

# Next Generation of Agriculture and Agri-Food Policy

Market Development and Trade under the  
Next Generation of Agriculture and  
Agri-Food Policy: A Discussion Paper



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

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# Market Development and Trade under the Next Generation of Agriculture and Agri-Food Policy: A Discussion Paper

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## 1. Introduction

This paper is one of a series of consultation documents designed to stimulate a dialogue amongst 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.

There are five thematic papers, covering the topics of: innovation and science; environment; food safety and quality; renewal; and market development and trade. These five areas largely reflect the structure of the existing Agricultural Policy Framework and it is hoped that stakeholders will also provide input on whether a different set of themes would work better in the future.

Additional consultation material includes:

- An overarching discussion paper meant to stimulate dialogue on the broad issues facing the sector and the overall direction of the agriculture and agri-food sector;
- A principles paper meant to stimulate dialogue on guidelines for developing the next generation of agriculture and agri-food policy;
- Consultation material on business risk management (BRM) programming; and
- A series of economic backgrounders.

Thank you for taking the time to review this paper. We welcome your input and ideas. Contact information is provided at the end of the paper.

## 2. Background

Canada's geographic and demographic situation allows Canada to have a large agricultural and agri-food production capacity but a relatively small, yet important domestic market. Growing domestic demand and ensuring stable and profitable access to foreign markets are therefore crucial for many elements of the agriculture and agri-food sector. In general, Canada is successful on this front as the primary agriculture sector exports 40% of its production. This is an increase from 32% during the 1986-1990 period (exports as a percentage of production for processing have increased to 20% from 12%, respectively). The same analysis on the United States (US) and the European Union (EU) indicates relatively flat and declining farm market receipts from exports. Similarly, close to 25% of processed production is exported.

Since the early 1990s, Canadian agricultural policy has shifted from subsidizing commodity competitiveness to a more market-driven approach. Agricultural and agri-food policy has been organized along the principles of market orientation, greater self-reliance and environmental sustainability.

Despite significant export growth, the sector is facing significant ongoing challenges:

- Continued trade actions from protectionist US interests;
- Increased pressure from emerging low-cost producers (e.g. Brazil) and highly subsidized competitors (e.g. US and EU);

- The proliferation of market access hurdles such as sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT);
- Changing consumer demands for products with specific characteristics;
- Increased environmental scrutiny.

The sector has recently been confronted with new challenges. Certain countries have implemented restrictions on some Canadian products. International import restrictions on Canadian cattle, beef and genetics followed the discovery of bovine spongiform encephalopathy (BSE) in 2003. US trade actions regarding hogs and wheat have had an impact on our international market share and investment confidence in Canada. The counter-terrorism security measures implemented following the events of September 11, 2001 have added another complication to trade with the US.

Market forces are also at play. The rising value of the Canadian dollar has reduced one of Canada's key competitive advantages in export markets (particularly in the US). In addition, escalating input costs, notably oil and electricity, are narrowing profit margins for all segments of the value chain. However, in addition to new challenges there are also new opportunities. Competitive advantages have been derived from greater productivity, cost-efficiency, innovation and value-added products. These opportunities have helped to offset negative impacts of changing domestic support for agriculture.

There is reason to be optimistic about international growth opportunities for Canadian agriculture and agri-food products. A recent study published by the American Farm Bureau Federation predicts world demand for food and agriculture products will double by 2050 as developing economies grow and the incomes of their middle class rise. Between 1996 and 2006, for example, the Chinese and Indian middle class grew by almost 300 million people. There have been similar middle class explosions in other developing economies such as Brazil, Mexico, Indonesia and Russia. Research suggests that as incomes increase from \$2 to \$10 per day in developing

economies, expenditures increase rapidly on a wide variety of foods. Consumers can afford to buy varying sources of protein such as meat and seafood. Also, as household purchases of refrigerators and ovens increase, so does the sale of value-added frozen products.

Canada's well respected reputation abroad presents another long-term opportunity for our agriculture and agri-food sector. Brand research in our top export markets reveals that Canada has an image as a trustworthy, environmentally-friendly and safe source of food. Indeed, our experience during the BSE and Avian Influenza crises supports this conclusion. Many of Canada's most important trading partners expressed confidence as they re-opened their markets to many beef and poultry products within months of the initial emergency.

Perhaps one of the sector's most significant long-term opportunities is the proximity and unique access our exporters have to the US market, the wealthiest economy in the world. Since 1994, Canada-US two-way agriculture and food trade has more than doubled, totalling \$32 billion in 2005. The success of this relationship stems from the fact that both countries share similar cultural and legal values and traditions. As neighbours, there is a longstanding and sophisticated relationship between Canadian and US communities and governments. Most problems can be resolved before they become formal political disputes. North American integration has helped many Canadian exporters offset the significant costs of competing in distant overseas markets, while consumers have gained from greater choice and a more stable supply of foods.

