeking to access preferential tariffs. Extended cumulation in the current deal means this has not yet been an issue, as producers in Northern Ireland can use inputs and processing from the Republic of Ireland. **The loss of extended cumulation and market access for Northern Irish producers in particular requires careful consideration and bespoke solutions to avoid undermining trade in Ireland.**

## 2. Rules of Origin

The need for non-UK inputs isn't going to change and given its proximity, the EU will always remain a key source of inputs in UK manufacturing (see figure 3 for imports from the EU).

However, as the UK concludes new trade deals, new opportunities will arise for some producers to source inputs from non-EU suppliers instead of the EU. It is essential that **the rules of origin seek to ensure processing takes place in the UK (and Canada) but that sufficient flexibility is provided to ensure that EU or rest of the world content incorporated in manufacturing allows continued access to preferential tariffs.**

UK food and drink Imports



The rules of origin should not act as a barrier to trade with the use of 'wholly obtained' rules and detailed exceptions as seen in the UK-EU Trade and Cooperation Agreement (TCA). As set out in FDF's previous publications on rules of origin<sup>1</sup>, a suite of options exists to enable this flexibility, including:

<sup>1</sup> [https://www.fdf.org.uk/corporate\\_pubs/FDF-Rules-of-origin-report.pdf](https://www.fdf.org.uk/corporate_pubs/FDF-Rules-of-origin-report.pdf)

- simple and straightforward change of tariff heading rules without exceptions;
- more generous provisions on tolerance e.g. shifting to a 15% value or weight option; and
- a joint exemption for all content originating from Least Developed Countries (LDCs).

In addition, the UK should look to build in mechanisms to future proof the agreement by allowing the potential future agreement of full diagonal cumulation between the UK, Canada and the EU.

### 3. Standards and regulations

The FDF emphasises the importance of good cooperation and dialogue between UK and Canada regulators, political bodies, industries and other stakeholders to ensure regulatory coherence.

Given the high quality of the UK food and drink sector, our high standards of food safety and animal welfare must not be undermined, or we risk the loss of consumer confidence in UK food and drink. **The deal should include a non-regression clause to avoid any lessening of these protections.**

### 4. Customs and border checks

Much of our trade is in perishable goods and long transport times followed by unnecessary border delays presents problems for businesses moving short shelf life products when they reach Canada. An agreement with Canada should **secure opportunities to improve the practical movements of foods between both countries**, while ensuring protections for food safety and biosecurity are not undermined.

Simplifications to customs and border checks can help reduce unnecessary costs and speed up trade. Many food and drink products are perishable, and delays at the border erode the quality and value of products – and their acceptability to customers. **The UK should aim to secure enhanced commitments around customs procedures, similar to those secured in the UK-Australia deal**, which look to digitalise processes to ensure perishable goods clear customs quickly and efficiently.

The UK's 'Borders 2025' work should link in closely with key trade partners such as a Canada to expedite the flow of perishable goods. The UK should work closely with international partners including Canada to streamline and standardise global customs processes where possible, with the aim of introducing a customs single window and removing the need for both export and import declarations.



Any deal with Canada will also need the UK and Canada to cooperate in order to streamline SPS processes as much as possible with the aim of minimising bureaucratic burdens imposed on business and delays imposed on short shelf life products due to physical checks at the border.

### 5. Small and Medium Size Enterprises (SMEs)

The provisions on SME support in the existing trade agreement with Canada do not go far enough in terms of practical support. Government needs to improve the quality of its digital offer and the way in which it communicates with SMEs as Gov.uk is not fit-for-purpose to disseminate complex information on trade to time-pressed small businesses.

FDF would like to see the development of **a one-stop-shop that provides ease of access to essential trade information for SMEs**, including those looking into trading with Canada but also for Canadian businesses exploring opportunities to trade with UK businesses and invest in the UK. This could be housed on the Great.gov.uk website, bringing together key information on processes, procedures, taxes, tariffs, rules of origin, barriers to trade and business opportunities. This could help improve businesses' understanding and utilisation of preferential trade agreements.



### 6. Intellectual property

A more ambitious approach to the protection of UK Geographical Indications (GIs) in a new trade deal with Canada is needed, with the **aim of securing recognition and protections for all registered UK GIs** and including a simplified and transparent process to support the future recognition of new GIs in both countries.

## 7. Labour standards

All trade agreements signed by UK Government should include a robust commitment with ongoing monitoring to ensure that they do not in any way contribute to lower labour standards within the UK or abroad.

## 8. Human rights and equality

The UK should maintain its duties as a leader on the protection of human rights, ensuring that all trade agreements include robust provisions requiring signatories to uphold human rights. The UK should include a robust obligation for both parties to uphold human rights as set out in the 30 articles of the UN's Universal Declaration of Human Rights.



## 9. Environment/climate change

The UK should seek to put in place more ambitious provisions than the trade and environment chapter in the continuity trade deal. The new agreement should more closely reflect the UK's zero carbon commitments and they should aim to put in place **shared targets to reduce carbon emissions**. The UK's food and drink industry operates to high environmental standards and as such certain increasing exports and growing UK production in place of manufacturing overseas can help lower overall global emissions.

## 10. Other

Canada presents significant opportunities to deliver further growth for quality UK food and drink manufacturing while also delivering access to competitively priced ingredients and raw materials that are not available in sufficient quantities domestically. The ease of access in terms of transport, our close historic and cultural ties, and similar commitments to environmental protection means that Canada could become an ever more important trading partner in the future.