

Next Generation of Agriculture and Agri-Food Policy

Economic Backgrounder: Benefits and challenges of global markets



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

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Benefits and challenges of global markets

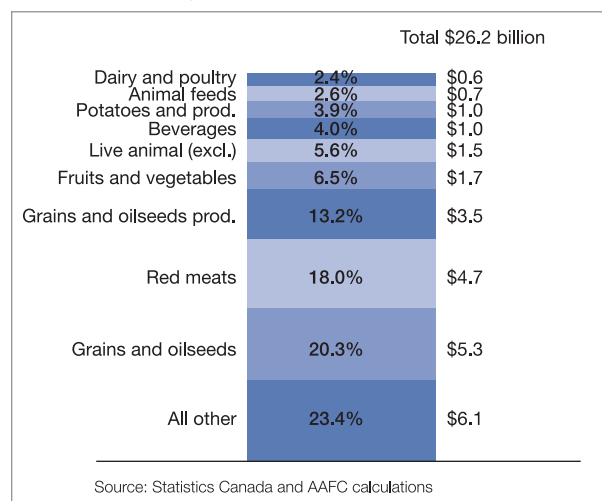
Importance of trade to Canada

Trade is important to the Canadian economy, especially in agriculture and agri-food products. It contributes to the growth and prosperity of Canada's agri-food sector in a number of ways. The sector's capacity to produce more than we consume generates opportunities for economic growth through exporting abroad. At the same time, the ability to import gives consumers and manufacturers a broad range of product choice and diversity, and can help keep prices competitive.

Current situation

Canada produces a significant range of agricultural and agri-food products. Increasingly, value-added products are taking up a greater share of export sales.

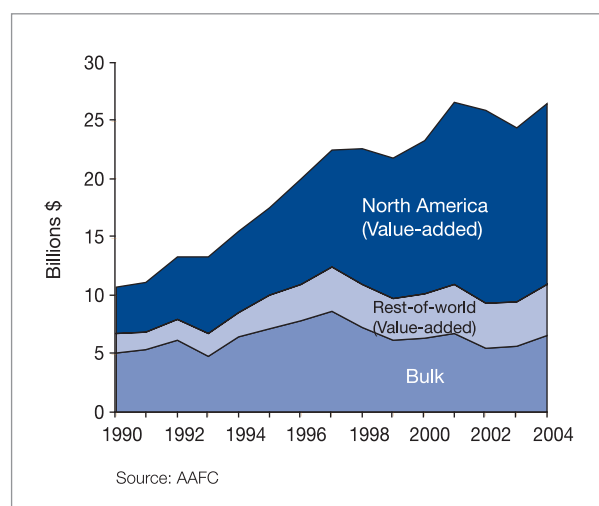
Figure 1: Commodity composition of export sales, 2005



Trade liberalization, especially North American Free Trade Agreement (NAFTA), has driven agri-food exports. The U.S. and Mexico account for 70% of Canadian agri-food exports. Growth in exports of value-added products is leading

trade expansion. Bulk commodity exports have declined from about half to one quarter of the total value of agri-food exports.

Figure 2: Agriculture and agri-food exports, 1990-2004



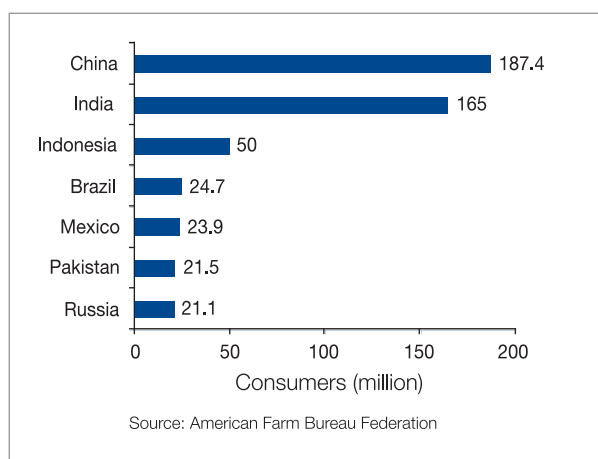
Future opportunities

New opportunities for agriculture and agri-food products are emerging in three distinct areas. Rapidly emerging developing economies like China and India are expected to generate the greatest source of new demand for traditional exports. In markets of the members of the Organisation for Economic Co-operation and Development (OECD), future growth is expected to be limited to niche markets for value-added products. The bioeconomy and its diverse range of possible new bioproducts offer potential not only to improve upon current product attributes through biotechnology, but also to create new sources of income by tapping into non-traditional markets.

