

An Oilseed Strategy for Canada: Identifying Key Concepts

Independent Agri-Food Policy Note

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The Issue

Oilseeds occupy a central position as both oil and protein, and as both foodstuff and feedstuff. The oilseed outlook is thus tied to higher level considerations of relative abundance vs. relative scarcity in foods globally. And the data present some contradictions.

The immediate term data seem pretty compelling. According to the AAFC Outlook for Principal Crops in August, Canadian canola production for 2025-26 will be above last year and above the five-year average; a similar story is expected for soybeans. Canadian wheat and corn production will be within the most recent five-year average. Even with some late season downward yield adjustments, the US will probably have a record corn crop; soybeans will have a record yield, and the US soybean crop will be very large by any historical standard.

Consistent with this, there has been a slide in prices extending back to 2023. These low prices will squeeze farm incomes and will trigger larger farm program payments- the current discussion seems to be \$US 10-14 billion in *ad hoc* funding to US farmers, targeting soybeans. But even with this, profitability will probably be a struggle for US farmers as well as Canadian farmers.

But the longer-term, global view information presents a sharply different perspective. Global food prices increased in the FAO Food Price Index values have ranged around 120 throughout 2025, which puts current global food prices at mid-1970's levels, adjusted for inflation. Even in the face of record global grain production, ending stocks are expected to show virtually no growth this year- consistent with an ongoing pattern of greater than offsetting growth in

consumption driven by population and growth in incomes in specific parts of the world. Demand for protein is building, especially in eastern and southern Asia, with one estimate that the global demand for animal proteins would increase 38 percent between 2020 and 2050- surely the demand for plant proteins will follow, as both meat substitutes and protein feed ingredients. The expansion in the use of GLP-1 medications to treat obesity seems poised to further fuel protein demand.

A highly efficient global trading system facilitates the allocation of food from surplus to deficit regions at low-cost under a legal (rather than political) framework in which countries and companies can treat exports and imports much like domestic transactions, and make investments in capacity that include markets beyond their own borders, with confidence.

But this environment is dissolving rapidly. A rift opened up several years ago among WTO members, resulting in the WTO appeals body that is non-functional today. Seldom used provisions of trade rules- with exemptions to countries' trade commitments for emergencies and conflict situations- have increasingly been used to block trade. Worries of domestic scarcity have provoked export controls by some exporting countries. International trade is no longer seen as win-win in some quarters. Food and agricultural products have become the instrument of choice in retaliation in trade disputes, and also an instrument of geo-political intimidation.

Canadian oilseeds are heavily export-oriented, and must operate in this volatile and sharply different environment. Canadian oilseeds also have specific issues pressuring them today- anti-dumping and retaliatory tariffs enacted by China against Canadian

canola, and limitations on US tax credits for Canadian canola oil used in renewable fuel manufacturing.

This policy note attempts to identify and develop some concepts to help guide Canadian oilseeds in industrial strategies that will guide it through in this turbulent environment. It is supported by an accompanying Policy Concepts Paper that provides more of the data and references drawn in this less technical treatment of the subject.

The text below identifies and develops 5 key concepts in a Canadian oilseed strategy.

1. US-China Trade War: We have seen this movie before; but the sequel is more troubling

In 2018, the first Trump administration initiated tariffs under Section 232 on steel and aluminum against China (and others, including Canada). China retaliated with tariffs against the US on a range of products, notably agri-food products including pork and soybeans. The Chinese tariffs were sufficient to sink US soybean exports to China dramatically, and with it, US soybean prices and associated farm incomes. In turn, the US responded with major *ad hoc* farm program funding (the Market Facilitation Program) and with a renewed interest in alternative markets/uses for soybeans- including an expansion of existing initiatives on renewable fuels made from fats and oils.

Some of this history appears to be repeating itself, in terms of US trade action against China and retaliatory action by China against US soybeans, pork, and other products- but the situation is more complex today.

Since 2018, the US has embarked on an ambitious agenda for renewables made from fats and oils- sufficiently ambitious that, in addition to becoming a dominant use of waste animal fats and used cooking oils, about half of the soybean oil produced in the US is consumed in renewable fuels. And the US continues

to expand its soy crushing capacity at a rapid rate, driven by demand from renewables. Even as this has occurred, canola oil imported from Canada by the US has also been heavily enlisted in renewable diesel production, or backfilling for soybean oil used in renewables.

