Agriculture after a year with COVID-19: Any long-term implications for international trade policy?

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Abstract
Coronavirus disease 2019 (COVID-19) initiated shocks to the Canadian agri-food industry moving the sector away from its pre-pandemic equilibrium. Disequilibrium can mean, post-shock, that sectors follow different paths of adjustment. The public and politicians appear to desire that economic activity returns to pre-pandemic norms—but this is far from assured. In the case of the Canadian agri-food industry, the post-shock path of adjustment appears to be returning to the pre-shock equilibrium, or near to it. This provides a familiar and stable anchor for those whose lives are otherwise considerably disrupted by the pandemic. The multilateral international trade system has long been in need of reform—reforms that would benefit Canada’s agri-food exporting sector. The pandemic has raised trade issues that require urgent action and some countries see this as an opportunity for reform. Canada has been at the forefront of this activity through the fostering, hosting, and chairing of the Ottawa Group of 13 World Trade Organization members that have been charged with bringing forward proposals for reform that will break the log jam in multilateral negotiations. The work of the Ottawa Group is examined and the likelihood of the initiative succeeding assessed.

KEYWORDS
disequilibrium, Ottawa Group, pandemic, paths of adjustment, reform, WTO

Résumé
COVID-19 a provoqué des chocs dans l’industrie agroalimentaire canadienne, éloignant le secteur de son équilibre pré-pandémique. Le déséquilibre peut signifier, après le choc, que les secteurs suivent des voies d’ajustement différentes. Le public et les politiciens semblent souhaiter que l’activité économique revienne aux normes d’avant la pandémie - mais cela est loin d’être assuré. Dans le cas de l’industrie agroalimentaire canadienne, la trajectoire d’ajustement post-choc semble revenir à l’équilibre d’avant le choc, ou presque. Cela fournit un point d’ancrage familier et stable pour ceux dont la vie a été autrement considérablement perturbée par la pandémie. Le système commercial international multilatéral a depuis longtemps besoin d’une réforme - des réformes qui profiteraient au secteur canadien des exportations agroalimentaires. La pandémie a soulevé des problèmes commerciaux qui nécessitent une action urgente et certains pays
The arrival of the global coronavirus disease (COVID-19) pandemic represented a major shock to the global economy, which had ripple effects on the agriculture and food sectors worldwide. International trade in agricultural and food products was not immune to those shocks. The major disruptions to the economy pertained to constraints on human activity as governments struggled to contain the spread of the virus. The severity of these constraints varied from country to country and over time as the spread of the virus waxed and waned in response to the policies put in place to deal with the pandemic. Large segments of the population were encouraged to work from home if it was feasible, children were removed from classrooms for varying periods, social gatherings have been severely curtailed, and much of the entertainment/hospitality/recreation sector closed or had capacity reduced in the name of social distancing. International travel has been severely disrupted with international business being conducted remotely and holiday travel discouraged.

Government policies across the globe have appeared to vacillate as officials struggled with tightening up constraints on citizens’ activity at the same time trying to prevent economic collapse. In some cases, early reopenings or relatively lax constraints proved disastrous in terms of the spread of the disease. Finding a workable balance between limiting the spread of the virus and maintaining economic activity proved elusive for politicians and policy makers. A year after the pandemic became the central, sometimes preponderant, focus of government policy across the globe, and despite all of the deaths and severe illness, only a relatively small proportion of national populations have been infected leaving the majority of the population having yet to personally face catching and dealing with COVID-19. How many have actually contracted the disease and may have built up some resistance is unknown as testing is far from comprehensive. Only in the early months of 2021 have vaccines been approved that hold the key to dampening the pandemic. A major effort is now required to produce, distribute, and inoculate the global population with efficacious vaccines. Political squabbles over access to vaccine supplies have raised their ugly head and vaccine nationalism clashes with the need for a global vaccination strategy. The general consensus is that we are not out of the woods just yet.

