Canadian Agri-food is Highly Vulnerable to US Tariffs. The US Should Worry Too.

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The Issue

In late November 2024, President-elect Trump proposed levying US imports from Canada a 25 percent tariff, conditional on Canada taking action on its border with the US- specifically on immigration of persons to the US via Canada, and movement of fentanyl into the US from Canada. Mexico was proposed the same treatment, and China was threatened with a 10 percent tariff.

This announcement, preceding the new administration coming into office, begs many questions and projects into an ambitious and complex milieu of US domestic and trade policies that President Trump has discussed as a US presidential candidate, and in the period since his successful election. With Canadian agri-food so heavily integrated with the US, and Canada, the US, and Mexico partners in a trade agreement, surely a lurch toward greater protectionism by the US is a source of concern.

The lack of a Presidential Order on tariffs against Canada as of the January 20th inauguration suggested that Canada may get a reprieve- but this was followed by word the following day, in response to a question from a reporter, that tariffs against Canada of 25 percent would probably begin February 1st . In the January 29th confirmation hearing of Secretary of Commerce nominee Howard Lutnick, testimony revealed that the February 1st deadline is related to progress on immigration and fentanyl, and some acknowledgment that Canada had been responsive to US concerns- but with no commitment.[1]

We now know that as of February 4th, US imports from Canada will be subject to a 25 percent tariff, with 10 a percent tariff on energy, and that the US reserves the right to escalate if Canada retaliates.[2] Canada responded with retaliation against the US with 25 percent duties on $30 billion worth of imports from the US, followed by a second round of 25 percent tariffs on an additional $125 billion in imports from the US.[3]

Mexico will also be subject to the 25 percent tariff from the US, and China a 10 percent tariff surcharge, as of February 4th . Mexico indicated that it will retaliate against the US. China is taking a case against the US and has promised countermeasures.

North America will soon find itself in the grip of a full-scale trade war.

Furthermore, in his testimony, Lutnick noted that the trade policy review due April 1st could reveal areas in which the US may take action on specific products, and not just against countries as a whole, and in response to a question, he identified Canadian dairy specifically. However, he also said that he prefers across the board tariffs on a country-by-country basis.

The tariffs announced February 1st , the prospect of further tariff action by the US, and retaliation by Canada are deeply disruptive and concerning.

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[1] See "Lutnick Says Trump Tariffs Will Restore US Economy, Respect", *Bloomberg* January 29, 2025 https://www.bloomberg.com/news/articles/2025-01-29/lutnick-says-mexico-canada-can-avoid-tariffs-with-border-action?cmpid=BBD013025_TRADE&utm_medium=email&utm_source=newsletter&utm_term=250130&utm_campaign=trade&sref=ZcpONEpZ

[2] See "Imposing Duties to Address the Flow of Illicit Drugs Across our Northern Border: Executive Order https://www.whitehouse.gov/presidential-actions/2025/02/imposing-duties-to-address-the-flow-of-illicit-drugs-across-our-national-border/

[3] https://www.canada.ca/en/department-finance/news/2025/02/canada-announces-155b-tariff-package-in-response-to-unjustified-us-tariffs.html

The purpose of this policy note is to explore the Canada-US agri-food trade context, nature of potential US policy shifts, and the resulting vulnerabilities to Canada and corresponding adjustments to policy.

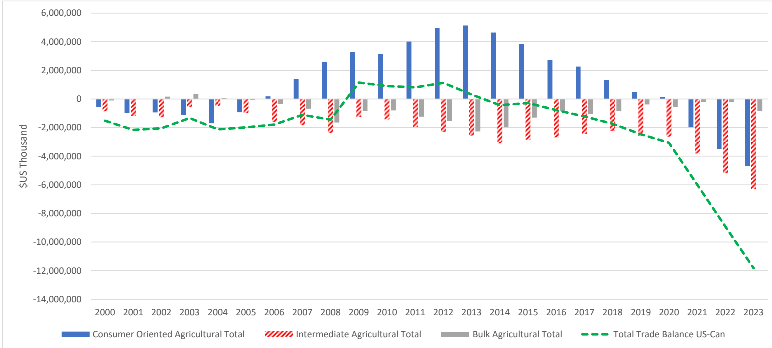
Canada's Agri-food Trade Situation with the US has Evolved

In a 2017 policy note addressing the prospect of NAFTA renegotiation under the first Trump administration[4], Mussell and Hedley noted that "US food manufacturers have been beneficiaries of Canadian bulk and intermediate products that they can process in their plants, with ready access for the resulting consumer oriented products in the Canadian market. This has provided for an extension of US food processing beyond its natural scale based on domestic farm production, and in many categories of packaged foods, US brands dominate the Canadian market. Canadian agri-food exports to the US in more raw form, and Canadian imports from the US in more consumer-ready form".

