POLICY DEVELOPMENTS IN CANADIAN AGRICULTURE SINCE 1986

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INTRODUCTION

With the implementation of the Uruguay Round Agreement on Agriculture in 1995, Canadian policy shifted toward reduced levels of support to agriculture and increased market orientation. The policy shift was reflected in a number of important changes:

- a shift from commodity price support to whole farm income stabilization;
- decreased use of subsidies for inputs;
- enhanced support for farm investment and diversification; and
- new emphasis on cost-sharing measures.

At the same time, federal and provincial governments were concerned with deficit reduction. The mandate to reduce deficits had major influences on agricultural safety net policies in the mid-1990s. A federal-provincial Memorandum of Understanding (MOU) negotiated in 1995 provided a management framework for the allocation of funds. In its 1995 budget, the federal government dramatically reduced agricultural safety net funds from over $1 billion in the early 1990s to $600 million in 1997/98.

OVERVIEW OF CHANGES TO POLICY ORIENTATION

The focus of government spending is shifting to non-trade-distorting or “green” programs as defined by the World Trade Organization (WTO) Agreement on Agriculture. In particular, there is greater relative emphasis on research and development and product safety, and less on commodity-specific income stabilization initiatives. Within income stabilization, there has been a major shift from commodity price support to whole farm income stabilization, consistent with WTO principles.

The Organization for Economic Cooperation and Development (OECD) uses the Producer Support Estimate (PSE) as an indicator of the annual monetary value of gross transfers from consumers and taxpayers to support agricultural producers. These gross transfers, measured at the farm-gate level, arise from policy measures which support agriculture. Figures 1, 2 and 3 in the Appendix highlight the differences in support in Canada, the United States and Mexico, and demonstrate the changes in producer support since 1986–88.

The PSE comprises Market Price Support (MPS) and direct payments to producers. MPS is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers arising from policy measures creating a gap between domestic market prices and border prices for a specific agricultural commodity, measured at the farm gate level. Direct payments are budgetary payments to producers based on factors such as output, area planted, historical entitlements, input use and overall farming income.

Canada’s PSE shows a declining trend since 1986–88 due to lower MPS and lower direct payments, from a total of 51 percent of agricultural production to 23 percent in 1998. More specifically, MPS fell 19 percent in 1986–88. In 1998, MPS was just under half of all support and three quarters of that support was for milk production. Further, direct payments fell from 21 percent in 1986-88 to six percent in 1998 or in dollar terms from $3.8 billion in 1986–88 to $1.7 billion in 1998.

General Services Support Estimates (GSSE) or general service expenditures is another OECD indicator that reports the annual monetary value of gross transfers to general services provided to agriculture collectively. These expenditures arise from policy measures which support agriculture regardless of their nature, objectives and impacts on farm production, income or consumption of farm products. Canada's GSSE declined from ten percent to six percent of production value from 1986-88 to 1998, with slight increases in the "research and development" and "inspection" categories. Also, general services increased as a share of total support (as measured by the Total Support Estimate).

MONITORING AND EVALUATING AGRICULTURAL POLICIES

Market Price Support (MPS)

As outlined above, MPS is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers. In Canada, MPS is mainly represented by supply management. Canada has a supply management system for dairy, poultry and eggs with considerable powers in three forms[†]:

- import quotas;
- a domestic quota system on individual producers; and
- a mechanism to set domestic producer prices.

These powers present significant intervention in marketing these commodities. The supply management system results in almost no budgetary cost to governments but consumers pay higher prices for some products.

There have been two important program changes concerning market price support. In 1995, the import control system for supply managed commodities changed under certain provisions of the WTO Agreement on Agriculture. Quantitative import restrictions were replaced by tariff rate quotas as border protection. In addition, imports of certain supply managed products, above historic levels, became subject to high over-quota tariffs.

[†] Editors note: "Supply management" as practised in Canada since the 1970s has meant tailoring domestic supply plus imports (less exports) to expected domestic demand at targeted producer prices. "Cost of Production" is used to establish price targets.

Direct Payments

Input and Output Subsidies. Direct budgetary payments to producers are comprised of both output and input subsidies. In general, output subsidies are not used as policy instruments in Canada. Safety net programs no longer contain deficiency payment schemes. However, dairy policy is an exception to this generalization on output subsidies since there is a direct payment on industrial milk. Producer revenues are a combination of the market return on dairy products and direct federal subsidy payment. Subsidy payments moderate the price of industrial milk products sold to the consumer by reducing the returns required by producers from the marketplace to achieve their target prices. In addition to the federal subsidy payment, Quebec maintains a commodity-based income stabilization program that provides direct payments to producers.

