

AGRICULTURE AND AGRI-FOOD CANADA

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I will make two general points and then discuss specific policy implications from the Canadian point of view.

First General Point. It is increasingly difficult for public policy to continue to pursue the very diverse and often competing goals that have been associated with traditional farm policy. This is a fairly recent phenomenon. Many of the papers in the last couple of days have talked about some recent influences on the grain-livestock sector—globalization, internationalization and so on. These help shape public policy. But there are two influences which have not been talked about with the same detail.

- One is the Canadian fiscal situation. We as a country have had significant deficit and debt problems for some time. The good news is that when you are “broke”, it makes you pay more attention to how you spend your money. In the past three or four years, we have done that; major policy changes have resulted, and our current fiscal situation has dramatically improved. But fiscal restraint remains an important influence on public policy choices.
- Second, our economic performance. Canadian economic growth and job creation have not met public expectations. This is a key priority of government, and will considerably influence the policy agenda.

The result, for Canada, is an increase in the relative weighting or importance of economic efficiency-type goals in the agri-food sector. Growth and competitiveness matter much more now than in the past. Socio-economic aspects are still important; there has certainly not been an abandonment of social considerations, but there has been increased focus on economic efficiency and global competitiveness.

Second General Point. The changing nature of global food demand has not been lost on policy makers. Canada’s domestic market is relatively small. The big opportunities are abroad. The biggest opportunity is downstream, in the higher value added area. This matters for a variety of reasons. If Canada is going to be competitive in livestock production and processing, then, by necessity, we are going to need to have a much more liberal policy environment than we have had in the past.

Let me be a little more specific. If you accept these two general points what does it mean for some of the policies we have in Canada?

- First, people need to understand the current industry structure in Canada. We have 280,000 farms. They are changing markedly. About two-thirds of the farms in Canada have sales less than \$100,000. They receive 13 percent of their family incomes from farming. The other 90,000 farms have sales over \$100,000. They make the majority of their income from farming—most over 60 percent. Many of these farms have net income over \$70,000. That is a healthy income. Farm policy is often aimed at neither group; it is most often aimed at the “average farm.” With such disaggregated analysis, the desirability of more targeted policy options can readily be seen.
- Second, the trend is towards larger, more industrial-type farms. There has been considerable discussion in this workshop about supply chain management and vertical integration. Rather than ownership integration, I believe we are talking about vertical coordination and improved communication up and down the food chain. Some of the implications are positive; others are not so clear. For example, there is a significant opportunity to replace publicly funded safety nets with forward contracts. One of the healthiest components of the farm sector in Canada is the potato industry. Not so long ago, when french fries were in their infancy, there was a big concern about the level of contract prices for potatoes. Now, you can get contracts well in excess of production costs. Government safety nets are not needed to cover price variability if you have good contract prices.
- It is not clear whether the Canadian industry is going to continue to export grain or become a meat or processed product exporting industry. Depending on the way it evolves, it will matter significantly for trade flows and for public policy. Right now, we have 36 million hectares in production and another 6 million in summer fallow. We do not believe that there is much more land available. It may not be possible to increase output much more than it is now. If you begin to feed that grain and slaughter those animals to produce a processed product, you are not going to be exporting that grain. There is a fork in the road ahead: will we continue to be grain exporters, or meat and meat product exporters?
- Fourth, regulatory harmonization; to me, this means compatibility, which does not require the same policies/standards as other countries. But neither need we be any more different than necessary. We can maintain our sovereignty while meeting other country’s consumer expectations. We are not going to become internationally harmonized/compatible in a short time. If all we had to do was harmonize new regulations and policies, we might do so more quickly. The real trick is trying to harmonize those things which are

already in place. Every microregulation we have was generated by someone, for some reason, or it would not be there. When you try to change established policies, it is a more difficult problem.

- Finally, productivity initiatives are going to become increasingly important for Canada. Some people would prefer to pull some money out of safety nets, for example, and put it towards initiatives to minimize costs, add more value, differentiate our products, and give us the capability to be more competitive, produce more products and make more money from the marketplace.

There are major risks and uncertainties ahead. Most of the policies in Canada in recent years evolved out of periods when prices were good. We are going to enter a period, maybe in the next year or two, when crop prices are going to be lower. It is not a foregone conclusion that we are going to stay on the same path. The debate about safety nets and ad hoc payments is not over. Not long ago, I thought the debate about export credit was over. But, now it is back on the table.

I will close with one brief comment on the nature of policy in different countries. In Canada, we recently abolished the grain transportation subsidy. A very conscious decision was made to pay out \$1.6 billion in one payment to producers. In the United States, under the Federal Agriculture Improvement and Reform (FAIR) Act, transition payments to farmers are being made over a longer period of time. I do not know if that means they intend to continue, to stop or to extend payments beyond 2002. Payments have been decoupled, but cost more money than if the old programs continued. That is progress, in that by decoupling, governments are going in the right direction. It is a good prescription, but questions can be raised about the dosage. With respect to the European Union (EU), it looks like it will not be seven-year payments. To the extent that reforms are made, they might be perpetual payments—somewhat close to decoupled, but not decoupled. These are improvements, but there is still a long way to go to ensure a truly level playing field across countries.