This situation has changed.

Figure 1 provides a graphic illustration, from data on US imports from Canada using the Bulk, Intermediate, and Consumer-Oriented (BICO) aggregation of agri-food trade. Since 2000, with very few exceptions, the US has been trade deficit with Canada in bulk products (essentially grain). The US has been trade deficit with Canada in intermediate products (e.g. livestock, canola meal). Starting in the late 2000's, the US became trade surplus with Canada in consumer-oriented products, leading a shift from a small agri-food trade deficit with Canada to an agri-food trade surplus. The US trade surplus in the consumer-oriented category began decline in 2014 to almost a neutral balance in 2020; since then, the US has been trade deficit with Canada in each of the BICO categories, and increasingly so.

Figure 1 US-Canada Agri-Food Trade Balance



Source: USDA FAS-GATS

Today, all three segments of Canadian agri-food are vulnerable to US protectionism, and could be seen as a specific target for the new administration that sees US trade deficits as "losses" or "subsidies to other countries". But it also means that, on a net basis, Canada is feeding the US. Tariffs that increase the price of agri-food products imported by the US from Canada will cost US consumers. If tariffs are sufficient to effectively halt Canada-US trade in some products, the US will be shorted in these products to some degree, for some period of time, and prices could increase sharply.

Moreover, the US has an overall agri-food trade deficit with the rest of the world- $US 21.7 billion in 2023- based on net imports of consumer oriented and intermediate products. The US has a material trade surplus in bulk products. The US also has a significant agri-food trade deficit with Mexico- $US 17.2 billion in 2023- again based on trade deficits of consumer oriented and intermediate products and a trade surplus with Mexico in bulk products. So, in a situation in which it is a net importer of agri-food products, especially the segments closest to the consumer, it has enacted sweeping tariffs against two of its leading suppliers.

[4] Al Mussell and Douglas Hedley, "Agri-Food Trade: Is the US Really a Victim of NAFTA?" Independent Agri-Food Policy Note March, 2017 https://www.agrifoodecon.ca/uploads/userfiles/files/us%20agri-food%20trade%20nafta(1).pdf

Evolving Understanding of Trumponomics

President Trump's economic plan, or "Trumponomics" involves a bold agenda, ranging from clearly enunciated policies and also ill-defined statements of intent, apparently drawing from multiple intents and influences. Mr. Trump has spoken about making permanent existing tax cuts for businesses that expire later this year, deepening these cuts, and enabling other tax cuts. He has discussed reducing inflation- notably on gasoline (and also food). He discussed uniform tariffs on US imports as a means of public finance and re-shoring of US manufacturing industry- prior to proposing more specific and targeted tariffs on Canada, Mexico, and China. Large scale budget reductions, perhaps in the trillions of US dollars, are contemplated by the new Department of Government Efficiency.

The mass deportations of people illegally in the US that Mr. Trump has discussed should be considered economic issues in addition to social matters, due to their magnitude and potential impact on the US workforce. The Treasury Secretary nominee Scott Bessent has proposed an economic program of sustained annual 3 percent GDP growth, 3 percent reduction in the US government deficit, and a 3 percent increase in US energy production (3-3-3). Mr. Trump has mused about having more influence on US Federal Reserve Bank policy.

The following elements are thus clear:

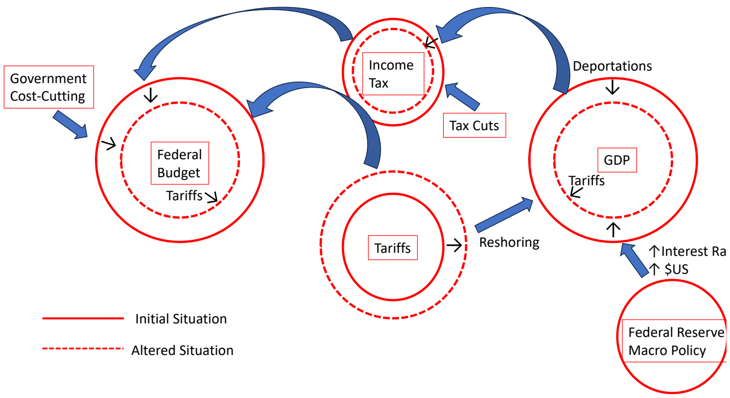
- Reforms to US immigration will involve mass deportations.
- Income taxes will be reduced.
- The Federal budget will be reduced.
- The Federal deficit will be reduced.
- Tariffs will become a primary element of US foreign policy, to deal with both commercial matters and other matters.
- The independence of the Federal Reserve Bank may be reigned in.

