

IMPACT OF WORLD AGRICULTURAL POLICIES ON CANADIAN
EXPORTS OF CANOLA AND CANOLA PRODUCTS

M.D. Hildebrand and R.D. Downey

Agriculture Canada, National Grains Bureau
P.O. Box 6200, Winnipeg, MB. R3C 4N1

INTRODUCTION

Increases in world oilseed production and trade in the past two decades are attributable to growth in both population and per capita consumption. The factors that have determined where increases in oilseed production have occurred can be broadly grouped in two distinct categories: those relating to natural comparative advantage of production, and those relating to agricultural and trade policy. In recent years, the influence of the latter has increased in relative importance. The resulting shifts in international trade flows have directly affected the Canadian industry in the areas of export volume, destination and price. This paper examines various agricultural policies and their influence on Canadian exports of canola and canola products.

BACKGROUND

Rapeseed/canola production comprises roughly 10 percent of world oilseed production. In Canada, canola is a major export commodity, and the basis for processing industries that produce and utilize canola oil and meal. Annual Canadian canola processing capacity peaked at 2.2 Mt in 1990, approximately 40 percent of which is required to meet domestic consumption requirements. Canadian canola crushings peaked at 1.6 Mt in 1987/88.

Canada accounts for 14-20 percent of world canola/rapeseed production, and Canadian canola exports account for roughly half of international trade. Over half of the Canadian crop is exported with the remainder used primarily by the domestic crushing industry.

CANADIAN EXPORT PROGRESS SINCE 1970

Export destinations of canola, canola meal and canola oil have evolved in distinct patterns. The following sections provide a brief review of export volume and destinations over the past twenty years.

Canola

Although Canadian canola/rapeseed export volume during the past two decades has varied considerably from year to year, it has trended up over the period to total nearly two million tonnes in 1989/90. There has also been a reduction in the number of export destinations. Initially, export destinations included various countries in Europe and Asia. Small quantities were also exported to North Africa and Mexico. By the mid 1980s, exports to European markets had declined to near zero, as had Asian markets such as Bangladesh and Korea. However, the Japanese and Mexican markets expanded

and exports totalled a record 2.13 Mt in 1986/87. In recent years, exports to Mexico ceased, with the last Canadian shipment exported in the fall of 1989. Total Canadian canola exports are currently near the peak levels of 1986/87 despite the fact that Japan is the only significant customer.

Canola Meal

During the early to mid-1970s, small quantities of Canadian meal were exported to many different countries. In the late 1970s, European countries emerged as the principal destinations of Canadian meal. As European rapeseed production accelerated during the 1980s, Canadian exports declined and in 1989/90 totalled just 25,000 tonnes.

During the 1980s much of the export volume was redirected to Asian countries, principally Japan, Indonesia, Korea, and Taiwan. This market peaked in 1987/88 at 265,000 tonnes, 73 percent of which was destined for Japan. In recent years, however, this market has also relied less on Canadian supplies due to increased oilseed production in various Asian countries and increased Japanese crushing of canola. In 1989/90, Canadian exports to Asia totalled only 133,000 tonnes. New market development initiatives may reverse this trend, but at present Japan, Korea and Indonesia are the only significant Asian markets for Canadian canola meal.

Throughout the 1980s, the U.S. has been a growing market for Canadian rapeseed/canola meal. Exports rose from 22,000 tonnes in 1980/81 to 280,000 tonnes or 57 percent of the total in 1988/89, making the U.S. by far the largest importer of Canadian meal. Although the U.S. protein market is keenly competitive, Canadian canola meal has found its way into niche markets in various states, primarily in the northern U.S.

Despite fewer destinations, Canada now exports over 50 percent of its total canola meal production.

Canola Oil

Like canola and canola meal, canola oil export destinations have shifted significantly in the past 15 years. Before 1985, canola oil was exported exclusively to non-U.S. destinations because canola oil was not "Generally Regarded as Safe" (GRAS) in the U.S. Canadian canola was exported to a number of countries in all areas of the world.

During the 1980s, non-U.S. export markets underwent significant change. Canadian food aid shipments increased significantly, then declined from the peak of 121,000 tonnes in 1986/87 and currently total 20-30,000 tonnes per year. Commercial exports to offshore markets have declined to just 27,000 tonnes in 1989/90 from the peak of 179,000 tonnes in 1987/88. Total exports to non-U.S. destinations have dropped in relative importance, and are likely to account for less than 30 percent of total exports in 1990/91.

The establishment of GRAS status for canola oil in the U.S. in 1985 opened the door to the large, neighbouring U.S. vegetable oil market. Exports to the U.S. were expected to replace lost offshore vegetable oil markets and generate growth in the Canadian crushing industry. This has happened to some extent in that the U.S. is now Canada's largest export market for canola oil. In the last crop year, two thirds of exports were sold to the U.S., and this proportion is expected

to increase to 75-80 percent in the next few years. However, total canola oil exports were down from their peak of 337,000 tonnes in 1987/88 to 150,000 tonnes in 1989/90.

