Next Generation
of Agriculture and Agri-Food Policy

A Discussion Paper:
The Canadian Agriculture and Agri-Food Industry







Introduction

This paper is one of a series of consultation documents designed to stimulate a dialogue among all stakeholders about how governments and others can work together to ensure a competitive and profitable Canadian agriculture and agri-food sector that provides safe, innovative, and high-quality products and services.

In particular, this discussion document provides an overarching view of the agriculture and agri-food sector, outlines current and future challenges, and proposes a vision for the sector. It is meant as a starting point for dialogue with industry and other stakeholders.

Additional consultation material includes:

- A principles paper meant to stimulate dialogue on guidelines for developing the next generation of agriculture and agri-food policy.
- Five thematic discussion papers covering the topics of: innovation and science; environment; food safety and quality; renewal; and market development and trade. Each of these papers provides a more in-depth analysis of the area in question.
- A series of economic backgrounders that provides information on broad trends experienced by the sector, as well as useful information about the approaches taken by other countries.

Thank you for taking the time to review this paper. We hope it stimulates discussion and federal, provincial, and territorial governments welcome your input and ideas. Contact information is provided at the end of the paper.

The Next Generation of Agriculture and Agri-Food Policy – A Federal, Provincial, and Territorial Initiative

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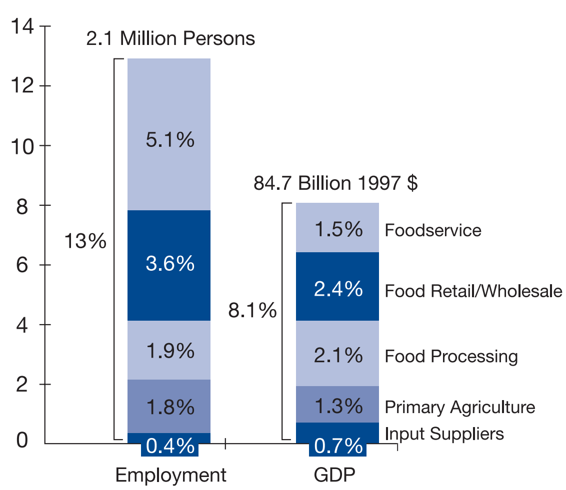
I. Setting the Context: An Adapting Sector in a Changing Environment

The agriculture and agri-food industry spans a great number of smaller and diverse industries and sectors – from various primary commodity groups to foodservice providers and food manufacturers. The industry accounts for one in eight jobs in Canada and 8% of Gross Domestic Product. Over the last number of decades, there have been substantial changes to the face of agriculture and agri-food in Canada. One of the most prominent trends is that primary production, while still important, is now a declining component of the larger agri-food value chain.

Agriculture has led the Canadian economy in productivity growth. The real value of production has tripled over the last 45 years while the number of farms has been halved. Through the adoption of new technologies, superior products and novel methods of production, agricultural productivity growth has outstripped even that of the manufacturing and business sectors over this period. But despite these advances, the rest of the Canadian economy has grown more quickly.

The Agriculture and Agri-Food System's Contribution to Employment and GDP, 2004



Canada has a large base of arable land for agricultural production relative to its population. As a result, production outstrips domestic consumption. Access to global markets is critical to the functioning of the sector. Canadian producers have actively sought out international markets for their products. Today, the primary agriculture sector exports 40% of its production, an increase from 32% during the 1986-1990 period. As for processing, 20% of production is now exported, compared to 12% for the 1986-1990 period.

The mix of exports has also changed with large export growth experienced among processed foods. Bulk commodities accounted for close to one half of exports in the early 1990s. Today they constitute less than one quarter of exports. At the same time, producers within the supply management system have achieved steady productivity increases while focusing almost exclusively on the domestic market.