How each of these concepts will actually fit together in a complex, coherent macroeconomic system remains to be seen, as well as the time period over which they will be introduced. However, some observations are possible

- Mass deportations will reduce the US workforce, and act to reduce US GDP
- The resulting reduction in GDP will reduce taxable income. Reduction in income tax rates will further reduce revenue to the US Treasury.
- This, combined with a commitment to deficit reduction, will force a reduction in the federal budget, complemented by directed government cost cutting.
- Tariffs will raise public revenue, which will act to counteract the reduction in income tax collected and support the reduction in the deficit. If the tariffs are successful at inducing re-shoring of industries, it will increase GDP.
- The combination of reduction in workforce and the tariffs will be inflationary. This will force the Fed to increase interest rates, strengthening the US dollar. This will tend to cool GDP.
- Retaliation against the US tariffs will counteract the increase in US GDP from reshoring, and a stronger US dollar will exacerbate that effect. The weakening of other currencies with the strength in the US dollar will somewhat counteract the effect of the US tariffs on countries exporting to the US.

Figure 2 attempts to capture the links and potential flows of effect of these various measures, based on the above discussion.

Figure 2 Prospective Elements of Trumponomics



Because there are multiple "throttles" that influence this system- level of deportations; level of tax cuts; level of government budget cuts; level of tariffs; interest rates- and really only GDP, inflation rates, and exchange rates as outcomes, this representation does not isolate an equilibrium point among these factors. But it does facilitate some analysis of functional relationships.

- Policy variables will weigh very heavily on US economic performance- notably deportations, income tax/deficit reductions relative to government budget reductions, and tariffs. This has not been the case since at least World War II.
- Deportations and tariffs are negatively correlated. The greater deportations and resulting loss of workforce, the lower the feasible tariffs
- The tariffs themselves are the subject of an elasticity relative to public revenue. Zero tariffs generate zero revenue; prohibitive tariffs also generate zero revenue. Tariffs engineered to raise revenue, rather than strictly limit trade, must pitch this balance.
- It is hard to imagine how the apparatus envisioned in Figure 2 can be set in motion without being inflationary if the independence of the Fed is undermined.
- If the tariffs are unsuccessful in increasing US GDP or restoring it at a higher level than would have otherwise occurred due to the deportations, then it would seem that the US is committing itself to a spiral of GDP decline, with only action by the Fed to stabilize or support it. However, as recently reported by Bloomberg, the most recent experience with the US raising tariffs in 2019 did indeed dampen GDP- in the face of retaliation of affected countries (especially China), and that the Fed was considering decisive action before the Covid-19 pandemic overshadowed the issue. This represents something of an alarming caveat.

This representation does not extend into a more structural consideration of global currency exchange rates, and the implications of the US dollar as a global reserve currency.

The prospect exists that Trumponomics may aspire to much bolder objectives, including a resetting of the global balance of payments and currency exchange rates vs. the US dollar, using tariffs as an instrument, as articulated by the nominee to lead the US Council of Economic Advisors.[5]

Timing

There are multiple dimensions of timing that play into the above discussion. First, the overall Trump policy program is on a tight timeframe. President Trump cannot run for another term, so the legacy of his policy program- directly attributable to him- must occur within four years. Moreover, mid-term elections that will determine the control of houses of congress will occur within two years. So the program is ambitious and must occur under a tight time frame.

[5] See a recent paper by Stephen Miran (November, 2024) *A User's Guide to Restructuring the Global Trading System* https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf

The nature of tariffs that can be enacted are highly time sensitive. A general uniform tariff that applies on imports by the US from all countries very likely lies outside of any executive order and will require an act of congress. This requires an expansive period of time. Tariffs enacted on imports from specific countries can more feasibly be enacted as presidential executive orders- for example under International Emergency Economic Powers Act of 1977 (IEEPA), the President can declare an emergency exists relative to "any unusual and extraordinary threat, which has its source in whole or substantial part outside the United States". Tariffs under Section 232 of the Trade Expansion Act allow the President to enact tariffs on the basis of national security. Section 301 of the Trade Act of 1974 allows the President to raise tariffs on the basis of unfair trading practices. Section 338 of the Tariff Act of 1930 allows the President to respond to discrimination by a country against products it imports from the US versus its imports from other countries. Under Section 122 of the Trade Act of 1974 the President can enact tariffs to address large and serious imbalances in balance of payments.

The tariffs just enacted against Canada, Mexico, and China are under the authority of IEEPA, which has been invoked previously- notably in the late 1970's against Iran and also Nicaragua. Sections 232 and 301 were enacted under the first Trump presidency, and Sections 338 and 122 have never been utilized.[6]

However, in the case of Section 232 and Section 301, the legislation requires that an investigation occur that validates a national security threat or unfair trade practices in its findings. Section 338 carries a requirement for proof of discrimination- which Packard and Lincicome suggests would be difficult if the US has been accorded Most Favored Nation status (which it has by Canada). Moreover, these investigations take time- probably months- to complete.

