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GAIN Report

Global Agricultural Information Network

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Highlights from the 2017 Federal Budget

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Report Highlights:

The Canadian government announced its annual budget – the Trudeau Government’s second budget and one that focuses on policy direction more so than on spending - on March 22, 2017. For the agricultural sector, the Canadian government reported out on the successful completion of the Comprehensive Economic and Trade Agreement with the European Union, and making ongoing efforts to expand market access for Canadian agri-food producers throughout Asia. To support these foreign market opportunities the 2017-18 budget creates the Innovation and Skills Plan with a target to grow Canada’s agri-food exports to at least \$75 billion annually by 2025. In addition, the new budget proposes to create a \$1.26 billion five-year Strategic Innovation Fund to attract investment in agriculture, among other sectors, coupled with \$950 million over five years to be provided on a competitive basis to support a small number of innovative industries, agriculture being a likely recipient.

The Canadian government announced its annual budget – the Trudeau Government’s second budget and one that focuses on policy direction more so than on spending - on March 22, 2017. The budget, entitled “Building a Strong Middle Class,” includes a few items of significance to agriculture, agri-food and food safety, including new spending for promoting innovation through “superclusters” and a Strategic Innovation Fund, increased spending for advancing agricultural science and innovation, increased spending on Canada’s food safety system, and a new approach to supporting Canadian innovators.

The following provides highlights from the report that pertain to agriculture, agri-food and food safety. The full text of “Building a Strong Middle Class,” is available online at the following URL:
<http://www.budget.gc.ca/2017/docs/plan/budget-2017-en.pdf>

Innovation through “superclusters” and a Strategic Innovation Fund

\$950 million over five years will be provided on a competitive basis to support a small number of innovative industries. The competition to determine which clusters to support will be private-sector led and will launch in 2017. Agri-food was highlighted as a potential cluster, where clusters are defined as dense areas of business activity that contain large and small companies, post-secondary institutions and specialized talent and infrastructure.

Budget 2017 also proposes to create a new \$1.26 billion five-year Strategic Innovation Fund, which aims to attract and support new high-quality business investments in the agri-food sector and other sectors.

Advancing Agricultural Science and Innovation

Budget 2017 proposes to invest \$70 million over six years, starting in 2017–18, to continue to support agricultural discovery science and innovation, with a focus on addressing emerging priorities, such as climate change and soil and water conservation.

In addition, as part of the \$200 million provided for the Clean Growth in the Natural Resources program, Budget 2017 proposes to provide funding to Agriculture and Agri-Food Canada to support the expanded adoption of clean technology by Canadian agricultural producers.

A new Innovation and Skills Plan will target six key areas, including agri-food, with a focus on expanding growth and creating jobs. The Innovation and Skills Plan has set a target to grow Canada’s agri-food exports to at least \$75 billion annually by 2025.

In addition to specific investments made to support the growth of and innovation in Canada’s agri-food sector, the government has undertaken efforts to support Canada’s farmers and food processors, including:

- Launching a full review of rail service across western Canada.
- Creating a \$10.1 billion Trade and Transportation Corridors Initiative that will invest in gateways and ports, to help get agri-food products to market.

- Successfully completing the Comprehensive Economic and Trade Agreement with the European Union, and making ongoing efforts to expand market access for Canadian agri-food producers throughout Asia.
- Eliminating tariffs on a broad range of agri-food processing ingredients, covering approximately \$700 million in annual imports, to strengthen the competitiveness of Canadian agri-food manufacturers at home and abroad.
- Improving access to support for agri-food value-added processors through the new Strategic Innovation Fund.
- Investing \$500 million to support the expansion of broadband networks in rural Canada and \$2 billion to support rural infrastructure including roads and bridges, making it easier for Canada's agri-food producers to connect to markets in Canada and internationally.

Strengthening Canada's Food Safety System

To support ongoing efforts to better prevent, detect and respond to food safety risks, Budget 2017 proposes to invest up to \$149.3 million over five years, starting in 2017–18, to renew core food safety inspection programming delivered by the Canadian Food Inspection Agency and Health Canada. This proposed investment would support inspection activities in meat processing facilities, support targeted programming to address the risks associated with listeria contamination, and allow for the ongoing operation of the Canadian Food Inspection Agency's Inspection Verification Office.

The Government is also taking steps to further enhance the food safety system with stronger and more consistent food safety regulations under the proposed Safe Food for Canadians Regulations. Once in force, these regulations would consolidate and streamline requirements from several pieces of existing legislation and introduce outcome-based approaches to food safety requirements, where possible.

A new approach to supporting Canadian innovators

Budget 2017 proposes to establish Innovation Canada, a new platform led by Innovation, Science and Economic Development Canada that will coordinate and simplify the support available to Canada's innovators. Agriculture will be incorporated into a whole-of-government review of business innovation programs. The government will review existing programs with the help of external experts. The review will encompass all relevant federal organizations, including Agriculture and Agri-Food Canada.