Soybean meal is a co-product of the soybean crush in the US, and as the crush has expanded, so too has the production of soymeal. With no corresponding policy mandate or support to stimulate soymeal demand, soymeal prices have decreased, and the share of the crush value of soybean oil has increased relative to soymeal, well beyond its physical yield, to close to par with soymeal.

Canada's situation has also markedly changed. The standards for renewable fuels feedstock tax credits in the US changed earlier this year, in effect dampening the demand for Canadian canola oil use in US renewables. Canada must also concern itself with the prospect of sudden tariffs enacted by the US against Canada, and that its terms of trade with the US under future CUSMA/USMCA renewal will not be as favorable as they are today.

The situation is also fundamentally changed by interim anti-dumping measures taken by China against Canadian canola, and also 100 percent tariffs on canola oil and canola meal taken against Canada by China in retaliation for Canadian tariffs on Chinese electric vehicles, steel, and aluminum.

In response, Canada has taken measures to support Canadian canola through expanded biofuel incentives, marketing support, and extensions to the Advanced Payments Program.

Meanwhile, Canadian soybean pricing is heavily tied to the US futures market, and is thus impacted by US policy impacting that market. There are no impediments in place that impact Canada-US price arbitrage in soybeans, but the serious worry of sudden or eventual US tariffs against Canada exists now where it did not in the past. The prospect of

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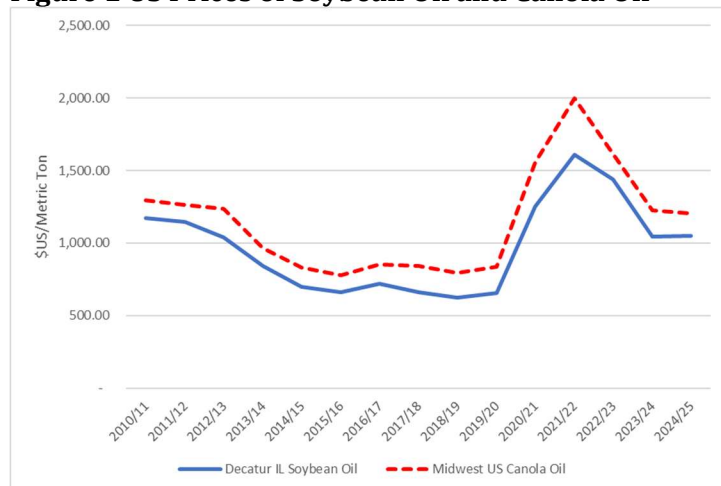
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significantly expanded US soymeal production further reducing soymeal value and threatening crush margins in Canadian soybean processing plants is a developing concern.

Moreover, an imperfect substitution relationship exists between canola and soybean products, as illustrated below in Figures 1 and 2. Figure 1 shows that canola oil, US Midwest basis, has held a price premium over southern Illinois soybean oil. As a practical matter, it may be more of a brand presence advantage that canola oil has over soybean than a price spread- but an advantage nonetheless.

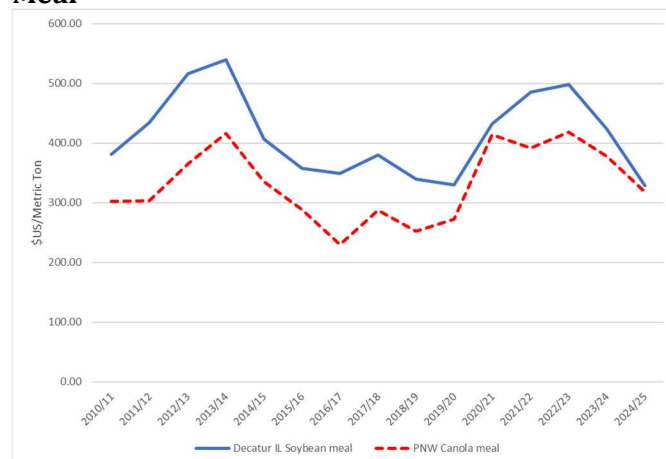
Southern Illinois soymeal has held a premium value to Pacific Northwest canola meal, even without accounting for location differences (which would only widen the price spread). It is evident from the figure that some recent price convergence is occurring between soymeal and canola meal- consistent in additional soymeal supply reducing the price relatives (canola meal pricing has not caught up yet).