It is thus only the IEEPA, and perhaps Section 122, that can be used to more-or-less unilaterally raise tariffs, and the authority for both IEEPA Section 122 mechanisms requires legislative review and/or is temporary.

On January 20th, President Trump released a Presidential Memorandum on "America First Trade Policy".[7] It directed the directors of federal agencies to pursue an ambitious agenda of US trade policy review, to be completed by April 1st. It is unclear about outcomes and whether these reviews satisfy the requirements for investigations under Sections 232, 338, and 301, but prudence would suggest the assumption that the pre-conditions for President Trump to enact additional product-specific tariffs could be satisfied by April 1st.

US Agricultural Policy

Shortly before Christmas 2024, the US passed the American Relief Act, which largely extends the measures contained in the 2018 Farm Bill through to the end of September, 2025. It also added about $US 10 billion in assistance for US farmers in relation to lower crop prices.[8] The funding for these programs was contained in the Further Continuing Appropriations and Other Extensions Act that averted a US government shut down.

From the Canadian perspective, perhaps the most important aspect of the US Farm Bill extension and US agricultural policy more generally, is that the support for renewable fuels was retained.[9] The reason for this is that US imports of canola oil in Canada have grown extensively to very high levels, as have US imports of Canadian used cooking oil (UCO)- both based on the growing demand for feedstocks from which to make

[6] See Clark Packard and Scott Lincicome "Presidential Tariff Powers and the Need for Reform" Rand Briefing Paper 179, October 2024 https://www.cato.org/briefing-paper/presidential-tariff-powers-need-reform?utm_source=social&utm_medium=x&utm_campaign=Cato%20Social%20Share&s=09#introduction

[7] https://www.whitehouse.gov/presidential-actions/2025/01/america-first-trade-policy/

[8] For additional detail, see https://fapri.missouri.edu/ara2025/

[9] Interestingly, the extension of the US ethanol mandate to a full calendar year basis, which was expected, was not retained in the final budget reconciliation legislation

renewable diesel. With Canadian corn arbitraging with US corn- and barley and other feed grain heavily correlated- Canadian pricing ends up being impacted by any changes to demands for corn from US ethanol manufacturing. Indeed, renewable fuels are a major source of demand for US corn and soybean oil- and have acted as a substitute for US exports.[10]

Green energy seems to be a point of conflict and contradiction for the new administration. On Day One, Mr. Trump signaled that he plans to cancel or set aside elements of his predecessor's Green New Deal, and move forward with "drill baby, drill".

But Mr. Trump has also discussed increasing US ethanol exports[11] and with ethanol such a large proportion of the US gasoline pool, the last component of the 3-3-3 strategy would suffer badly if the US ethanol mandate and support were weakened. In a Presidential Order of January 20th,[12] US agencies were directed to review policy measures "that impose an undue burden on the identification, development, or use of domestic energy resources" with biofuels appearing in the list of domestic energy resources- along with oil, natural gas, hydro power, and nuclear energy.

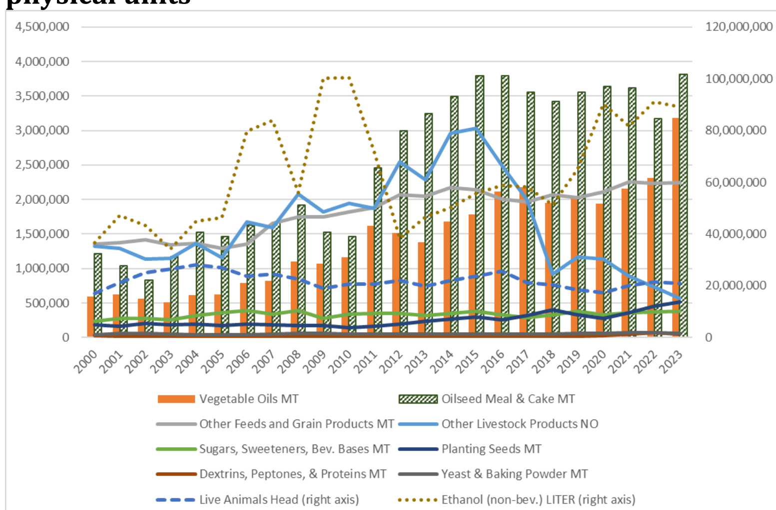
Canada-US Agri-Food Situation

The trade balance pictured in Figure 1 assimilates a great deal of detail. The clearest category is Bulk trade, which is essentially grains and raw products, excluding livestock. It is relatively static, with some of its fluctuations due to price changes in recent years. Figure 1 showed growth in US net imports of intermediate Consumer Oriented products.