Shocks to the economy such as the COVID-19 pandemic push economies into disequilibrium (Kerr, 2016a). Most economists are used to dealing with small disruptions to economic activity that can be analyzed with reasonable confidence using partial equilibrium and comparative statics methods (Kerr, 2007). Disequilibrium of the magnitudes experienced in the COVID-19 pandemic, however, moves economic activity far from equilibrium and into the realm of economic dynamics where predictions relating to future paths of adjustment are difficult to make with any degree of confidence. The paths of adjustment may lead back to the preshock equilibrium, or eventually to a new equilibrium but cyclical paths and degenerate paths are possible (Kerr, 1993). Further, policy interventions, or multiple policy interventions such as are being manifest in the pandemic as governments open and close facets of the economy trying to find the appropriate balance between inhibiting the spread of the disease and maintaining economic activity, can disrupt dynamic paths of adjustment so that predicting where the economy will eventually settle is increasingly opaque.

While the general public, and political leaders, by and large envisage (and long for) a return to prepandemic norms, a return to such an equilibrium is far from assured. Will working from home in great numbers continue beyond the pandemic with significant ramifications for the commercial real estate market and the hospitality and service industries that depend on dense populations of workers who commute to offices? Will shopping return to brick and mortar retail outlets or will the phenomenon of online shopping become the norm—with consequences for retail real estate markets and employment (often entry level or first jobs for young workers) in retail. Will airline business travel rebound or will the less costly virtual meetings model be retained—with consequences for the conference and the hospitality sectors? Will there be major investments in facilities and increased staffing costs for the care of the very elderly? Will the disruption in children’s education flow through to reduced futures for those affected? It is not possible to discern with any confidence
where these dynamic paths, and many others, will reach an equilibrium (or not) over time. Shocks of the magnitude of the COVID-19 pandemic lead to great uncertainty as the economy adjusts.

2 AGRICULTURE AND FOOD IN THE WAKE OF THE PANDEMIC

The initial shocks to the agriculture and food industries from the arrival of the COVID-19 pandemic were similar in magnitude to other sectors. Food consumption patterns were altered dramatically as the hospitality sector ceased to operate in the initial lockdowns meaning the supply chains that had fed into the restaurant and functions sector either had to close down or adjust to provisioning the supermarket sector. At some point, further backup food supply chains food distribution had to shift to supply expanding supermarket volumes. Over time and across jurisdictions, hospitality sectors have variously opened, closed, partially opened, reclosed, been restricted to providing take-away services, open with reduced occupancy due to social distancing requirements, and so on. As a result, their supply chains have had to become versatile and nimble in the face of considerable uncertainty. There were some disruptions at the farm level where perishable products destined for hospitality-oriented supply chains—such as milk—could not be stored or quickly repurposed. These were, however, very short-term disruptions.

In Canada, there were always sufficient substitutes available to prevent anyone going hungry (Yeung & Kerr, 2021). Basically, there never was a general availability problem in Canadian food markets. If there were problems with declining food security, they were related to falling incomes. The conclusions of a previous paper on the effects of COVID-19 on Canadian agriculture appear to be borne out (Kerr, 2020a). The agri-food supply chains have proved to be extremely resilient in the face of the pandemic and after the initial shocks quickly returned, pretty much, to business as usual (Yeung & Kerr, 2021). Where they could not—as is the case with supply chains that were dedicated to provisioning food service establishments such as restaurants, they appear to have adapted to the uncertain demands of the fluctuating regulatory constraints governing the hospitality sector. In other words, the sector has largely returned to its prepandemic equilibrium.