Figure 1 US Prices of Soybean Oil and Canola Oil



Source: USDA-ERS Oil Crops Outlook Tables

Figure 2 US Prices of Soybean Meal and Canola Meal



Source: USDA-ERS Oil Crops Outlook Tables

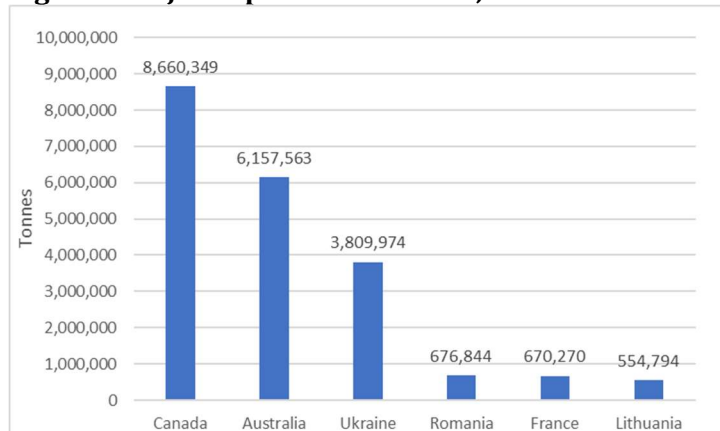
Product substitution means that the policy impacts are distributed across countries and across products. With Chinese tariffs on US soybeans, but not Canadian soybeans, Canadian soybean spot markets could diverge with US soybean markets, at least temporarily, under the benefit of Chinese demand. Just as increasing US soymeal production will impact Canadian soymeal markets, it will also soften canola meal prices.

A Canadian strategy must thus embrace the major oilseeds together, noting the points of difference discussed below. It cannot start from a clean slate, as the interrelationships are several, and there are multiple trade policy pressure points.

2. Canada's Market Position is an Advantage

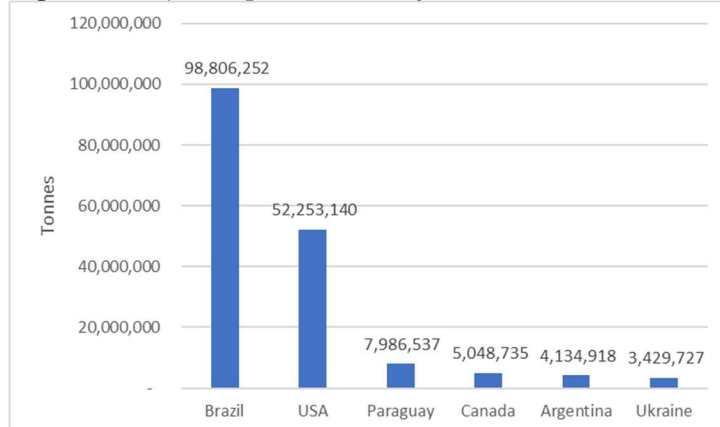
Canada is the global market leader in canola. Figure 3 below shows that there are very few countries that produce significant exportable surpluses of canola; Australia is the principal alternative source to Canada. Figure 4 shows that Canada is not a market leader in soybeans, but is significant among a second-tier group, behind Paraguay. There are few countries with significant export capacity in soybeans.