Intermediate products consist of livestock and primary processed- but not ready to eat- products. Figure 3 presents US imports of Canadian intermediate products exceeding $US 100 million in 2023, presented in physical units. The figure shows that growth in intermediate products imported by the US from Canada has principally been in the vegetable oils and meals categories. Most other categories are steady, with some, such as animal products, in decline. This is consistent with growth in US imports of canola oil connected to renewable fuels, and imports of canola meal as a feed additive. Interestingly, UCO is not included in the BICO aggregation; Figure 4 presents US imports of UCO from Canada. The figure shows a sharp increase in US imports of UCO since 2020 to 268,000 tonnes recently; prior to 2017 US imports of Canadian UCO were quite small.

US consumer oriented agri-food imports from Canada are more diverse. Figure 5 shows that the top 20 categories of US imports, by 2023 value, ranged from bakery products, followed by beef, fresh and processed vegetables, chocolate and cocoa products, soups and food preparations, and pork.

Figure 3 US Imports of Intermediate Agri-Food Products Exceeding $US 100 Million in 2023, physical units



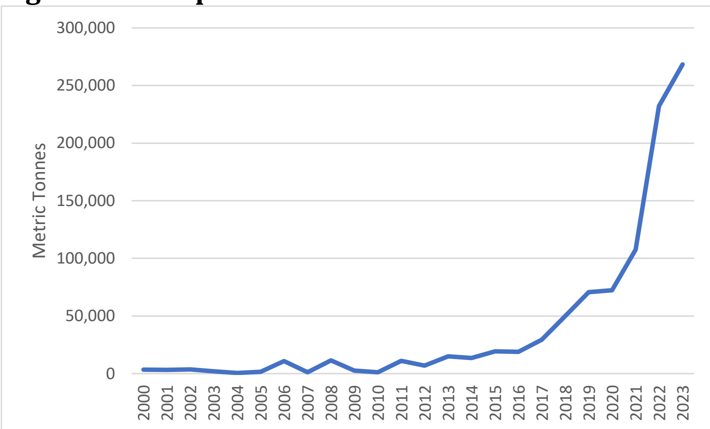
Source: USDA-FAS GATS

[10] See *If food is getting scarce, why are farm prices so low?* Independent Agri-Food Policy Note, October, 2024 www.agrifoodecon.ca

[11] See https://www.fb.org/farm-bureau-news/presidential-candidates-answer-farmers-and-ranchers-questions https://www.fb.org/farm-bureau-news/presidential-candidates-answer-farmers-and-ranchers-questions

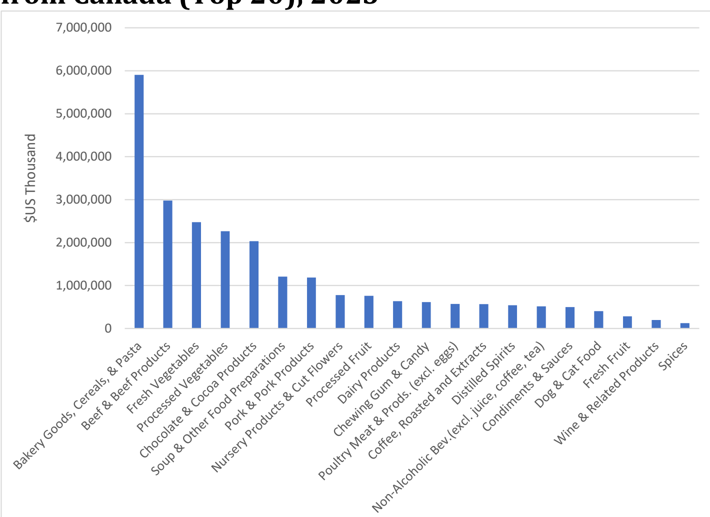
[12] See "Unleashing American Industry" https://www.whitehouse.gov/presidential-actions/2025/01/unleashing-american-energy/

Figure 4 US Imports of UCO from Canada



Source: USDA-FAS GATS

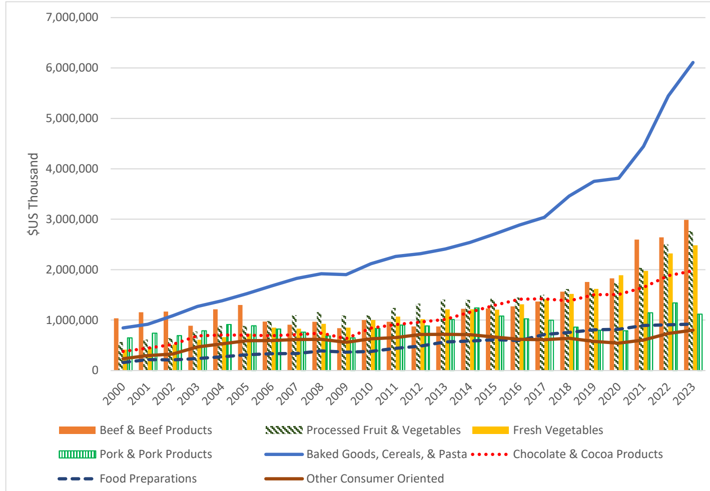
Figure 5 US Imports of Consumer Oriented Products from Canada (Top 20), 2023



