Canada-Mexico Business Insights

Welcome

September 25, 2017
Welcome to The Conference Board

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NAFTA 2.0 and Canada.
Upgrading a 20th-Century Deal for a 21st-Century World

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Upgrading a 20th-Century Deal for a 21st-Century World

• Most of the gains in trade made possible by NAFTA have already materialized

• Canadian viewpoint is that the goal should be to strengthen and modernize it.

• What should Canada seek to improve in a NAFTA 2.0?
NAFTA 2.0 – CBoC’s Five Recommendations

1. Adopt a transparent and trilateral approach
2. Facilitate the mobility of business people
3. Enhance goods market access
4. Encourage innovation while protecting IP and culture
5. Modernize to new business realities and standards
Source: Thompson Reuters Lab using UN Comtrade database.
Canada/Mexico Add Value to Each Other’s Exports

(value-added contribution to each other’s gross exports; per cent share)

Sources: The Conference Board of Canada; OECD’s TiVA database.
1. Adopt a transparent and trilateral approach.

- U.S. objections to NAFTA have focused on Mexico; many think Canada should distance itself via a bilateral deal.

- This would be a mistake. Value chains are truly North American & isolating Mexico would be costly.

- Must ensure the agreement is renegotiated with all three member countries.
4. Encourage innovation while protecting IP and culture.

Modernize to reflect digital trade

- Commerce has changed since 1994. NAFTA doesn’t reflect current realities.
- Recommend adding an e-commerce chapter (similar to CETA & TPP) to remove barriers to digital trade.
- Update and clarify business list of business professionals for visas to include “new” positions like “software developer” and “data scientist”
Conclusion

• The outcome of the NAFTA renegotiation will affect the prosperity of all Canadians for decades to come

• Canada should expect these negotiations to be unlike any other that we have undertaken in recent decades (eg short timelines, unpredictable negotiating partner)

• We think it likely that NAFTA will survive in some form. Hopefully a modernized, trilateral deal will emerge, reflective of current digital realities.
Highlights of the Integrated Auto Sector

Sabrina Bond,
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Canadian Auto Industry Overview

• Canada exported $1.8 billion of automotive products to Mexico in 2016

• Since 2007, automotive exports to Mexico have grown at a compound annual rate of 8.0%

• Canada’s value chain has a competitive advantage in production of design-intensive auto parts and parts systems, and high-margin trucks

• Strong innovation ecosystem in the Toronto-Waterloo corridor and connected public infrastructure in Stratford make Canada an ideal partner in developing connected/automated vehicle technologies
Mexican imports of Canadian auto products

$ millions, by product.

Source: OECD; Statistics Canada.
Mexico imports $1.1 billion of motor vehicle parts from Canada annually

2016 share of Mexican imports of auto parts, by component.

- Engines: 33.2%
- Electronic equipment: 24.7%
- Steering and suspension: 8.3%
- Brake systems: 8.4%
- Transmission and power trains: 22.9%
- Seating, metal stamping, and other parts: 2.5%

Source: Innovation, Science and Economic Development Canada trade online database; Conference Board of Canada.
High growth opportunities for trade expansion with Canadian auto parts makers

compound annual growth rate by type of auto parts exports, 2007-2016.

Source: Innovation, Science and Economic Development Canada trade online database; Conference Board of Canada.
Overview of the Food Industry/Comercio agroalimentario México y Canadá

Jean-Charles Le Vallée, PhD
Director, Food Horizons
El Conference Board de Canadá
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### US Agri-Food Exports

<table>
<thead>
<tr>
<th>Trading Partner</th>
<th>2016 Value (SUS Thousand)</th>
<th>Trading Partner</th>
<th>2016 Value (SUS Thousand)</th>
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### Imports

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<th>2016 Value (SUS Thousand)</th>
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Source: USDA-FAS Global Agricultural Trade System
Importaciones canadienses desde México.