Direct payments in the form of input subsidies were used quite commonly in Canadian agricultural policy. The most important input subsidy involved transporting western grain to export port in which federal legislation fixed the freight rate. This subsidy was terminated in 1995.

Safety Net Programs. In Canada, there is a long history of farm safety net programs designed to increase income stability and reduce market risks. The Agricultural Stabilization Act was implemented in 1958 to provide deficiency payments to producers. More recently, the concept of whole farm income stabilization has become important in safety net policy. In late 1994, federal and provincial ministers of agriculture agreed that the model for future safety net policy would include three programs:

- crop insurance
- whole farm income program based on the Net Income Stabilization Account (NISA)
- province-based companion programs.

Today many Canadian producers have lower incomes, largely due to low commodity prices. In response, the Agricultural Income Disaster Assistance (AIDA) program began in February 1999. Over the past several years, seven federal programs were implemented to provide direct payments to producers: three have been eliminated, one will be phased out and three still exist. These programs are described below.

Western Grain Transportation Act (WGTA). The WGTA was passed at the end of the Crow Rate era (1983) and continued some of the subsidization of rail movement of prairie grain to export. By 1995, the federal government viewed the subsidy as unsustainable while the international community viewed it as an export subsidy. The WGTA was eliminated in 1995, as was the smaller domestic Feed Freight Assistance program.

Gross Revenue Insurance Program (GRIP). In 1991, a voluntary national program available to grain, oilseed and specialty crop producers was set up to provide income support through market and production components of revenue. This program marked the transition from income protection at a sectoral or regional level to income support on an individual producer basis. Increasing dissatisfaction among producers, combined with pressing fiscal constraints by both levels of government led to termination of the GRIP in 1996.

National Tripartite Stabilization Program (NTSP). NTSP was set up in 1986 as a voluntary revenue insurance program to reduce losses to producers due to adverse changes in market prices or costs. It applied to livestock production outside of supply management and some horticultural and tree crops. In 1993, NTSP for red meats was terminated at the request of producers because of concerns over countervail actions. The entire program terminated in 1997.

Federal Dairy Subsidy. A direct deficiency payment made to producers for industrial milk produced within domestic requirements has been part of the national dairy program in Canada for several decades. It is to be phased out by January 31, 2002. Supply management remains in place.

Crop Insurance. Crop insurance has been a key federal and provincial program aimed at providing production risk coverage from drought, flood and hail to farmers in all provinces. Payments are triggered when a producer's yield falls below 70 to 80 percent of the farm's average historical yield. There have been no substantive changes to crop insurance since the implementation of the North America Free Trade Agreement (NAFTA).

Net Income Stabilization Account (NISA). The NISA fund, initiated in 1991, receives producer contributions during favourable years and provides for withdrawals during years of low revenue. The uniqueness of the program is its whole farm approach, as opposed to the commodity-specific approach of previous stabilization programs. The program is funded by federal, provincial and producer contributions.

Agricultural Income Disaster Assistance Program (AIDA). This program was implemented in February 1999 to help with the farm income crisis triggered by low grain and hog prices. Initially, the federal government provided up to $900 million over the first two years, matched by up to $600 million from the provinces. In November 1999, the federal government provided a further $170 million.

IMPACT OF ELIMINATION OF FEDERAL SUPPORT PROGRAM

The phase-out of the federal dairy subsidy will be accompanied by administered adjustments to producer prices to offset the reduction in federal payments. The net effect will be to reduce the level of payments and increase MPS, with little overall change in total support (Appendix - Figure 4).

The elimination of the WGTA and changes to commodity specific programs have resulted in significant reductions in support levels to grains and oilseeds producers in Canada. Elimination of the WGTA ended MPS for these commodities. Also, reductions in other program payments and the reorientation of support programs resulted in a major decline in overall support for the grains and oilseeds sector. These changes are evident in measures of support to the grain and oilseed sectors in Canada. (Appendix - Figures 5 and 6).

Program changes have also had large impacts on red meat producers even though support levels were relatively low in the reference period. (Appendix - Figures 7 and 8). Elimination of the WGTA, in fact, ended a negative MPS for red meat commodities. This change, offset by payment reductions from

NTSP termination, resulted in an overall reduction in support for hogs and beef cattle producers.

General Services Support Estimate (GSSE)

As mentioned above, the GSSE or general service expenditures is an OECD indicator that reports the annual monetary value of gross transfers to general services provided to agriculture collectively. Federal agricultural research and development initiatives and government regulations are examples of general service expenditures.