Figure 3 Major Exporters of Canola, 2024



Source: UN Comtrade. HS 1205.10

Figure 4 Major Exporters of Soybeans, 2024

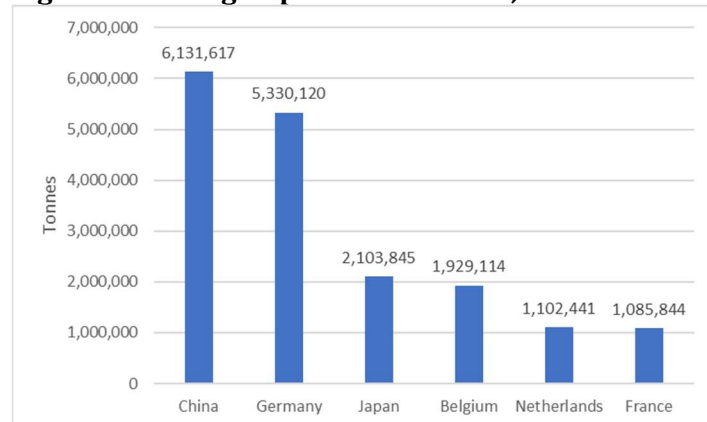


Source: UN Comtrade. HS 1201.90

The largest importer of both canola (Figure 5) and soybeans (Figure 6) is China, but China is much more dominant as an importer of soybeans. In 2024, Canada exported a canola volume exceeding China's total imports; Australia's canola exports were about equal to China's imports. Brazil's total soybean exports in 2024 were just under China's total imports.

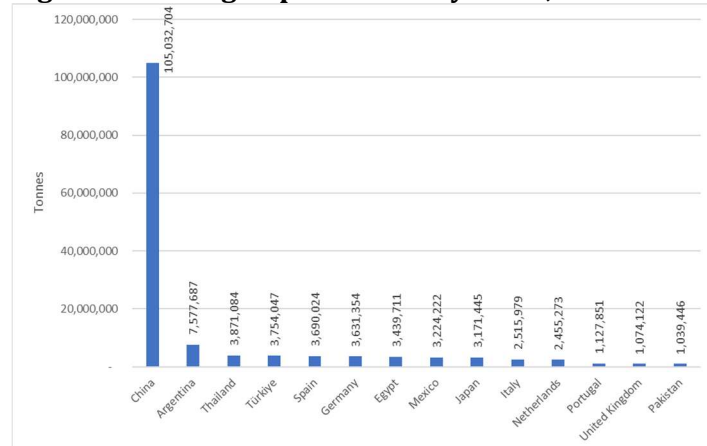
As the market leader in canola, Canada has the market weight to both establish industry/product standards, and to back its own premium standard with volume it can supply to the international market. In soybeans Canada is significant player, but not the market leader. The market weight in establishing product

Figure 5 Leading Importers of Canola, 2024



Source: UN Comtrade. HS 1205.10

Figure 6 Leading Importers of Soybeans, 2024



Source: UN Comtrade. HS 1201.90

standards and pricing is primarily with the US; but Canada is significant enough to differentiate itself from others, with a credible export volume to sell.

This is evident in Canada's highly successful niche in exports of food-grade soybean used to make tofu, miso, natto etc., and presents potential where soybeans have an intrinsic premium- in proteins. Canada is small enough to be nimble in coordinating market positioning strategies and developing niches, and large enough to deal in meaningful volumes. Canada shares crop seasonality with the US, but is not the US, which can be an advantage- for example, Canada has access to the Chinese soybean market that the US does not.

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The US and Brazil are mass-scale players in soybeans; in order for them to develop and serve niches, they need to break scale, which is costly given their existing market position. Canada is not a mass-scale player in soybeans, and its opportunity cost of developing and serving niches is much lower. For example, Canada can work on development of specialty soybean varieties that serve a highly targeted market segment, that may initially have acreage measured in tens of thousands (natto soybean varieties introduced in Canada in the 1980's and 1990's are an example). By virtue of scale, niches like this will have much less interest or uptake in the US or Brazil.

Canada's market positioning- dominant in canola, and significant in soybeans- is fundamentally anchored in crop acres. To go further, its downstream supply chain can be further enlisted to reflect and be a facilitator of market positioning and niche strategies, perhaps beyond commodity merchandizing functions. However, there are potential stumbling blocks.

First, in a world of food scarcity, others crave Canada's natural resource base and agricultural capacity; a means of tapping into this for their own ends is through ownership of Canadian agri-food supply chain assets. Canada has been open to foreign agri-food investment, and has even courted it- however, foreign entities that are not primarily motivated by profit-seeking and competition may not satisfy the common assumptions of the benefits from competition, nor align with strategies that the Canadian canola and soybean supply chains can coalesce around. In an increasingly mercantilist world, predatory acquisitions by others not aligned with Canadian interests is a real threat. It is unclear that existing rules regarding foreign investments, mergers, acquisitions, and concentration anticipate this; specific review processes and protective measures are likely to be required.