Alcohol Taxation

Budget 2017 proposes that excise duty rates on alcohol products be increased by two percent effective March 23, 2017, in respect of duty that becomes payable after that date. No special inventory tax will apply to alcohol products on which duty has been paid. It is also proposed that the rates be automatically adjusted by the Consumer Price Index (CPI) on April 1 of every year, starting in 2018.

The following table illustrates the increases in excise duties for wines and spirits, applicable on March 23, 2017:

Alcohol Excise Duty Rate Structure

| Products | Current Excise Duty Rates | Proposed Excise Duty Rates after Budget Day |
|-----------------------------------------------------------------------|---------------------------|---------------------------------------------|
| Spirits containing (in absolute ethyl alcohol (AEA) by volume) | | |
| More than 7 per cent | \$11.696 per litre of AEA | \$11.930 per litre of AEA |
| Not more than 7 per cent | \$0.295 per litre | \$0.301 per litre |
| Wine containing (in AEA by volume) | | |
| More than 7 per cent | \$0.62 per litre | \$0.63 per litre |
| More than 1.2 per cent but not more than 7 per cent | \$0.295 per litre | \$0.301 per litre |
| Not more than 1.2 per cent | \$0.0205 per litre | \$0.0209 per litre |

The following table illustrates increases in excise duties for beer, applicable on March 23, 2017:

Excise duty rates on beer or malt liquor

| Beer or malt liquor containing | Previous rate per hectolitre | New rate per hectolitre |
|-----------------------------------------------------------------------------|------------------------------|-------------------------|
| More than 2.5% of absolute ethyl alcohol by volume | \$31.22 | \$31.84 |
| More than 1.2%, but not more than 2.5%, of absolute ethyl alcohol by volume | \$15.61 | \$15.92 |
| Not more than 1.2% of absolute ethyl alcohol by volume | \$2.591 | \$2.643 |

Finally, the following table illustrates increases in excise duties for certain types of domestically produced beer, applicable on March 23, 2017:

Excise duty rates on beer or malt liquor brewed by domestic brewers and containing more than 2.5% of absolute ethyl alcohol by volume

| Annual production volume increments | Previous rate per hectolitre | New rate per hectolitre |
|-------------------------------------|------------------------------|-------------------------|
| From 0 to 2,000 hectolitres | \$3.122 | \$3.184 |
| From 2,001 to 5,000 hectolitres | \$6.244 | \$6.368 |
| From 5,001 to 15,000 hectolitres | \$12.488 | \$12.736 |
| From 15,001 to 50,000 hectolitres | \$21.854 | \$22.288 |
| From 50,001 to 75,000 hectolitres | \$26.537 | \$27.064 |
| Greater than 75,000 hectolitres | \$31.22 | \$31.84 |

Measures to Strengthen Canada's Trade Remedy System

Budget 2017 proposes a number of amendments to the Special Import Measures Act (SIMA) and related trade remedy regulations. These amendments are meant to ensure that Canada's trade remedy system is

strengthened and keeps accounting for the views of all stakeholders, while remaining aligned with international trade rules. Budget 2017 stipulates:

- **Anti-Circumvention Investigations:** The SIMA will be amended to allow domestic producers to file a complaint regarding trade and business practices specifically intended to avoid trade remedy duties. With these amendments, duties may be extended to goods found to circumvent a trade remedy measure, following a formal investigation by the Canada Border Services Agency (CBSA), in which all interested parties will be able to participate.
- **Scope Rulings:** The transparency of Canada’s trade remedy system will be enhanced by allowing interested parties to request that the CBSA conduct a formal review to determine whether a specific product falls within the scope of a trade remedy measure. In addition, amendments will be made to enhance the ability of interested parties to monitor and appeal ongoing enforcement decisions.
- **Union Participation:** Recognizing that labor unions have an important perspective to bring to trade remedy investigations, and in line with the Government’s progressive approach to trade, regulatory amendments will be made to ensure that unions have the right to participate as interested parties in trade remedy proceedings.
- **Addressing Particular Market Situations:** When determining whether dumping is occurring, it is important to ensure that a proper comparison can be made between prices of the goods in the exporting country and prices of the goods when exported to Canada. The SIMA will be amended to provide greater discretion to the CBSA when assessing the reliability of prices in the exporting country in anti-dumping investigations. Where CBSA investigators find that prices are distorted due to the presence of a “particular market situation”, it will now be possible to use alternative approaches to ensure a proper comparison.
- **Ensuring Canada’s Trade Remedy System is Consistent with International Obligations:** In December 2016, the World Trade Organization (WTO) found that aspects of Canadian trade remedy law were inconsistent with Canada’s obligations under the WTO rules. Canada takes its international trade obligations seriously. Accordingly, amendments will be made to SIMA in respect of exporters found to be dumping at de minimis levels, in order to ensure Canada brings itself into compliance.