The return to prepandemic norms in the sector has been helped by the nature of its products. Despite the pandemic people still must eat, demand for the industry’s products did not significantly decline in the face of falling incomes. There likely has been some reallocation of food budgets to lower cost products, but the absence of opportunities to eat out means that budgets stretch further than would normally be the case (Chernarides et al., 2021; Eftimov et al., 2020). Further, given that agricultural production, once initiated, cannot easily be terminated meant that normal production decisions from the prepandemic period often only reached fruition during the pandemic meaning food supplies remained relatively constant. As prices remained relatively stable due to adequate supplies and relatively stable demand, prices were not significantly affected, and hence, farmers did not experience price shocks that could be expected to alter their production decisions throughout the pandemic. This worked to keep flows through the supply chains at relatively normal levels (Yeung & Kerr, 2021). This resiliency allowed a swift return to prepandemic, or near prepandemic, equilibrium for the agri-food system. Other sectors such as automobiles saw sales and production plummet, home renovations soar, clothing purchases precipitously decline, and so on, with no return to equilibrium in sight. The return to normal of the agri-food sector is striking, and welcomed by a COVID-19 weary society when compared to many other sectors of the economy.

Part of the reason that the agri-food system was able to return to prepandemic norms was that international supply chains could continue to function as borders remained open for food shipments even as other cross-border movements were heavily restricted. This should be taken as a testimonial for the border thinning effect of trade agreements, both multilateral and preferential, over the long period with which the ruling paradigm of gradual liberalization and regulatory cooperation has held sway—since the end of the Second World War and the establishment of the General Agreement on Tariffs and Trade (GATT) in 1947 (Kerr, 2010). Since 1947 the Trump administration was the first U.S. administration that did not embrace the ruling paradigm (Kerr, 2020b). In terms of the Trump administrations trade policy regarding flows of food, it remained very much in the spirit of the ruling paradigm.

1 For Canada’s most important border for agri-food product flows, that with the United States, while border effects remain, they are relatively benign and transparent so that they can be dealt with as a routine part of cross-border business (Kerr & Hobbs, 2021). If borders were not thin at the start of the pandemic, the effects would likely have been much more disruptive and return to familiar equilibriums considerably delayed.

In terms of Canada’s agri-food products, the pandemic has had little effect on international trade flows. Trade barriers have not been part of government’s response to the pandemic. Governments have wanted, and worked hard, to keep agricultural supply chains functioning smoothly so as not to lump uncertainty in food availability on top of disruptions to
work, freedom of movement, schooling, healthcare appointments, and a host of others. A few countries initially imposed export restrictions on some staples but there was no major disruption to international markets. Trade barriers continue to be imposed for nonpandemic reasons as trade disputes have continued throughout the pandemic—but the rate at which new trade barriers have been put in place has declined (WTO, 2020a).

Canada imports large quantities of food from, or through, the United States. The Canadian and U.S. governments have cooperated in keeping the border open for transborder shipments of goods, particularly food. Truck drivers have been largely exempted from pandemic-related restrictions even as those restrictions changed and evolved (Yeung & Kerr, 2021).

As projected in Kerr (2020a), Canadian agri-food exports have not experienced significant disruptions due to the pandemic. Canadian export supply chains, given the lags in shipments and the type of the products exported, were largely shielded from disruptions in domestic supply chains in importing countries—such as the closure of the hospitality sectors in many countries and the realignment of domestic supply chains to supplying supermarkets instead of restaurants and other food consumed away from home outlets. Again, importing countries’ governments wanted to ensure that food continued to flow to consumers facing a range of pandemic-related challenges.

Yeung and Kerr (2021) explored whether the pandemic created any new opportunities for Canadian agri-food exporters as either import markets or competing exporters struggled to keep their supply chains functioning smoothly—competitors such as Australia, New Zealand, Brazil, Argentina, and the United States and customers such as India as well as countries in North Africa, the Middle East, and East Asia. These included production problems in importing countries arising from labor shortages due to illness or distribution problems arising in labor-intensive transport systems in developing countries. Export market competitors could have had problems in finding labor to undertake harvests or in, for example, meat packing plants due to COVID-19 in their workforces. While some short-term opportunities for Canadian agri-food exporters were identified, there did not appear to be anything of a sustainable nature as any disruptions tended to be short term (Yeung & Kerr, 2021).

