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EXECUTIVE SUMMARY

Despite partial tariff relief from China, Canada's canola sector remains highly exposed. Extreme export concentration, combined with fixed processing, logistics, and regulatory constraints limit rapid market diversification.

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TARIFFS TO TRADE FRICTIONS: ADDRESSING STRUCTURAL BARRIERS IN CANADA'S CANOLA SECTOR

Canada's canola sector faces critical export concentration risk, with China and the United States collectively accounting for nearly 90% of all exports (seed, oil, meal). This large reliance on two markets creates significant vulnerabilities to trade disruptions despite recent tariff relief measures.

Recent announcements signaling partial tariff relief between Canada and China are welcome, but they do not eliminate the structural vulnerabilities created by export concentration, limited processing capacity, and regulatory frictions in alternative markets. Analysis of Canadian canola trade patterns shows that diversification options remain constrained in the short run, even when major trade barriers ease. Building resilience in the canola sector will therefore require coordinated policy action that goes beyond tariff negotiations alone.

Canada is one of the world's leading exporters of canola, supporting farm incomes, agri-food employment, and value-added activity across the Prairies. In recent years, however, access to both China and the United States has become increasingly uncertain. China's anti-dumping duties and retaliatory tariffs imposed in 2024–2025 led to abrupt declines in exports of canola seed, oil, and meal, while evolving U.S. biofuel policies have introduced new risks for processed canola products.

Using detailed trade data on canola seed, oil, and meal over the past decade, this analysis assesses how export concentration and downstream capacity shape Canada's adjustment options when major markets impose—or remove—trade barriers. The findings show the scope for short-run recovery varies sharply across products within the canola value chain. They also highlight that the impacts of trade disruptions, and the scope for recovery, vary substantially across products within the canola value chain.

Canola seed exports are particularly exposed to Chinese policy actions because China plays a unique role as a large-scale crusher in global oilseed markets. When access to China is restricted, seed exports face limited substitution opportunities, as relatively few alternative

destinations possess the infrastructure needed to process Canadian canola at scale. Canola oil and meal exports show somewhat greater flexibility, but are increasingly tied to U.S. biofuel demand, which itself depends on policy incentives that remain uncertain.

Key Findings

- **Export concentration is the major vulnerability:** China and the United States account for nearly 90% of Canadian canola exports (seed, oil, meal), leaving the sector highly exposed to policy-driven trade disruptions.
- **Canada remains structurally a seed exporter:** Transportation and port infrastructure favour bulk seed exports over large volumes of processed oil.
- **Seed exports face the greatest adjustment risk:** Few alternative markets possess the crushing capacity to absorb Canadian canola at scale when China restricts access.
- **Domestic crushing capacity lags production:** Even with recent and planned expansions, Canada cannot process all domestically produced canola seed.
- **Oil and meal depend on policy-driven demand:** Access to alternative markets for processed products increasingly hinges on U.S. and European Union (EU) clean-fuel and regulatory frameworks that remain subject to policy uncertainty.
- **Regulatory and logistical barriers constrain diversification:** EU biotechnology approval rules and limited port capacity prevent rapid Canadian export reallocation beyond established markets.

Domestic processing has been widely discussed as a strategy to reduce reliance on volatile export markets. Canada has expanded its crushing capacity in recent years, and additional projects have been announced. However, processing investments have been uneven and subject to delays due to regulatory uncertainty, transportation bottlenecks, and shifting clean-fuel policy signals in both Canada and the United States. Even if all planned projects are completed, domestic crushing capacity would still fall short of total canola production, leaving producers reliant on foreign markets for the foreseeable future.



At the same time, access to alternative export destinations remains constrained by non-tariff barriers. In the European Union, biotechnology approvals and traceability/labelling requirements reduce the practicality of both bulk seed shipments and higher-value food uses of canola oil. Limited tolerance for unapproved traits makes seed trade to the EU commercially risky, while requirements applying to products produced from genetically modified (GM) crops and downstream market preferences constrain food-market expansion for oil. Combined with phytosanitary requirements in other destinations and domestic logistics constraints, diversification requires not just finding new buyers but overcoming regulatory and infrastructure bottlenecks that require a sustained and coordinated policy effort.