Research and development to increase farm productivity is a Canadian policy objective. Recently, federal research funds have been allocated to avoid duplication and to match private sector contributions for high priority research and development activities. Also, regulatory reform has addressed food safety and quality concerns to improve consumer confidence. The Canadian Food Inspection Agency (1997) and Health Canada are responsible for health, safety and inspection services. The Agency's mandate includes recovering a portion of its costs from users of its services.

There are four federal government programs which comprise the majority of Canada's GSSE. They include:

- Canadian Adaptation and Rural Development (CARD) Fund
  The CARD Fund provides short-term funding for adaptation initiatives to support diversification, value-added processing, market development, innovation and job creation in the agriculture and agri-food sector. Adaptation programs provide the agriculture and agri-food sector and rural Canada with tools to acquire and use knowledge, skills and ideas to work together to create opportunities for themselves and their communities. CARD funding ($60 million annually), initiated in 1995, became a continuous program in 1999.

- Canadian Agri-Food Infrastructure Program (CAIP).
  It is a new $140 million investment in Western Canada to adapt to the changes triggered by transportation reform. Infrastructure changes include improving roads to contend with elevator consolidation and railway branch-line abandonment, and upgrading highway links to new grain terminals.

- Agri-Food Trade 2000 Program (AFT 2000).
  A cost-shared contribution program to support market readiness, market access and market development. Its objective is to increase sales of agriculture, food and beverage products in domestic and foreign markets. Program spending reached $12.8 million for the fiscal year 1999/00.

- Matching Investment Initiative Program (MII).
  Collaborative research activity between AAFC and the private sector, by matching dollar investments in research by industry. The program was introduced in 1995. Federal funding is expected to reach $35.8 million by 2000.

SUMMARY

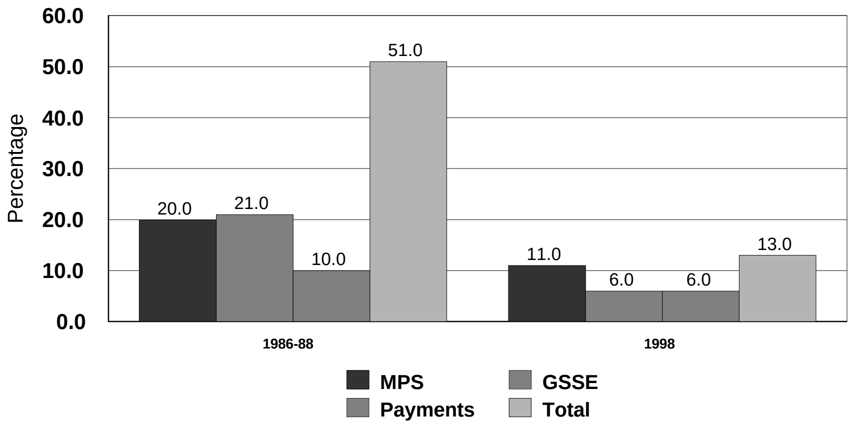
- Reduced budgets and more open trading rules have changed agricultural policies. There has been a significant downward trend in support to agriculture.
- Recent policy changes to Canada's safety net system helped producers manage their own risks in trade-neutral ways while improving the stability of farm income. The aim is to be compatible with WTO Agreement on Agriculture commitments and to avoid establishing a system that distorts producers' decisions.
- The broader policy framework has shifted its focus from the farm-gate to the entire agri-food system and rural economy.
- New policy initiatives focus on the enhancement of the industry's economic viability while strengthening rural community economic development. They are aimed at increased competitiveness and industry-led business plans developed at the regional level.

- Agricultural policy works in collaboration with other federal and provincial jurisdictions and industry to address horizontal initiatives such as biotechnology, climate change, the environment, endangered species, youth employment, rural development and aboriginal affairs.
- The Canadian agriculture and agri-food industry wants grassroots organizations to undertake more decision making and program delivery. This focus combined with the federal government's focus to reduce costs and enhance flexibility has allowed the government to approach adaptation programming from a new perspective.