3 AN OPPORTUNITY TO MOVE THE MULTILATERAL TRADE RULES MODERNIZATION AGENDA FORWARD—OR NOT?

Some World Trade Organization (WTO) members see the COVID-19 pandemic as a way to move forward on reforming and revitalizing the WTO (OWIT, 2020). Given its export dependence, large segments of the Canadian agri-food sector need strong rules of international trade. There has been little progress in improving those rules since the end of the Uruguay Round of GATT negotiations in 1994. While a new round of multilateral negotiations was agreed to by WTO members in 2001—the Doha Round—the round stalled late in the first decade of the 21st century and has not been reinitiated. Under the leadership of WTO Director Roberto Azevêdo—2013–2020—the previous single undertaking approach to negotiations was abandoned in favor of a piecemeal approach (Kerr, 2014). This approach had only limited success—most notably the agreement on the phaseout of export subsidies for agricultural trade at the WTO Ministerial meeting in Nairobi in 2015 (Kerr, 2016a).

Having any alterations to the multilateral WTO trade rules cease in 1994 has begun to have negative consequences for the efficacy and reputation of the multilateral system. The international trading environment has changed considerably since the end of the Uruguay Round with new technologies, globalized supply chains, and countries with alternative economic structures having arrived and needing to be accommodated. The 1994 rules may no longer be fit for purpose according to a number of countries. This discontent came to a head with the election of President Donald Trump and his administration’s trade officials (Kerr, 2018). The Trump administration had specific complaints regarding the inability of the existing trade law to sanction countries whose firms (or state owned enterprises) were using strategies that the United States, and some other countries, considered nefarious (Kerr, 2020b). Particularly worrisome for the Canadian agri-food sector was the intent of the United States to render the WTO disputes system no longer operational through its refusal to appoint judges to the WTO’s Appellate Body. Arguably, without the ability to appeal, the entire dispute settlement mechanism was no longer valid. In practical terms, this means that the use of antidumping and countervailing duties actions in the United States (and other countries) would no longer have international oversight. Most of the cases lost by the United States at the WTO in recent years pertained to the use of antidumping and countervailing actions. This represents a considerable threat to the Canadian agri-food sector. Although it is currently early days for the new administration of

2 Whereby the entire round had to be agreed to before negotiations were completed.
President Biden, they may not feel compelled to cooperate on revitalizing the WTO disputes system (Cardwell & Kerr, 2021).

As a supporter of the multilateral system, Canada decided on attempting to kick start a process to reform and modernize the multilateral system. A group of WTO members was formed under Canadian initiative—the Ottawa Group. The Ottawa Groups is composed of 13 WTO members—Australia, Brazil, Canada, Chile, European Union, Japan, Kenya, South Korea, Mexico, New Zealand, Norway, Singapore, and Switzerland—and is chaired by Canada. While the group includes a number of important trading countries, notable by their absence are the United States and China. The Ottawa Group has been working hard since early 2019 to come up with suggestions for WTO reforms (Global Affairs Canada, 2019). Their agenda includes, among others, reform of the disputes system and export restrictions (OWIT, 2020). The seriousness with which Canada appears committed to the Ottawa Groups reform initiative is indicated in the report by OWIT (2020): “Reiterating the importance of the multilateral, rules-based trading system underpinned by the WTO, Prime Minister Justin Trudeau also participated in the virtual meeting of the Ottawa Group on WTO reform in the context of COVID-19.”