### 3. Current Policy and Programs

Despite the enormous potential that international markets offer Canadian farmers and agri-business, access to export markets can be affected by many factors. The sector must produce products that consumers at home and abroad are demanding. These products must be supplied in a manner that upholds the Canadian reputation

as a cost competitive, reliable supplier. Producers and others on the supply chain as well as governments all have a role to play in meeting these challenges.

The existing International Strategy consists of four integrated elements:

- Build markets and increase investment;
- Improve market access;
- Overcome technical barriers;
- Enhance international development and foster S&T linkages.

Agricultural Policy Framework (APF) activity in support of the International Strategy was largely tasked to Agriculture and Agri-Food Canada (AAFC). In this regard AAFC has worked closely with other government departments and agencies, as well as with the provinces. AAFC also has collaborated closely with the Department of Foreign Affairs and International Trade to advance market access objectives, to avoid and resolve technical barriers and to build markets abroad. AAFC has also strengthened linkages with the Canadian International Development Agency.

The Canada Agriculture and Food International Program (CAFI) is an industry-government cost-shared program designed to help agriculture and food exporters build long-term international strategies to respond to shifting consumer demands and global competition. Similarly, the Branding Canada initiative was developed in close partnership between industry and federal/provincial governments. It provides tools and resources to lever Canada's strong international image into sales and profile for Canadian food and agriculture products.

AAFC has placed a priority on:

- Negotiating market access agreements through the WTO;
- Monitoring implementation and observance of current trade agreement obligations; and,
- Advancing Canadian interests at international organizations and standard setting bodies.

APF funding was also directed toward the US Enhanced Representation Initiative and Trade Policy Advocacy program to assist with the representation and promotion of Canadian agriculture and agri-food interests in our most important export market.

Developing countries are becoming influential players in international fora because of their growing market potential. Under the APF, AAFC has worked closely with developing countries to advance mutual interests in these international fora. AAFC has also worked with developing countries to modernize areas of agricultural production, such as food safety and environmental stewardship. Canadian industry has in turn been able to capitalize on opportunities created by these modernization initiatives.

Under the APF, industry-led Value Chain Roundtables (VCRT) were created for the major agriculture commodity sectors in Canada. The roundtables bring together producers, processors, retailers and others to discuss issues and in some instances implement shared visions and national strategies for their commodity areas. Through this process, it has been possible to identify several key factors that have led to international success for Canada's soybean, pork, beef, BC salmon, special crops and value-added products (e.g. frozen French fries) sectors. These factors represent key lessons learned for international success that could be informative for the entire industry (Annex A elaborates on each factor).

Despite Canada's positive reputation in the food products area, international customers have also identified several shortcomings that are of concern. Notably, these international customers state that Canadian products do not stand-out on store shelves and are often not profitable. Furthermore, buyers and consumers did not view Canada as a technologically-advanced, economically strong country. Some individual sub-sectors have conducted further analysis to determine their capacity to deliver on their brand promise. For example, the Special Crops Value Chain

Round Table identified, amongst others, the following gaps:

- Limited timely information on new crop quality;
- Inadequate storage and transportation capacity (containers, ports);
- Establishment of consistent and well-formulated grading standards;
- The time and cost required for recognition of health claims.

The Special Crops sector experience is not unique. Many other sub-sectors are conducting similar analyses and are identifying the Canadian regulatory system and infrastructure (such as transportation and health claims) as impediments to enhancing market access and fulfilling their product commitments. Agriculture and agri-food policies as well as their associated regulatory implications will need to be examined to properly develop long term federal action plans to enable the value chain's success.

The capacity of the sector to exploit the domestic market is another concern. Approximately 75% of food consumed in Canada is of domestic origin. But maintaining and expanding domestic market share is increasingly challenging as imports place greater pressure on Canadian products. Many people within the sector complain that it is easier to sell their products internationally than in Canada. Moving certain commodities or products from one province to another is either against the law or is strictly regulated.

Furthermore, a number of product innovations (e.g. functional food, nutraceuticals, biofuels, and bioplastics) are not necessarily "export-ready" but nonetheless would benefit from economies of scale involving the entire Canadian marketplace to underwrite the investment.

#### 4. Considerations in Developing the Next Generation of Policy

Developing the next generation of market development and trade policy will be affected by a number of considerations. Foremost among these are the parallel policy development and consultation processes taking place in the areas of innovation and science, food safety, food quality and renewal. Fostering innovation within the industry is critical. An assessment of the regulatory impediments to innovations and market development will also be important. Food safety and quality are closely linked to market development and trade issues as discussed above.

Stakeholders have already shared a number of insights into the successes and challenges facing Canadian agriculture. In particular, stakeholders have proposed that Canada:

- Initiate "smart" regulatory reform and invest in critical national infrastructure in order to be a world class food innovator;
- Respond to consumer preferences and new markets with innovative products and processes;
- Negotiate more bilateral and regional free trade agreements, while continuing to advance progress at the WTO;
- Improve collaboration among and within FPT governments and value-chains.