Agriculture the world over has seen dramatic productivity and production increases. Since the 1950s, global food production has increased 250%, outpacing a global population increase of 135% over the same period. For many major commodities, developed countries have continued to expand production while competitors from developing countries, spurred by lower production costs, have entered international markets. For example, the unit cost of oilseeds production in Argentina is less than half that of oilseeds produced in Canada.

Because this growth in global production has largely been driven by efficient means of production, there has been a long-term decline in real commodity prices. The high (and distorting) subsidy levels of countries such as the United States and the European Union have also placed downward pressure on world prices.

As Canada is generally an agriculturally export-dependent nation, these international trends have had a significant impact on Canadian producers of bulk commodities, crops in particular. Producers have faced lower prices for their products, while costs such as fertilizer and fuel have remained high. As a result, farm income has been squeezed from both sides. The current business structure in many traditional areas of agriculture is under pressure.

At the same time, Canada has witnessed a number of significant shocks that have further affected the agriculture industry. Over the last five years, bovine spongiform encephalopathy (BSE), avian influenza, flooding and drought have adversely affected the ability of producers to produce and sell their products. The impacts of these events have rippled throughout the entire sector.

While aggregate indicators may suggest a sector in decline, there are significant variations among sub-sectors of the industry. Grains and oilseeds producers face continued depressed prices. But there are a number of strong performers. Livestock and horticulture producers are experiencing relatively buoyant prices for most of their products. Supply-managed producers continue to enjoy stable incomes due to their regulated market environment.

Due to a number of serious events in recent years, governments in Canada have provided several ad hoc payments to supplement pre-existing business risk management (BRM) programming. Indeed, primary agriculture increasingly asks governments to replace income lost from the marketplace. These payments help producers in the short term.

The Farm Community

Farm families are involved in agriculture in numerous ways and for different reasons. While the largest family farms can be classified as business-focused, the majority (which include lifestyle and retirement farms) are not. There are profitable operations of all sizes across Canada – variation in profitability among farms can be driven by a number of factors such as management of cost.

For some producers, off-farm income plays a critical role in their family's financial health. While on average farm and non-farm families have comparable levels of household income, there are still a significant number of farms where household income is very low. Approximately 35% of farms in 2004 were operated by families with total income of less than $35,000.

Over the last 50 years, there has been a considerable reduction in the agricultural labour force. While still important, agriculture can no longer be considered the main driver of rural Canada. In large parts of the country, mining, forestry or fishing are more significant primary industries. In all parts of the country, agriculture plays a smaller economic role than the service sector.

As a result, while the land of rural Canada is highly agricultural, the people of rural Canada are not. As the rural economy derives only a small share of its income and employment from agriculture and agri-food (only 11% of Canada's rural population in 2001 lived in a farming household), rural issues are increasingly distinct from agricultural issues. This trend is also reflected in the United States, which has prompted the American Farm Bureau Federation to state that "farming is now more dependent on rural communities than rural communities are dependent on farming."

There are also generational issues at play. One-third of producers are over the age of 55. Coupled with the declining interest of the next generation in remaining in the sector, the question of who will farm in Canada is increasingly difficult to answer.

Beyond the Farm

Consumers around the world are demanding more from their products and of the people that produce those products. Consumers want better quality products, greater value for money as well as products and production processes that maintain and improve their health. The agriculture and agri-food industry is no exception, with consumer interests ranging from safe and nutritious food to the protection of ecologically-sensitive farmland. Producers and processors have met these challenges to date, yet societal expectations continue to increase.

In the agriculture and agri-food sector, food processing plays an increasingly important role within the value chain. Food processing is the second-largest manufacturing industry in Canada and generates above average returns on investment compared to overall manufacturing.

Sales of processed foods to global markets are increasing. Yet, private and public sector research and development in Canada are lagging behind despite studies that suggest a benefit to cost ratio of R&D in the range of 20:1. At 0.5%, private investment by the food, beverage and tobacco processing industry compares poorly to the broader Canadian manufacturing sector average of more than 3%. Public sector agriculture research, as measured as a percentage of agricultural GDP, has declined in Canada since 1990-91 while that of the United States has steadily increased (in 2001-02 it was almost double that of Canada).