APPENDIX

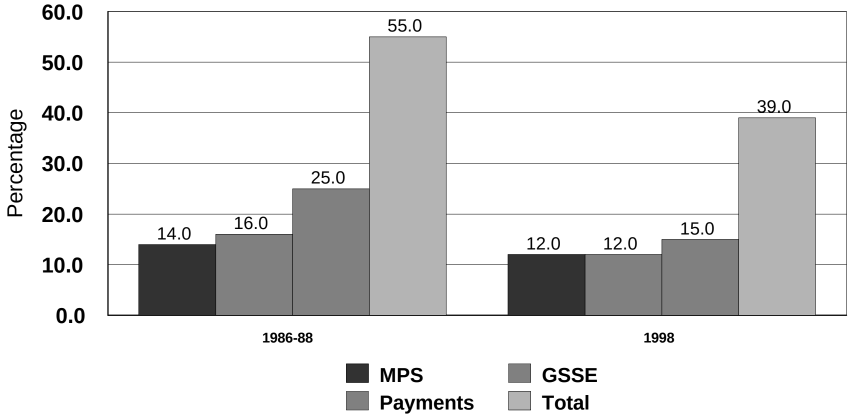
LEVEL AND BREAKDOWN OF PSE FOR NAFTA COUNTRIES AND SELECTED COMMODITIES

Appendix Figure 1: Canada--OECD Support Estimates.



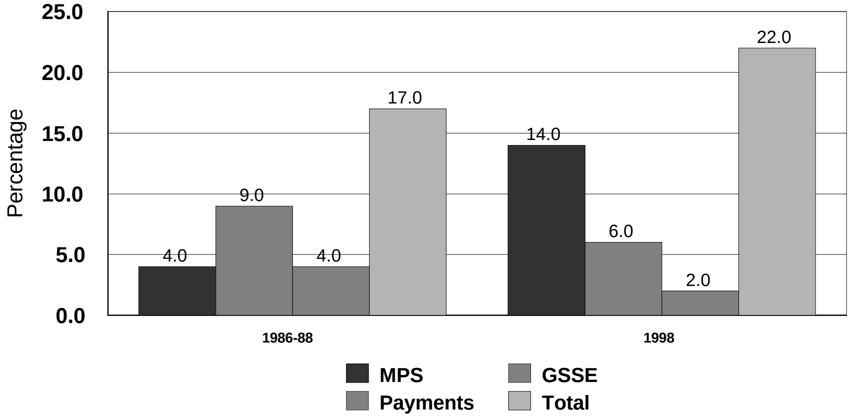
Source: OECD Producer and Consumer Support Estimates, Database, 1999

Appendix Figure 2: United States--OECD Support Estimates.



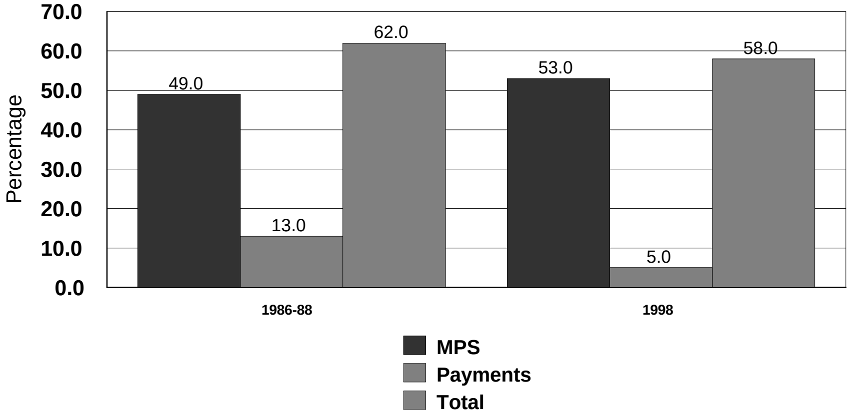
Source: OECD Producer and Consumer Support Estimates, Database, 1999

Appendix Figure 3: Mexico--OECD Support Estimates.



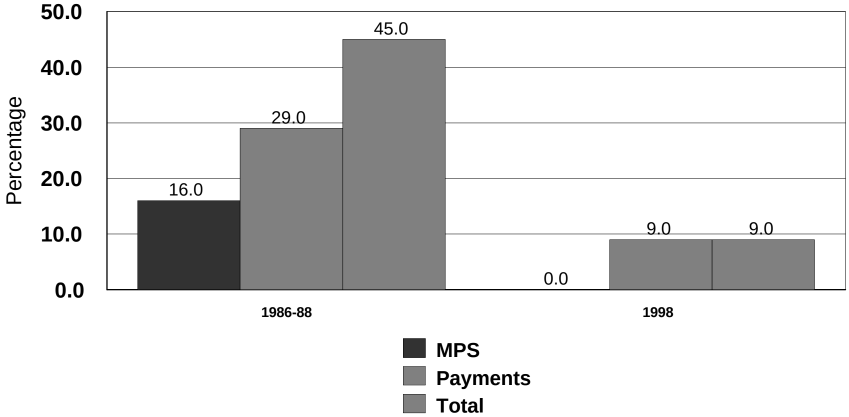
Source: OECD Producer and Consumer Support Estimates, Database, 1999

Appendix Figure 4: Canada--OECD Support Estimates, Dairy.