Source: USDA-FAS GATS

Figure 6 provides greater detail on the growth over time of consumer-oriented US imports from Canada in grouped categories from HS-10 data. It shows the remarkable growth and dominance of bakery product category, especially since 2020, recently at $US 6.1 billion. US import values of beef have grown similarly since 2020- presumably primarily a price effect, as the Canadian cow herd has declined. US imports of fresh

Figure 6 US Leading Imports of Consumer Oriented Products, 2000-2023



Source: USDA-FAS GATS

vegetables and processed vegetables and fruit also jumped following 2020. Chocolate and cocoa products, also growing, are indicative of a policy-driven market- Canada has no indigenous cocoa production and very limited sugar protection- but access to a protected US sugar market. Food preparations are significant and growing; US pork imports are significant and more steady in nature.

Recent analysis by the Peterson Institute for International Economics (McGibbin and Nolan) suggests that the 25 percent tariffs could cost Canada $100 billion in lost GDP and reduce the GDP growth rate by more than 1 percentage point by 2026.[13] The authors suggest that this is probably an underestimate of the damage, due to the entrenched integration of the Canadian, US, and Mexican economies. This is consistent with alignment of many agri-food supply chains in which products variously cross the Canada-US border on the pathway to ready to eat foods. With Canada and Mexico retaliating against the US, it is almost certainly an underestimate.

[13] https://www.piie.com/blogs/realtime-economics/2025/trumps-threatened-tariffs-projected-damage-economies-us-canada-mexico

Observations and Conclusions

Recognizing that Canada faces a fluid situation today, the following observations can be made:

- Canadian agri-food exports to the US will become subject to 25 percent tariffs. This confronts a situation in which Canada is an increasingly net agri-food exporter to the US. Canada's initial retaliation against the US include a number of food products.
- As a sector with a trade surplus with the US, Canadian agri-food could come under the sights of the US in reviewing and formulating trade policy, and a second round of tariffs could be introduced after April 1st -with Canadian dairy already identified. The specific rationale or objective pursued by the US relative to either product-specific or uniform tariffs remains elusive. But an understanding of the developing shape of US federal government finance suggests that tariffs could actually be intended to generate revenue, not simply to limit trade, and that as such, tariffs could be in place for some time.
- Relatively high tariff rates, such as 25 percent, could limit trade and the associated revenue collected by the US from the tariffs. This suggests the prospect that high tariff rates could prove unsustainable- and that these will be lowered and/or will only be temporarily at high rates. It also suggests that escalation by the US in response to retaliation will be less likely, or temporary.
- If the purpose of the tariffs is driven by optimal revenue generation, then the various elasticities in tariff revenue could suggest variable rates across commodities, along with the extent and speed of re-shoring of product manufacturing. This probably means tariffs lower than 25 percent, and combined with the shrinking US workforce, it will probably limit the extent of manufacturing re-shoring to the US that can actually occur, at least in the short-term.
- Timing is a further constraint facing the US administration. The new US economic program, including tariffs levied on Canada, will need to demonstrate results very quickly- certainly within less than two years leading up to US mid-term elections in late 2026.
- The timing challenges facing the apparent Trump economic agenda, at least as envisioned here, are hard to exaggerate, in particular, the response of the private sector to US reshoring incentives. Reshoring requires private industry to invest to do the reshoring. A reasonable (minimum) time horizon for material industry reshoring in agri-food would be 3-5 years. While there may be some prospect of this in some aspects of manufacturing, farmland productive acres cannot be reshored.
- Canada has become deeply connected in what amounts to US domestic agricultural policy matters. Canada is a major beneficiary of US renewable fuel policy- through its support of grain and oilseed prices and through canola oil exports (especially in light of the threat of dumping duties from China) and associated canola meal exports. Canada has significant exports of sugar-containing products owing to US sugar policy and not connected meaningfully to agricultural production originating in Canada.
- Canada also makes use of US cash and futures markets as a price reference. At some point, US protectionism will begin to generate sufficient noise that it will impair the use of these price references and their value as hedging instruments for Canada.

- The US export customers of Canadian agri-businesses surely have been viewed as an asset; however; the extent of US business could now be viewed as exceptional exposure to risk. The trade data help us understand the critical industry segments that could find themselves in this situation. Bakery, starches, and food preparation stand out in this regard- but there are others. The value of livestock exports understates the urgency situation, as regions of the country- Ontario in hogs and cattle, and segments of the west in cattle and also hogs- have been dependent on a US market for immediate slaughter and or feeding capacity.