II. Looking Forward

(a) The Domestic and International Agriculture and Agri-Food Environment

The agricultural environment is fundamentally changing. This new reality poses challenges to the traditional methods of production in Canada.

There has been a long downward trend in the price of bulk, undifferentiated commodities. Real prices for crops like wheat and corn are expected to continue to decline over the next couple of decades. Competitors, such as Brazil and Ukraine, will continue to expand production thanks to much lower costs of production and despite low subsidy levels. Real progress made at the World Trade Organization (WTO) to level the playing field by reducing trade-distorting support, eliminating export subsidies and improving market access will not be enough to fundamentally improve Canadian competitiveness on price alone.

Furthermore, future international agreements likely will force a continued reduction in the level and types of government support that all countries, including Canada, can provide to their domestic agricultural sectors. Over time, this will reshape governments' relationship with industry, as previous levels of government support and particular types of programming may no longer be acceptable.

However, the future is far from bleak for Canadian agriculture. A liberalized trade environment should increase Canadian presence in the large markets of emerging countries such as China and India. Burgeoning middle classes with rising disposable incomes in these countries will demand a greater range of value-added products, consistent with their newfound economic status. As these countries become more urbanized, demand for exotic, imported food products will grow over that of traditional, domestic foods. At the primary level, producers will continue to pursue innovative production means derived from the latest scientific advances to increase production yields and add specific attributes to their food.

Consumers, wherever they may be, will seek more from their food. Processed foods will become even more popular among many time-stretched Canadians. Conversely, the proliferation of processed foods and the shift to urban environments have left many consumers feeling disconnected from the source of their foods. Increased interest in "buying local" will support domestically grown products and the growth of farmers' markets.

Consumers will become more aware of the health impacts of food and food production through public education campaigns. The expanding obesity epidemic will underscore the importance of a well-balanced diet as part of a healthy lifestyle. Consumers will be looking to food to provide specific health attributes, such as what is happening now with omega-3 fatty acids.

Similarly, consumer preferences increasingly will lead to the existence of niche markets. Methods of production, including environmental practices and food production process, will adjust to and support the expansion of these markets.

The consumer of the future for the agriculture sector will not be limited to purchases of food. The untapped potential of the farm entity for production beyond food will become a significant driver of farm operations. Significant research and development currently is exploring many opportunities, including how crops can be used in the manufacture of new pharmaceuticals and the potential role of biofibres.

Increased pressure on traditional supplies of energy coupled with a growing demand for renewable fuels will, if profitable, spur the development of bioenergy processes that utilize agricultural products (including what today might be considered waste). As a result, agriculture will become more tightly linked with other sectors of the economy: the chemical, energy, and pharmaceutical industries to name a few.

Rural areas are well positioned to reap the direct and indirect benefits of adding the processing facilities required to produce these new, non-food agricultural products and processes.

Global climate change may have profound effects on Canadian agriculture, as warmer temperatures expand the range of products that can be cultivated and the length of the growing season. This could provide the opportunity for multiple-crop seasons. Climate change also could have serious impacts on the management of new plant and animal diseases. There may also be concerns over the distribution of scarce water resources between citizens and industry. Agriculture will be part of this debate, especially in light of the sector's export-orientation.

Canada's urban areas continue to encroach on surrounding farmland, with the Greater Toronto Area being a prime example. This farmland is some of the most productive and fertile in the country. While rising land values are of obvious benefit to existing producers, they pose difficulties for young or expanding producers. It is possible that as urban areas continue to expand, society will place an increasing value on the countryside as a place to escape, relax, learn about and protect. Interest in agro-tourism is growing. Overall, urban residents may increasingly wish to preserve the rural (and agricultural) landscape for their enjoyment. Governments may respond to citizens' demands with measures such as strict land-use legislation.