In the U.S., low erucic acid rapeseed (LEAR) oil from EEC countries is entering the U.S. at significant discounts to Canadian canola oil, and in 1990 captured almost half of the U.S. canola/rapeseed oil market. This largely unforeseen development has taken some of the lustre out of the U.S. vegetable oil market, as Canadian crushers compete with oil produced under the highly subsidized EEC CAP.

POLICIES AFFECTING EXPORT TRENDS

The following section briefly delineates some of the major policies that have affected both Canadian canola prices and the level of exports of canola and canola products over the past 15-20 years. These policies have also affected the Canadian crushing industry's competitive position relative to other suppliers of oil and meal.

EEC Common Agricultural Policy

The domestic shortfall in EEC protein, although still large, has been reduced by expanding EEC oilseed production. This has been accomplished by guaranteeing farmers relatively high prices under the Common Agricultural Policy (CAP), which are generally far in excess of prevailing world prices.¹ Although EEC production of the three major oilseeds has been increasing for decades, the rate of growth has accelerated in recent years. EEC oilseed production roughly doubled from 6.4 Mt in 1983/84 to a projected 13.5 Mt in 1990/91.

Expanded oilseed output has resulted in increased production of rapeseed, sunflower and soybean oils, and made the EEC a net exporter of these commodities. The upward trend in EEC oilseed production has thus affected Canadian exports of both canola and canola products. It has essentially eliminated EEC imports of Canadian canola and canola meal, but because of the EEC deficit in protein, it does not compete in export markets for these commodities. In the case of oil, however, the EEC has become a direct competitor with Canada in international vegetable oil markets.

U.S. Agricultural and Trade Policy

The Export Enhancement program is the major export subsidy program in the U.S., under which 531,000 tonnes of vegetable oil were sold between 1985 and 1990 using an average subsidy of US\$126/t. In addition, several other programs subsidize the exports of vegetable oils. U.S. export subsidies have intensified competition for Canadian crushers in targeted offshore markets.

Ironically, aggressive U.S. export programs and the U.S. import tariff structure have improved opportunities in the U.S. vegetable oil market. The high (22.5 percent) soy oil import tariff has kept U.S. oil prices relatively high, making the U.S. a more lucrative market. Canadian opportunities have

¹ For a review of the magnitude of EEP subsidies see the references cited. (Hildebrand, 1990)

been enhanced by the phasing out of the 7.5 percent import tariff on Canadian canola oil under the Canada-U.S. Trade Agreement. The 5.25 percent tariff on crude and refined canola oil will be reduced by 50 percent on July 1, 1991 and eliminated on Jan. 01, 1992. Thus, while U.S. policies have had a negative effect by crowding Canadian canola oil out of offshore markets, they may have also improved opportunities in the U.S. market.

Japanese Customs Tariff on Imported Oil

The Japanese customs tariff on imported canola oil (JOT) is a fixed rate tariff of 17,000 yen/t (crude), equivalent to roughly \$150/t or 30 percent of canola oil value (late 1990). It is an effective barrier against imported oil, and has increased in magnitude over the past decade because of an increase in the value of the Japanese yen vis-a-vis the Canadian dollar. A recent study estimates that the JOT increases the buying power of Japanese crushers by up to \$60 per tonne of canola. This leverage is reflected in Canadian canola prices that are generally considered to be higher than would be the case in the absence of the tariff.

The effect of higher Canadian canola prices has varying effects on the Canadian industry. Relatively higher canola prices have encouraged production and thereby had an expansionary effect on the Canadian canola industry. At the same time, the JOT reduces the competitive position of the Canadian processing industry, and has contributed to its contraction in recent years. A reduction in the JOT could reduce the level of Canadian canola seed exports to Japan but would not necessarily induce a parallel increase in product sales.

Increasing Competition from other Sources

Although the effects of political intervention as described above tend to have the most visible effects on world oilseed markets, increasing production in other areas of the world have also had a dramatic effect on Canada's competitive position. Increasing palm oil production in Asia has yielded significant increases in exports of oilseeds and products, from these regions. Palm oil has become the most traded vegetable oil internationally, and is the primary vegetable oil import of most major importers, including China, Japan, the USSR, India, and the EEC. Whereas Canada once exported canola oil commercially to many different countries in most areas of the world, increasing competition of all types of oils has eliminated all but a few of these markets. Argentine and Australia are expected to produce canola for the export market this year which would further increase competition in the international canola market.

