Statement to the Standing Committee on International Trade (CIIT) on the Potential Trade Impacts of the United States Inflation Reduction Act of 2022 on Certain Firms and Workers in Canada

November 29, 2022

I'm pleased to be here to share preliminary views on behalf of Canada's agri-food exporters on how the American Inflation Reduction Act—or IRA—may impact our sector and what we believe Canada's response should be.

As you know, the IRA offers major tax and funding incentives to build out the clean energy sector in the U.S. As a result, Canada is responding with its own set of incentives, many of which were recently announced in the fall economic statement.

Given that our mandate focuses solely on trade liberalization, I'm going to focus my remarks on one main trade policy theme, which is the need for Canada to remain globally competitive in the agri-food sector by increasing its investments in manufacturing and ensuring parity in investment manufacturing with our global competitors.

Within the IRA, $40 billion is being earmarked for agriculture, forestry and rural economic development, with nearly half of that for conservation programs. The act is also providing over $3 billion in loans to farmers, ranchers and foresters in underserved areas. To be clear, CAFTA members are not looking for loans or direct payments such as those found in the IRA.

Canada is the fifth largest global agri-food exporter, so countries around the world depend it for their food security. To do so, exporters must have competitive access to world markets guided by the principles of rules-based trade. We also need to ensure that Canada remains a competitive jurisdiction. For agriculture and food, investment in food machinery and equipment in particular has been on a steady long-term decline in Canada.

A recent report by the C.D. Howe Institute titled "Weak Business Investment Threatens Canadian Prosperity" reveals that manufacturing and equipment investment in Canada has been flat since 2009. The report explains that much lower investment per worker in Canada than abroad tells us that businesses see less opportunity in Canada.

Canada lags behind the United States and other OECD countries regarding investment. Between 2015 and 2019, manufacturing investment across 31 OECD countries averaged a total of $1.77 trillion per year. Canada attracted less than $22 billion annually, accounting for only 1.2% of the OECD total, which is the lowest proportion among our G7 counterparts and Mexico. By comparison, the U.S. received 23 times this amount, while Mexico received 10 times our amount.

Similarly, in the crop sector, investment parity with the U.S. is key to unlocking Canada's full potential as a biofuels producer. Today, biofuels are the only viable, low-carbon energy alternative for powering vehicles such as tractors, heavy-duty and transport trucks, buses, locomotives, and mining and forestry equipment. The fuel market is integrated across North America and Canada competes with the U.S. for investment. The U.S. has several well-established programs that have created a robust biofuels production industry. The IRA introduced a suite of new tax credits that will apply to fuel produced at a qualified facility in the U.S.

The IRA, as such, incentivized production in the U.S., which will ultimately influence the investment climate in the renewable fuel production space in Canada. Investments are necessary to help enable biofuel production in Canada and help support a domestic market for agriculture feedstocks grown in Canada.

To summarize, the IRA poses a challenge to Canada's ability to attract and retain investment, and by extension, to Canada's global competitiveness.

As I conclude, I'll reiterate one of CAFTA's core beliefs and its primary raison d'être by saying that as a trading and export-dependent nation, we know what our recipe for success looks like when it comes to agri-food exports. We must remain a forceful global champion for free and rules-based trade and be competitive in global markets.

The IRA has made clear that the U.S. intends to lead in a variety of sectors going forward. This is forcing Canada to respond or risk losing investment, market share and overall speed to market. With the right policy choices at home, we can make this happen. This is also precisely why our members have asked for more industry-government collaboration—to prevent issues from becoming problems.

Thank you.