Latterly, the Ottawa Group’s agenda has been overtaken by framing reform proposals that respond to problems arising for trade from the pandemic. In particular, these include the export restrictions on medical equipment and personal protective gear. Restrictions on the export of vaccines were added in late 2020 as COVID-19 vaccines began entering the market. While the Ottawa Group has been largely preoccupied with direct pandemic trade issues, it has not ignored its other agenda items. On November 23, 2020, Deputy Director General of the WTO Alan Wolff called on the Ottawa Group to bring forth full proposals, including proposals on reform of the dispute settlement system, to the full membership of the organization (WTO, 2020b). Formal proposals on export controls, although in the context of products directly affected by the pandemic, were also requested. Disciplines on export controls on agricultural products have long been seen as a weakness in the WTO architecture in times of food crises (Cardwell & Kerr, 2013, 2014). If accepted, reforms to export control disciplines related to COVID-19 could later be extended to cover other products including food. In short, it is hoped that the urgency of pandemic-related trade issues will stir WTO members to action, unblock the multilateral log jam, and lead to a wider strengthening and modernization of the trade rules. Further, the new Director General of the WTO, Ms. Ngozi Okonjo-Iweala, appointed in February 2021, is dedicated to reforming and revitalizing the organization (Josephs, 2021). While the pandemic rages and threats of trade disruptions abound, governments’ attention has been caught by trade issues. As the pandemic is brought under control, however, governments may be engaged in efforts to reopen their economies and repairing the economic damage caused. Interest in reform of international trade institutions may well wane.

While the work of the Ottawa Group has the support of the WTO’s leadership and the governments of its member countries, there is no assurance that its proposals will be acceptable to the broader membership. The method of bringing together a select subgroup of members to develop proposals is reminiscent of the much discredited pre-Doha Round Green Room negotiation strategy whereby a few influential members of the WTO were brought together to hammer out a set of proposals that were then presented to the wider membership as a fait accompli. This method of negotiation eventually received considerable pushback from developing countries and was abandoned (Kerr, 2002).

Further, unlike the Green Rooms of the past, the United States is not part of the Ottawa Group. Without the participation of the United States, it is hard to see it accepting the proposals put forward—the United States will want to be involved in any meaningful reform. It is too early to tell if the new administration of President Biden will be interested in participating. China has chosen not to participate as well. Although the method of the Green Room predates China’s WTO membership, given current importance in international trade, its participation in developing reform proposals is also likely necessary. Of course, if the United States and China were to join the Ottawa Group, it would complicate the negotiations immensely. Hence, meaningful reforms of interest to the Canadian agri-food industry will not likely be forthcoming in the near future.

4 CONCLUSIONS

International trade in agri-food products was minimally affected by the COVID-19 pandemic. Within Canada, the disruptions did not put food availability at risk as while there were short run interruptions for particular products, there were always sufficient substitutes available on supermarket shelves. The one major change has been the constrained operations of the hospitality sector that continues to evolve through the pandemic. This required a reorientation of some food supply

3 With Director General Azevêdo having already resigned and new Director General Ngozi Okonjo-Iweala not yet appointed, Alan Wolff was, in effect, the head of the WTO.

4 The Trump administration did not appear to be particularly interested in reform (Kerr, 2016b).
chains toward supplying supermarkets as consumers were forced to prepare more food at home. This transition, while painful for some food businesses, seems to have been accomplished. Imports of food were largely unaffected. Canadian agri-food exports were largely unimpeded as importing countries wanted to keep food supplies flowing to their already stressed consumers. The net result has been that the Canadian agri-food sector appears to have returned to its pre-pandemic equilibrium (or near to its pre-pandemic equilibrium). This is not something that can be said of many other sectors of the economy.

In terms of the long-term effects on the international trade regime, some members of the multilateral community have attempted to use the trade problems that have arisen in the wake of the pandemic as an opportunity to spur reform of the WTO—something that is important for Canada’s export-oriented agri-food sector. Canada has been at the forefront of this effort through the fostering, hosting, and chairing of the Ottawa Group of 13 WTO members whose agenda is reform of the multilateral system. They have been working up proposals for reform. The eventual efficacy of this effort is far from certain, however, as neither the United States nor China have yet been involved. This suggests that meaningful reforms that would benefit the Canadian agri-food sector are still far in the future.

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