C$ millones

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<tr>
<th>Código HS</th>
<th>Descripción</th>
<th>Importaciones</th>
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<tr>
<td>HS 0702</td>
<td>Tomatoes - Fresh or Chilled</td>
<td>$337,536,769</td>
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<tr>
<td>HS 0703</td>
<td>Onions, Shallots, Garlic, Leeks, Chives and Other Alliaceous Vegetables - Fresh or Chilled</td>
<td>$57,982,867</td>
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<tr>
<td>HS 0704</td>
<td>Cauliflowers, Broccoli, Brussels Sprouts and Edible Brassicas</td>
<td>$74,100,547</td>
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<tr>
<td>HS 0705</td>
<td>Lettuce and Chicory - Fresh or Chilled</td>
<td>$5,804,575</td>
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<tr>
<td>HS 0706</td>
<td>Carrots, Turnips, Salad Beetroot, Salsify, Radishes and Similar Edible Roots</td>
<td>$16,686,717</td>
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<td>HS 0707</td>
<td>Cucumbers and Gherkins - Fresh or Chilled</td>
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<td>HS 0708</td>
<td>Leguminous Vegetables, Shelled or Unshelled - Fresh or Chilled</td>
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<td>HS 0709</td>
<td>Mushrooms and Other Vegetables - Fresh or Chilled</td>
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<td>HS 0710</td>
<td>Vegetables - Frozen</td>
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<td>México (total vegetables)</td>
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<td>$1,026,529,245</td>
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<tr>
<td>Others</td>
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<td>Total All Countries</td>
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<td>$4,043,705,886</td>
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Otros importaciones importantes.

<table>
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<th>Clave HS</th>
<th>Descripción</th>
<th>Valor en C$ millones</th>
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<tbody>
<tr>
<td>080440</td>
<td>Avocados - Frescos o Secos</td>
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<td>2203</td>
<td>Cerveza</td>
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<td>6109</td>
<td>Camisetas, Singlets y otras chalecos</td>
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<td>2208</td>
<td>Bebidas espirituosas, Liqueurs y otros preparados</td>
<td>61,260,456</td>
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<tr>
<td>6110</td>
<td>Chalecos, Sudaderas y chaquetas - Knitted</td>
<td>22,120,507</td>
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Capacidad empresarial y industrial.

• ¿Siente que su negocio PYMES o industria carece de capacidades para satisfacer las demandas de los importadores?

• Posible razón:
  • Falta de incentivos financieros
  • Competencia demasiado fuerte
  • Alto costo de logística
  • Falta de apoyo
  • Desconocimiento de las oportunidades comerciales
  • Falta de conocimiento para exportar o hacer comercio a nivel internacional
Impacto en los negocios.

¿Las limitaciones comerciales y las barreras han impactado negativamente en su negocio? Posible razón:

- Interrupciones en los procesos de producción
- Costos de financiamiento del comercio más altos
- Menores márgenes de beneficio
- Baja en las ventas
- Pérdida de competitividad
- Dificultad para expandir las ventas
- Dificultad en la obtención de nuevos mercados
- Mayores costos de producción o costos de insumos
Escojer proveedores.

• ¿Cuáles son los principales factores que influyen en su decisión de abastecer a proveedores de mercados?
  
  – Calidad/salubridad del producto  72%
  – Precio  56%
  – Fiabilidad de la oferta a largo plazo  44%
6th Canadian Food & Drink Summit.

• [http://www.conferenceboard.ca/conf/foodsummit/](http://www.conferenceboard.ca/conf/foodsummit/)
Temporary Foreign Workers in Agriculture

Michael Burt,
Director, Industry Forecast
burt@conferenceboard.ca
The State of Canada’s Agricultural Workforce

• Labour gap is 59,000 people, equal to 15% of demand

• Labour gap has doubled over the past decade, and is expected to double again by 2025

• TFWs fill about ¾ of the gap today, will this continue?

• Unfilled vacancies cost the industry $1.5 billion in sales in 2014, 2.7% of the sector’s total

• 17% of employers report delaying or cancelling expansion plans as a result of unfilled vacancies
Some Facts About TFWs and Canadian Agriculture

- Agriculture is now the largest user of TFWs, accounting for nearly 2/3rds
- TFWs account for a growing share of the agricultural workforce, now at 12%
- Most TFWs work on fruit and vegetable farms, where they can account for about 1/3 of workers
- Mexico is now the largest supplier of TFWs, accounting for about 40%
What Makes Agriculture Unique?

• High degree of seasonality: 100,000 more workers needed at seasonal peaks

• Challenging work conditions: the sector has the longest work week of any sector

• Rural location: Canada’s rural population is flat and ageing fast

• Below average pay: about 25% below the average for all sectors
Policy Recommendations Regarding TFWs

• Expanding the national commodity list
• Increasing the speed and efficiency of LMIA
• Implementing a trusted employer program
• Providing seasonal workers with multi-entry visas
• Facilitating pathways to permanency for migrant workers who are filling a permanent labour market need
Q&A Group Discussion

Facilitated by
Craig Alexander,
Senior Vice-President and Chief Economist
Adjournment.