Opportunities in emerging economies

Emerging economies offer future growth opportunities. The economies of developing countries are growing. About half a billion people in developing countries entered the middle class in the last decade.

Figure 3: Increase in middle income consumers, 1996-2006



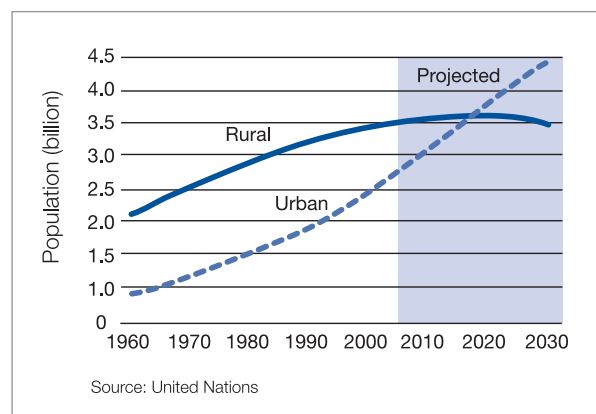
Researchers estimate that world food demand could double by 2050. Half the increase is expected to be driven by higher per capita income in developing countries and half by population growth. Urbanization and a limited arable land base are expected to constrain agricultural production growth in some developing countries.

Urbanization

Urbanization has a significant impact on what people eat. People in urban areas in developing countries are far more likely to eat different types of food, including imported food stuffs, than their rural counterparts.

By 2020, more people will live in urban areas than in rural areas. Most people will live in urban, market economies rather than in rural, subsistence economies. Between 2000 and 2030, China's urban population will increase by over 400 million, while India's will increase by over 300 million. Sizable increases in urban populations are expected to take place in South East Asian countries as well.

Figure 4: Urbanization in developing countries, 1960-2030



Income growth

Per capita income growth in developing countries will increase demand for farm products. A significant part of the world's population lies within a critical range where growth in per capita income could result in a rapid increase in the demand for farm level production.

Table 1: People Living Below US\$1/Day and US\$2/Day

Country	Population (millions)	Percent of population living on	
		Less than US\$1/day	Less than US\$2/day
China	1,300	17	47
India	1,087	35	80
Indonesia	239	8	52
Brazil	184	8	22
Pakistan	159	13	66
Russia	144	6	24
Bangladesh	141	36	83
Nigeria	126	70	91
Mexico	105	10	26

Source: World Bank, World Development Indicators Database.

Almost half of the world's population live on less than US\$2 per day but represent about 50% of the potential growth market for world agriculture. Research shows that as incomes increase from US\$1 to US\$2 per day, people maintain a diet of staple foods like rice and wheat but they augment subsistence production with purchased food.

The greatest growth in the demand for food occurs as per capita income increases from US\$2 per day to US\$10 per day (from \$3,000 to \$15,000 per year for a family of four). Expenditure increases rapidly for a wider variety of foods (fruit, vegetables, pulses, and some meat), higher quality food and a modest degree of food processing (flour instead of wheat). Most of this translates into a rapidly growing demand for farm level production.

Future growth in OECD markets

OECD markets are not expected to provide significant opportunities for growth in the future. Demand for agri-food products is expected to remain static in most OECD markets because of expected stable populations and high incomes.

Research shows that once per-capita income reaches a certain level (over US\$10 per day per capita), increased expenditure on food goes mostly to processing, packaging, food safety, branding, and other non-agricultural attributes.

Strategies to reduce trade barriers and promote food chains that excel at meeting these non-food attribute demands could help secure and expand existing market presence.

Strategies that foster innovation and promote the bioeconomy could expand demand for new, enhanced or substitute products, especially non-food products like biofuels.