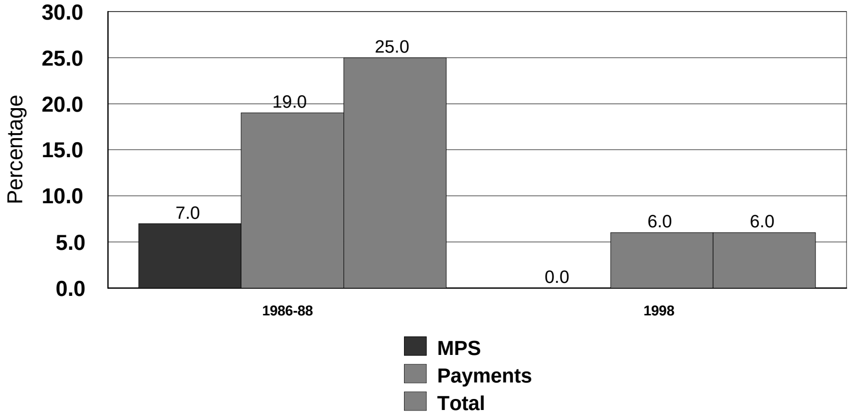
Source: OECD Producer and Consumer Support Estimates, Database, 1999

Appendix Figure 5: Canada--OECD Support Estimates, Wheat.



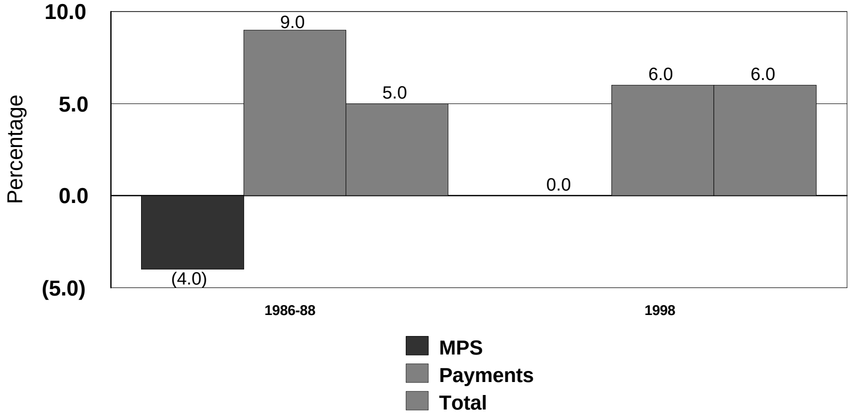
Source: OECD Producer and Consumer Support Estimates, Database, 1999

Appendix Figure 6: Canada--OECD Support Estimates, Oilseeds.



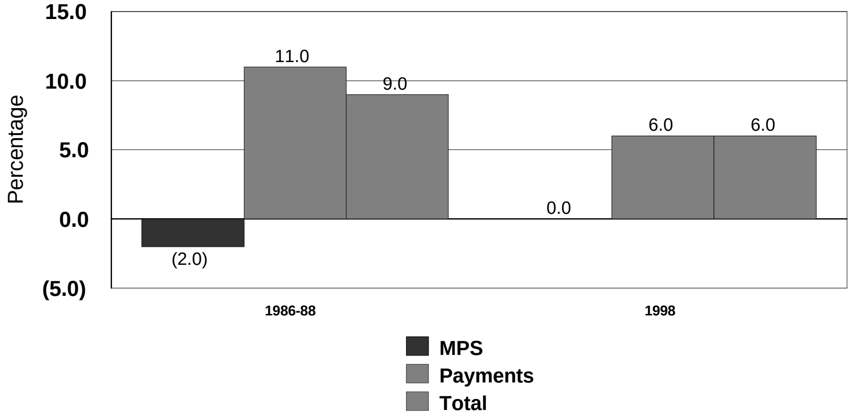
Source: OECD Producer and Consumer Support Estimates, Database, 1999

Appendix Figure 7: Canada--OECD Support Estimates, Hogs.



Source: OECD Producer and Consumer Support Estimates, Database, 1999

Appendix Figure 8: Canada--OECD Support Estimates, Beef Cattle.



Source: OECD Producer and Consumer Support Estimates, Database, 1999