This could be interpreted as meaning that Trumponomics will be a short-lived failure. This is possible. But some of the ideas underlying Trumponomics- illegal immigrants taking American jobs; bringing the US government fiscal house in order; other countries should pay in order to access the US market- could be deeply held. The implication is that the US could hold firm on Trumponomics even in the face of great difficulties and failures, or conversely any mid-course corrections made could retain its essential objectives. It would be naïve to suppose that, faced with problems in its new trade policy direction, the US will revert back its mostly open market, free trade approach of the last several decades. It seems unlikely that this new policy direction is a deviation that will eventually revert to a longer-term norm.

In the new US administration, Canada also faces a counterpart whose specific or true objectives and willingness to sacrifice for their achievement are somewhat unknown. It is possible that the ambition of the Trump administration is indeed to use tariffs as a means of emboldening the use of the US dollar, but at a lower exchange rate, by using tariffs to reset the security spending of others and force structural changes in the global balance of payments- as one source (Miran) suggests. This entails a remarkably bold foreign policy objective, and one that is consistent with many of Mr. Trump's statements. But we simply don't know if this is the Trump foreign policy playbook, and even- if correct- how truly committed the US will be to this. Past experience suggests a more transactional approach from Mr. Trump.

In turn, it begs major questions of the commitment of the US to CUSMA/USMCA- if the US requires tariff revenue from Canadian imports, that is fundamentally inconsistent with the agreement, and it has no future.

It is a fateful time for Canada, which must first grasp the magnitude of what is occurring. Navigating this situation will be difficult, especially without an effective national leader capable of leading Canada in a direction that could involve some adversity on a journey to greater stability and certainty, yet to be defined.

Canada must also confront the experience we have with Mr. Trump wanting to not only prevail over his adversaries, but also wanting the appearance of having inflicted some sort of "defeat" upon them. We must assume that agri-food could be a prime target, either as a victim of a country-by-country tariff employed by the US against Canada, or singled out if the US instead decides to use tariffs on more of a product basis on a national security, unfair trading practices, or some other basis. It has already identified Canadian dairy in this regard.

However, while the US action against its CUSMA/USMCA allies demonstrates a lack of any commitment and undermines the future of the agreement going forward, it is in force today. The provisions of trade agreements have tolerance and conditions for abrogation justified by an emergency, such as those captured under the meaning of General Exceptions and Security Exclusions in GATT Articles XX and XXI. CUSMA/USMCA Chapter 32 seems rather open in this regard, but the IEEPA requires that its authority is "only be exercised to deal with an unusual and extraordinary threat with respect to which a national emergency"- defined as fentanyl and illegal immigration entering the US from its northern border. But Canada has taken action to mitigate, and only very small proportion of the US problems with illegal immigration and fentanyl have been associated with Canada.

This could form the basis of a legal test of whether these US issues with Canada rise to the standard that justifies a "national emergency" that justifies action under the IEEPA and exempts the US from its CUSMA/USMCA commitments to Canada. Sorting this out as a legal matter will take time, with the prospect of a stay against the tariffs occurring during the process.

It is also a natural point of alignment with Mexico, which has similar interests. More generally, with Mexico also retaliating against the US, Canada needs to be closely aligned with Mexico to exert maximum pressure in retaliation, and be united if the US chooses to escalate.

There is some worry that Canadian agri-food is unprepared for the challenge of this environment, as it falls outside the well-worn policy talking points of industry and governments. Some leading policy priorities- Business Risk Management reform; industry competitiveness and investment; reform of the regulatory system for product approvals; transportation and other infrastructure- remain, but will need to be reset and re-prioritized given the imminent and overarching threat posed by the apparent shift in US policy direction. Some of this appears to be already occurring- as evident in the Western Canadian Wheat Growers criticism of recently announced funding for the On-Farm Climate Action Fund.[14]

As a start, we can recognize that Canada has a short list of unique attributes that it has to contribute to the world- largely energy, water, rare-earth metals, and *food*. In high-level policy discussions, agri-food simply must come under the umbrella of priority matters; it has been an egregious omission. The data tell us that the US has wanted a broad range of Canada's agricultural and food products, and throughout the world there is scarcity in food. Canada operates at a scale in which it can be a material supplier of agri-food exports.

Canadian agri-food exports are heavily oriented toward the US market, and there are reasons for this- proximity and ease of a land border crossing; customers operating in both the US and Canada; mostly open market access; common language and similarities in culture; similarities in contract law, etc. Thus, growth in US exports has been comparatively easy. What Canadian company would decline requests for more US orders or inquiries from new US customers? But this is not the point. Canadian agri-food industries and companies apparently have not perceived a risk from heavy reliance on US export business, and this may be revealing itself as a liability now. It is a longer-term strategic, and not an operational-transactional, matter.