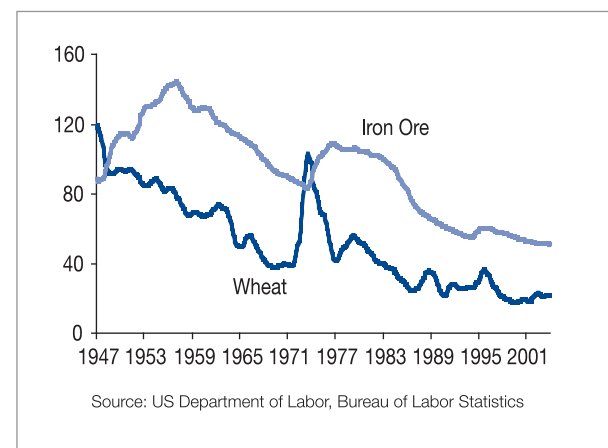
The bioeconomy

New market opportunities and developing technologies are driving development of the bioeconomy in Canada. Although growth of the bioeconomy is recently being driven by mandates for biofuel use, it has the potential to develop into a sector that can offer a much larger variety of products, including functional foods, nutraceuticals and pharmaceuticals. The continuation of technology development will be critical to the future growth of the bioeconomy.

Challenges ahead

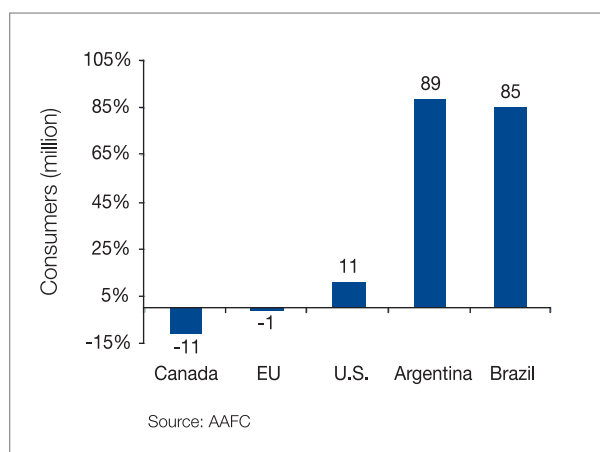
The sector faces challenges in global markets. Global competition coupled with technological change continues to expand supply and push commodity prices down. Advances in biotechnology and production technology have increased farm productivity. Other primary industries in Canada have experienced a similar downward trend in commodity prices. While subsidies are a factor in depressing agricultural prices, technological advancements and increased competition from low cost producers play a much larger role.

Figure 5: Hard red winter wheat and iron ore price indices, 1947-1950=100



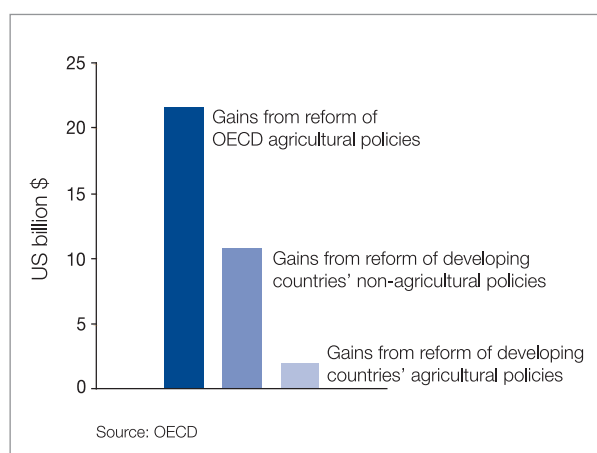
Competitive exporters like Brazil and Argentina are rapidly expanding production of bulk commodities, with low levels of government support. Brazil has surpassed U.S. production in oilseeds, despite high U.S. subsidies. Strategies that compete on price attributes will need to contend with the efficient low cost producers.

Figure 6: Growth in oilseed production, 1995-1997 to 2000-2003



Future potential benefits from trade will also come from reforming domestic policies. An OECD study shows that countries could benefit the most from their own reforms. OECD countries would receive over 90% of potential benefits from agricultural reform as a result of reforming their own policies. That analysis assumes a 50% expansion in tariff rate quotas and 50% reduction in all tariffs, export subsidies and domestic support.

Figure 7: Distribution of welfare gains to OECD countries from trade liberalization



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