IMPLICATIONS

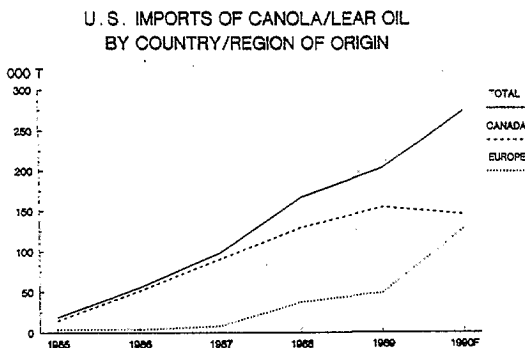
Efficacy of Market Development Expenditures

Over the past 10-15 years Canada has embarked on various programs to develop and expand markets for canola and canola products. Targeted countries have included Mexico, the U.S., and various Asian countries. Of the various programs, the

effort to secure GRAS status for canola oil in the U.S. comprised the largest single effort.

The crowding out of Canadian exports described above has extended to countries where significant market development expenditures have occurred. Important examples of this are the U.S. canola oil market, and to a lesser extent, the Mexican market for canola.

Figure 1 plots U.S. imports of canola oil by importing region. The data show significant Canadian penetration of the market initially following GRAS status in 1985, followed by an increase in imports of European origin in subsequent years. In 1990, Europe's market share nearly equalled that of Canada. The European market share, most of which is held by EEC countries, has been attained by exporting subsidized rapeseed oil at substantial discounts to Canadian canola oil. In 1990, the average U.S. import price for EEC rapeseed oil was US\$416/t. By comparison, the corresponding value for U.S. imports of Canadian canola oil was US\$537/t, a difference of US\$121/t.



SOURCE: U. S. DEPT. OF COMMERCE

Fig. 1. U.S. Imports of Canola/Lear Oil by Country/Region of Origin

Future Canola Oil Export Potential

The loss of most offshore canola oil markets and the EEC competition described above threatens the export orientation of the Canadian canola crushing industry. Reduced to its simplest form, the problem for domestic crushers is an inherent squeeze between relatively high seed prices and an abundant supply of oilseed products in North America and elsewhere, caused primarily by the economic distortions cited earlier.²

The development of the U.S. market has mitigated the loss of offshore markets to some extent, and is key to maintaining Canada's export orientation in the area of canola products. However, competition from other oils and other suppliers of canola quality oil has complicated efforts and increased the

² Domestic policies have also influenced the economics of canola crushing in Canada, but space constraints limit inclusion in this paper.

challenge facing the Canadian canola industry.

Capturing premiums for canola oil on a sustained basis may be possible given that it contains the lowest level of saturated fat of all vegetable oils. Product differentiation requires innovative and effective marketing strategies, however. Efforts to differentiate canola oil from competing oils by informing consumers of its health merits are ongoing in the U.S., and have contributed to the increase in U.S. canola/rapeseed oil imports from 19,000 tonnes in 1985 to 275,000 tonnes in 1990.

The increasingly integrated and competitive global marketplace has challenged Canadian processors to become more effective marketers, and to differentiate the product based on quality factors. It has also prompted increasing assessment of the crushing industry structure, plant size and location, and the potential for rationalization of ownership, all of which impact on overall competitiveness.

Although canola meal is also an export commodity, promoting increased domestic use would enhance competitiveness of the western crushing industry. The livestock and poultry industries in Western Canada are large users of protein, but canola meal's market share is relatively small (30-35 percent) despite the proximity of end users to canola meal production. The balance of the protein meal market is served largely by U.S. soybean meal. One of the strategies being examined by the Canadian industry is to increase the protein and decrease the fibre content of canola meal to make it more competitive with soybean meal in livestock rations. This could be done either through processing techniques and/or through genetic research. This would help to ensure Canada's long term success as an exporter of canola oil.

CONCLUSION

The positive impact of market development efforts can be quickly mitigated by distortive factors, as currently exemplified in the U.S. canola oil market. Subsidized EEC LEAR oil is entering the U.S. at up to US\$120/tonne below Canadian canola oil. As a result, Canadian crushers have had to reduce their prices in order to maintain some portion of the U.S. market. The EEC is certainly benefitting from Canadian market development efforts and expenditures, and will likely be in a position to continue this pattern unless U.S. interests challenge the import of EEC rapeseed oil. Establishment of the proverbial 'level playing field', via both bilateral and multinational negotiations, is crucial to maintaining and increasing the export orientation of the Canadian canola industry.

REFERENCES

HILDEBRAND, M.D. 1990. A look at the EC Oilseed Industry, Bi-Weekly Bulletin, NGB, Vol. 3, No. 16

The Impact of the Reduction or Elimination of the Japan Custom Oil Tariff on the Western Canadian Canola Industry, 1990, Landell Mills Commodities Studies.

Oil Crops, Situation and Outlook Report, October 1990, ERS, USDA, pp. 15-18.