Secondly, Canadian operations that are really branch plants of a foreign multi-national could be fully inclined toward market competition and profits- but

their voice is muted in broader corporate strategy. These firms could find it difficult to play an active role in a Canadian oilseed strategy. The situation in an organization could become implacable if a Canadian strategy is viewed as a threat to the organization's strategy in other geographies in which it operates.

Addressing this is likely to require different and potentially greater public support resources than has occurred in the past, and greater tolerance for public investment/support in larger private organizations, if this is what it takes to get the attention of a far away corporate head office. In turn, it will need to address the issue of equity in public investment/support in foreign vs. Canadian firms, and avoid the negative perceptions around providing "corporate welfare".

3. Canada has Premium Products to Sell; Bear Down on Them

Processed canola yields about 42 percent oil and 58 percent canola meal at about 36 percent protein. Soybean crushing typically yields about 20 percent oil and 80 percent soymeal at about 47-48 percent protein. Canola is an oil-seed; soybean is a meal-seed.

Canola oil is a premium food oil due to its comparatively low content of saturated fats, lack of trans-fats, and content of omega fats. As indicated from Figure 1, stacked up against soybean oil (as well as, in all likelihood, many other plant-based food oils) canola oil commands a type of market premium. Effective canola marketing will fully exploit, and build upon this premium and the healthy food niches available based upon it. Conversely, for soybean oil, an objective for innovation is to close the gap with canola oil with improved chemistries that can give it canola-like properties, and market it accordingly.

Soymeal presents a premium plant protein due to its high concentration of protein, relatively high digestibility in foods and livestock feeds, and isolates containing protein bioactives with specific health benefits. Existing initiatives that build upon value

addition through the isolation of bioactive compounds and deployment in foods and natural health products will be increasingly relevant, and challenged to scale up to sustain valuation with the coming expansion in US soy meal production.

Canola meal and the existing work conducted on canola protein faces the same challenges, suggesting a redoubling of efforts. But there are encouraging signs, such as the work supported by Protein Industries Canada, in developing high protein canola varieties by Corteva and associated high protein canola meal, and novel canola protein concentrates.¹

Increasing prices of animal proteins and decreasing prices of soy meal, canola meal, and plant proteins more generally offer an opportunity for plant proteins to substitute for animal proteins in foods, or for plant proteins to extend animal proteins in food products as amalgams of meat and plant protein products. It could present something of a lifeline to plant-based meats, if soy and canola proteins can be effectively used in their formulations. Lowering consumer costs of meat protein, perhaps through product coatings or batters made with plant proteins to extend meat portion sizes, could improve food affordability.

Surely there stands to be a shift in much higher inclusion rates of protein meals in livestock feeds. This is particularly a challenge for canola meal, and existing work on canola meal and its derivatives in feed may need to be redoubled, anticipating the scale of effect. Soy meal is initially better positioned, but the challenge for Canada may be to anticipate the scale at which cheap soy meal is coming forward from the US.

4. Renewable Fuels Warrant Caution

Renewable diesel fuel has as its initial feedstock waste animal fats and waste cooking oils. In the US, it is after these relatively low-cost feedstocks are exhausted (each are essentially fixed in supply) that soybean oil enters the fray. The mandate for US renewable diesel fuel entails an ambitious trajectory, such that about half of US soybean oil production is consumed in renewable diesel. US renewable volume obligations drive a residual demand for soybean oil which, in turn, is a driver of soybean prices. Canada also has federal and provincial policies supporting renewables, but they do not have nearly the market sway of US renewables policy, and the effect of US policy impacts soybean futures prices, which are transmitted through to Canadian soybean and canola prices, at least to a degree.

There are at least two risks that are attached to this. The first is that the existing policy parameters supporting renewables could change, and the resulting change could be detrimental to soy oil and soybean demand, and the economics of processing and distribution facilities predicated on supplying renewables. It risks stranding capital tied up in legacy assets from policy-driven markets.

But more fundamentally, soybean oil and canola oil used in manufacturing renewable diesel is essentially substituting for yellow grease and used cooking oil. Renewables can function as a useful element in the broader portfolio of uses that makes up the demand for soybean oil and canola oil, especially as a hedge against periodic surpluses building up in the domestic market.