Off-farm employment opportunities will play an essential role in the composition of household income for many farm families. At the same time, producers will continue to require local supplies of inputs, capital and labour to operate their farms. Infrastructure in rural communities, from highways to railways to water management, will be critical in supporting the production of agriculture and agri-food products and effectively linking this production in rural areas to the demand in urban areas and export markets. For these reasons, strong rural communities will remain critical to providing a strong base for Canadian agriculture.

(b) Canada's Place in the New Agricultural Environment

Canada's place in the new agricultural environment is for Canadians to decide. The status quo for the industry would entail producers and the larger industry continuing to focus on traditional products and lines of business. In this scenario, current pressures would only strengthen. As a higher-cost competitor, Canada would find it increasingly difficult to compete in the production of undifferentiated bulk commodities, such as grains, where prices are set on the world market and competition from low-cost producers grows even stronger.

At the same time, food processors could fall further behind their international competitors as a result of Canada's low level of research and development. It may be that R&D levels are hindered in part by existing regulatory considerations. This lack of investment could impede the sector's future competitiveness, lower profitability and slow the adoption of new and emerging products and technologies.

Canada has the potential to benefit from the new agricultural environment by moving away from the status quo. New markets and scientific advances offer a true sense of optimism that the sector can achieve a prosperous and profitable future. Agriculture, because it is integrally connected to the solutions to most emerging national issues (such as infectious diseases, energy supply concerns, health promotion and climate change) can increasingly benefit those outside the sector.

But to do so, Canada must capitalize on its natural endowments as well as its strengths: significant human capital and strong production, distribution, and regulatory systems. Public education must address consumers' concerns regarding safety, particularly in relation to future scientific advances in the industry. An effective regulatory environment and strong relationships among previously distinct industries will be required to facilitate the development and adoption of new products.

Producers, processors and other agricultural entrepreneurs can lead the way by adjusting their current operations to meet market-driven opportunities and by proactively developing new markets. This will not entail a full-scale shifting of the industry away from traditional bulk commodities. In fact a large number of producers will continue to profitably produce safe, high quality commodities. However, whatever producers and processors do, they must be done in innovative ways that resonate with their customers.

Other countries also realize that the future of agriculture means expanding into emerging areas. Not only will other developed counties, such as the US and Australia, be Canada's competitors in both the commodity business and the bio-based economy, but emerging countries that have relied on their low-cost advantage in commodities will also challenge Canada in this new environment.

In the global context, Canada will be competitive in selling new and innovative products to consumers at home and abroad, while seeking out opportunities and adapting methods learned around the world. Success will be based on the strengths of people already in the sector and increasingly by linking with individuals outside of traditional agriculture and agri-food activities.

III. A Vision of the Industry

To begin the process of establishing the next generation of agriculture and agri-food policy, the following vision for the Canadian industry is proposed:

> ***"An industry that is innovative in seizing evolving market demands for food and non-food products and services within an environment that fosters prosperity and opportunity for the entire value chain, creating benefits for all Canadians."***

The achievement of this vision will require:

Increased Innovation

Innovation is a central driver of profitable industries. While the agriculture and agri-food sector has achieved significant productivity increases, so too has the world. The Canadian industry can to stay ahead of our competitors by:

- working together to optimize the use of Canada's scientific resources to ensure returns across the innovation value chain;
- having the tools to unleash the full potential of research and development;
- developing innovative new products and techniques here in Canada and adopting and modifying existing products and techniques from around the globe;
- undertaking increased value-added activities on-farm and across Canada; and
- applying innovative marketing techniques to the sale of Canadian products.

Meeting Evolving Market Demands

Consumers are demanding more of their food. New developments and unforeseen events continually change the playing field. While change is an inherent part of any business, successful operations are those that quickly adapt to new environments and even influence the direction of change. Meeting evolving consumer demands will mean:

- being nimble in responding to consumers' demands for specific quality attributes;
- better communication along and among strong, coordinated value chains;
- shaping consumer demands through innovative market development and education; and
- taking full advantage of a liberalized global trading environment.