Canadian agri-food is now faced with the prospect of better rounding out its customer portfolio by region, according to customers who are generally like-minded, whose demands fit with Canada's supplies, and who are less likely to turn on us with changes in trade policy that hold Canadian agri-food investments hostage. Accessing suitable new customers along these lines is especially apt to be a challenge for small and medium-sized agribusinesses, for whom being able to access customers in other provinces is a start. Cultivating and serving new exports customers outside the US could be a strain on internal resources for all sizes of food companies, including the large. This is an area where sharply increased international market assistance, consular services, technical assistance, and financial protection provided by governments could be of great value.

In other cases, Canada exports agri-food products to the US that are not easily replaced either by US product or third-country suppliers, or are genuinely unique. Canadian companies need the resources to work with their US customers to hold these markets. In some cases, the products may be relatively price inelastic and capable of carrying the tariff at little loss in volume. In others, Canadian suppliers will need to work hard to hold existing US accounts, and may struggle to manage the financing of tariffs without assistance. It may be

[14] See RealAgriculture coverage and remarks by Darryl Fransoo https://www.realagriculture.com/2025/01/huge-missed-opportunity-wheat-growers-chair-blasts-300-million-ofcaf-announcement/

necessary to consider how to differentiate between these situations and how policy assistance could be deployed accordingly.

Yet, we need to better understand the sources of Canadian growth into agri-food export to the US. For years we have worried about lagging productivity in agri-food processing and our competitiveness (especially relative to the US), and attracting investment. Canada's impressive growth in agri-foods exports to the US is at odds with these concerns. If growth in agri-food exports to the US was not the product of an enlightened, well carried out strategy and bold new investments (it wasn't) then we need to better understand what has been occurring in Canadian food processing since about 2014 that has generated these results.

Canadian agri-food industries will be consulted regarding retaliation. In agri-food, there are a number of products that Canada both exports and imports from the US, in each of the bulk, intermediate and consumer-oriented trade categories, with the prospect that lost or impaired US export volume could be retained to replace US imports domestically. There are also critical imports from the US that agri-food depends upon that should explicitly be avoided in retaliation, such as phosphate fertilizers, pesticides, and seed. This represents a reasonable initial approach to retaliation in agri-food.

There are some issues that are suddenly urgent due to the perishability of some farm products. Producers of fresh vegetables, especially in the greenhouse segment where integration into US exports represents a large proportion of sales, will need to carefully assess the situation prior to planting and establishment decisions.

Some facets of animal agriculture could be especially disaffected by sizeable US tariffs, due to their inherent perishability and the established US-Canada integration of feeder animal, fed animal and slaughter capacity. In hogs, there is a general direction of trade in export of feeder animals (especially from the west) and export of slaughter weight animals (especially from the east) and a lack of slaughter capacity, notably in eastern Canada. Trade in pork is two-way, but optimizing carcass cutout value involves exports across multiple export destinations, including the US.

The situation in cattle is different. There is a two-way movement of feeder cattle in the west based on feeding economics, and more of Canadian import of feeder animals from the US in the east- but also with some feeder exports. The fed cattle trade is two-way in the west, and export-driven in the east. The general nature of beef trade is toward US export, but eastern Canada is beef deficit, supplied variously by US imports and shipments from the west. Optimizing beef carcass cutout value entails similar considerations as with pork.

Some aspects of pork and beef exports may be capable of carrying tariffs and trade continuing, given supply and demand conditions- for example, Canadian feeder pigs are in demand in the US, and the US is short grinding beef it imports from Canada (and elsewhere).

But a shift toward an unfriendly or unreliable US market forces some long-standing structural issues. Especially in eastern Canada, and especially for pork, the lack of slaughter capacity is a critical gap. Pork also lacks nursery capacity for early-wean pigs, especially in the west. Investments to fill these gaps entails a highly risky environment, including securing customers for a new plant, and the imminent risks associated with African Swine Fever and concomitant export market access problems. The situation with beef is complicated by the general decline in the Canadian beef cow herd, the prospect of more frequent future droughts in the west, and the gap between feeding capacity and the availability of feeders in the east. Thus, a long list of sobering risks confronts these critical investments.

A North American trade war calls the Canadian agri-food industry to bear significant leadership, much more so than usual, to advance thinking and strategy on trade policy relative to the US, and on agri-food policy more generally. It will require a very mature stance, and putting many commodity and regional interests on the back burner. A possible rallying point- the agricultural sector's inherent interest in protecting and supporting the companies in Canada engaged in exporting to the US-the farmers' customers and downstream customers' customers- who stand on the front lines to be the first casualties of US tariffs. Food companies in Canada lack a policy that cushions them from adverse trade policy, and they may very well need help now.

Absent this industry leadership, given the potential timing of events and awkward political situation, Canadian agri-food could be left highly vulnerable.

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