However, it inherently undervalues the food use value of soybean oil at the margin; because canola oil has an

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<https://www.proteinindustriescanada.ca/projects/commercializing-canola-and-sunflower>

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even higher value as a healthy food oil than soy oil, the opportunity cost of making renewables from canola oil is even higher. The implication is that any initiatives to bolster soy and canola oil demand need to be carefully measured, keeping opportunity costs in mind. This is especially the case as Canada suffers under canola tariffs from China, and contemplates development of renewables.

A metaphor from meat processing serves as an illustration. We have specific cuts that can readily sell in the chilled market at a significant premium; in other cases, there are meats cuts that are less in demand and end up being frozen, and others that are ground. Periodically, the premium cuts aren't selling, and fortunately they can be diverted and frozen or ground so that value can be salvaged from them during the downturn. But a beef processor's ability to pay for slaughter cattle, and to stay in business, will be undermined if its prime cuts are being ground or frozen. Opportunity costs come home to roost.

A possible mitigating approach for renewables is "co-processing"- the blending of plant oils like canola oil and soybean oil in with crude oil and processed into fuel using existing refinery structures.² This could provide a market alternative for displaced oilseed products without the need for long-term investment in new facilities, and without the associated legacy demand for canola and soy oils projecting out into the future, and the risk of crowding out higher-valued food uses.

5. Politics is not Strategy; a Strategy is not Politics

Strategy maps a focused objective into a set of internal and external parameters (constraints and opportunities). It operates primarily within the realm of markets, technology, and policy parameters. A

strategy cannot be limited to better lobbyists, communications, and government relations.

Regionalism and the blame game are unfortunate elements of politics in Canada that do not contribute to a focused and proactive strategy for oilseeds. Whether the canola cluster in western Canada is larger or smaller or more or less significant than the auto industry in Ontario and Quebec has nothing to do with the intrinsic factors defining the strength of Canadian oilseed segments. The canola-automotive comparison and debate allows a foreign country to draw a line that divides Canada that we would never have drawn ourselves.

Surely China knows that an offer to resume its canola imports if Canada removes its EV tariffs will create a flurry of skirmishes and recriminations in Canadian politics between the west and the east, just as President Trump uses menacing statements to incite drama and consternation in Canada. It erodes and depletes our focus. None of this is consistent with proactive, focused strategy for Canadian oilseeds.

Conclusion

Canada needs to find ways to sustain and build its oilseeds as premium products. As soybean demand in the US becomes increasingly mandate-driven, price arbitrage is anathema to premiumization of canola. But Canadian canola has the oil product attributes and market position that allow it to retain a premium positioning vs. soy oil and soybeans. Leveraging this requires discretion and discipline- by not marketing Canadian canola, or canola oil, as a cost-based substitute for soy or other vegetable oils.

Canadian soybeans will be heavily influenced by the soy oil demand driven by US renewable mandates. However, Canada has market access in China for soybeans that the US does not, which can offer it at

² <https://www.canadianfuels.ca/industry-facts/low-carbon-fuels/co-processing/>

least a temporary price premium versus US pricing. Canada can (and already does) cater to specialty niche soybean market segments that are too small for the US to be interested in.

The bigger issue could be soymeal- specifically, how to work with, and add value to, Canadian soy proteins in the face of a coming wave of US soymeal, and maintain crush margins in Canada that allow crush plants to operate profitably at soybean prices that can be feasible for producers. This situation is a product of US policy-driven overvaluation of soybean oil in the crush; the logical response is for Canada to double-down on adding value to soy proteins derived from soymeal, and go where the US won't or can't. Redoubling existing efforts to add value to canola protein is consistent with this.

We also need to create the space to be able to act patiently and prudently. The China of today that is rejecting Canadian canola products through its trade policy measures and substituting imports from Australia is unlikely to be the China of tomorrow that values Canadian canola products and draws upon Canadian capacity and efficiency. China remains Canada's largest soybean export customer. Similarly, the current worries around US agri-food protectionism may not last indefinitely, given the US agri-food trade deficit with both Canada and the world. The challenge is to mitigate and navigate the current adversity without committing ourselves to long term alternatives with lower value propositions.

This will entail targeted support measures, at least temporarily, that can safeguard Canadian capacity in canola and soybeans. It will also require safeguards that maintain cooperative oilseed supply chains with members committed to Canadian prosperity, which we have previously taken for granted, and a willingness for commercial partners to act collaboratively where necessary.