Producing a Wide Range of Food and Non-Food Products and Services

The sector's focus needs to move beyond just food. Developing non-food products, linking with other sectors in the bioeconomy, creating solutions to environmental issues and capitalizing on the service-based aspects of the farm entity will become critically important. Industry will benefit from:

- playing a lead role in the development of biofuels and bioproducts;
- capitalizing on both the food and non-food components of the sector;
- creating a broader set of relations with other sectors, such as the chemical and pharmaceutical industry; and
- embracing non-traditional uses for the farm, such as agro-tourism.

Fostering Prosperity and Opportunity

Agriculture is not an isolated industry, unaffected by outside pressures. Governments, industry and other stakeholders all shape the agricultural environment. The success of the agriculture and agri-food industry is affected by education, regulation, infrastructure and other critical factors.

To foster prosperity and opportunity, we must:

- equip our labour pool with the latest skills, technology and management techniques;
- create the infrastructure necessary for efficient production and delivery;
- develop and continually adapt a flexible and efficient regulatory system;
- identify business structures that create profitability throughout the value chain;
- recognize regional differences in strengths and needs;
- support strong rural communities; and
- attract young people into the sector.

Creating Benefits for All Canadians

The agriculture and agri-food sector is on the frontline of many issues that Canadians consider important. Canadians are increasingly concerned about the impact of animal and plant health on human health and the environment. As some of the largest landholders in the country, producers have the opportunity to enhance environmental protection in the course of their business. Moreover, health issues are growing in importance and food has a central role to play in an overall health strategy. Therefore, the industry can benefit all Canadians by:

- embracing environmentally-sustainable production;
- taking measures to mitigate and minimize the impact of plant and animal diseases;
- understanding the integral linkage between agriculture and food, especially as part of a healthy lifestyle; and
- continuing to provide a safe supply of food to Canadians.

IV. Beyond the Vision

In discussing the vision set out above, the following considerations are relevant:

- A policy framework for the agriculture and agri-food sector must touch on the roles of all players within the industry, including those undertaking the processing of agriculture and non-food products, as they will be at the forefront of translating the needs of the new environment into new products.
- The vision statement is generalized to the industry at large. As the policy development process continues, distinct issues facing the various sectors will be identified, from food-service to primary production to input suppliers. The different tools required for each group will be identified.
- The contributions of strong rural communities are important to continued agricultural growth and well-being. Having said this, issues facing rural communities are becoming increasingly distinct. Separate policy frameworks that better target these unique issues are required to maximize the positive outcomes for both rural and agricultural communities.
- The structure of the agriculture and agri-food industry and the opportunities and challenges faced by the sector differ greatly among Canada's various regions. While an overall policy framework will help set the tone for a cohesive and national approach, there must be room to address regional differences.

V. Conclusion

Canadians enjoy an abundant supply of healthy and homegrown food. We export high quality food products around the world. Our reputation for producing excellent agricultural and agri-food products is second to none.

But the sector is changing given scientific advances, consumer preferences and international trading considerations among other factors. Fortunately, Canada is well positioned to take advantage of these trends. But choices must be made and action taken. It is time for stakeholders to come together to agree on a path that will allow Canadians to prosper in to the future.

ADDING YOUR VOICE TO THE DISCUSSION

Federal, provincial and territorial governments look forward to hearing from a wide variety of individuals and organizations, and working together to develop a solid policy framework that supports a prosperous agriculture and agri-food sector. We encourage you to add your voice to this discussion, beginning in January 2007. For more information on this process:

- Visit our website at http://www.agr.gc.ca/nextgen
- Call 1 800 O-Canada (1 800 622-6232)
  TTY: 1 800 926-9105
- Contact any federal, provincial, or territorial agriculture office