Taken together, the evidence suggests that recent tariff easing, while important, does not fundamentally alter the underlying risk profile of the Canadian canola sector. Export concentration, infrastructure limitations, and regulatory frictions continue to shape the sector's exposure to trade shocks. Short-run adjustment options remain limited, particularly for canola seed, and policy uncertainty continues to weigh on private investment decisions.

Next Steps:

A resilient response requires coordinated action across trade diplomacy and domestic policy. Priorities include: providing stable signals under Canada's Clean Fuels Regulation and aligning carbon-intensity accounting with U.S. programs to preserve cross-border market access; pairing crushing capacity investments with rail and port infrastructure improvements (i.e., incremental tankage, heated storage, berth slots, and rail racks at key ports) to convert processing into tradable volumes; and engaging with trading partners on science-based phytosanitary and biotechnology rules. Time-limited risk-mitigation tools, such as export finance, insurance mechanisms, and accelerated regulatory approvals could support near-term adjustment as longer-term diversification strategies are developed.

The full paper is available [here](#).

EDITORIAL PRACTICES STATEMENT

This manuscript is a rapid contribution to the policy conversation that has been open-reviewed by at least one University of Calgary faculty member prior to publication.

Figure 1: Canada's canola exports by product and destination (%)

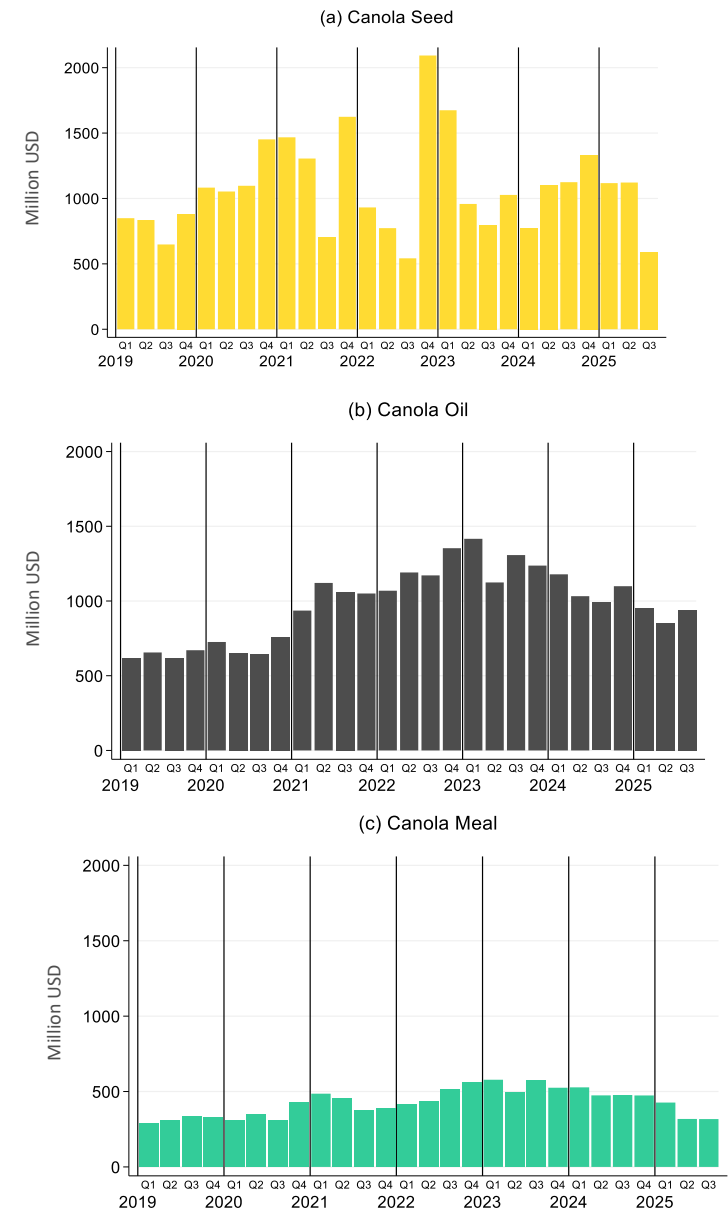


Figure 1. Value of Canadian canola exports by quarter and product. Panel (a) plots seed export values by destination (Harmonized System commodity code 1205), panel (b) charts canola oil (HS commodities 151411 and 151419) exports, and panel (c) displays canola meal exports (HS commodities 230641 and 230649). Data are sourced from UN Comtrade.