##### Proposed Objectives and Policy Options

It is proposed that the Market Development and Trade objectives for the next generation of agriculture policy could build on the current International Strategy by:

- Making adjustments in the areas of marketing and branding (i.e. market intelligence), innovation, collaboration, investment and market access;
- Strengthening FPT and stakeholder collaboration regarding the domestic market;

- Identifying existing regulatory impediments and evaluating regulatory implications as policy is being developed.

Given this context, it is clear that the management of specific market development and trade issues will determine the success of the Canada's agricultural and agri-food sector at home and abroad. The next section provides options on how to address five of these issues.

## 5. Marketing and Branding

An effective marketing approach combines sophisticated international relationships with market intelligence. To this end, there may be a need for better government and industry market intelligence collaboration. More specifically, an effective intelligence feedback loop to guide domestic investments and brand development in product innovation and supply capacity may be helpful. Better after-sale service also may help to enhance Canada's image, which is often deficient in this regard.

The next generation of agriculture and agri-food policy could emphasize:

- Generating recognition of the quality and value of Canadian products in Canada;
- Developing national quality assurance standards that support commercial growth and new opportunities domestically and internationally;
- Improving government and industry market intelligence to inform domestic investments and product differentiation/innovation, both domestically and abroad;
- Supporting measures that improve after sale service;
- Developing smart regulations that support world class food product innovation;
- Building transportation systems that can cope with a global just in time mindset.

## 6. Innovation

Market forces are redefining the competitive model for Canadian industry. Innovative products, supported by science and R&D and informed by market intelligence, are required to meet the demands of emerging markets. Regulatory and infrastructure responsiveness to capitalize on these innovation opportunities is critical. Strategic alliances between global supply chain innovators and traditional agribusiness players are also required.

The next generation of agriculture and agri-food policy could emphasize:

- Better linking market information with our domestic investment/branding and regulatory reform efforts;
- Facilitating new industry partnerships that enable innovations to be identified and exploited.

## 7. Collaboration

Special attention should be paid to maintaining and building relationships between the agricultural and agri-food sector and the various levels of government. In this respect, the current value chain round tables (VCRTs) are good models. VCRTs can drive strategic thinking on major challenges and build consensus towards national and sector-wide responses (e.g. feed and traceability regulations).

The next generation of agriculture and agri-food policy could emphasize:

- Sector wide strategies that work for entire value chain;
- Using bilateral and multilateral foras to improve relationships and create strategic alliances;
- Working with departments and agencies to achieve international and domestic objectives (e.g. health, transport and the environment).

## 8. Investment

Strategic domestic investments could help maintain and capture new market opportunities and enhance the Canadian brand. These investments could also protect us from the severity of unexpected events (e.g. animal diseases, fluctuation in the Canadian dollar). Investments should be based upon market intelligence and foresight and consensus throughout the value chain. As an example, it is considered that the ongoing development of national systems in food safety and quality (FSQ) as well as in environmental sustainability will help differentiate products and maintain consumer confidence.

R & D spending on agriculture and food in Canada is low in comparison with other OECD countries. The reasons for this are unclear. Explanations range from regulatory constraints and access to capital to skilled labour availability. It is increasingly important that governments and industry understand the real reasons for this limited R&D. A better understanding of the preconditions that enable innovation is also required. This increased understanding is a prerequisite to governments and industry developing investment strategies to support innovation.

The next generation of agriculture and agri-food policy could place greater emphasis on:

- Assessing the reasons for limited R&D investment and understanding the preconditions for enabling innovation;
- Developing an innovation investment strategy for the agriculture and agri-food sector;
- Improving communication across the industry about product innovation and supply capacity to help guide domestic investments.

## 9. Market Access

The WTO is the international forum where disciplines on domestic support and export subsidies can be negotiated. However, negotiations have stalled and despite efforts to kickstart the discussions they may remain stalled for a time. While there is a need to reduce trade- and price-distorting subsidies, some research has nevertheless indicated that Canadian competitiveness is more affected by low-cost producers than by highly subsidized competition (from the US and the EU).

Many segments of the industry have raised concerns about the advantages gained by direct competitors in recent bilateral Free Trade Agreements (FTAs). Further discussion may be needed to determine whether the acceleration of FTA negotiations will allow Canada's agricultural and agri-food sector to reach its market access objectives.

One of the lessons learned from BSE is the importance of developing international standards on managing legitimate risks without unnecessarily inhibiting trade. Past experience has shown that convincing other countries to implement and follow these standards is a major challenge. BSE also demonstrated the importance of a close Canada-US regulatory relationship in order to maintain or restore market access.

Canada continues to defend its interests through formal diplomatic channels and international organizations. However, FPT officials and industry representatives are increasingly using policy advocacy to develop allies abroad who share Canadian interests. Developing countries are becoming influential players in international fora because of their growing productive capacity and market potential. Strengthening our capacity to lead policy dialogues with developing countries concerning regulatory frameworks and institution-building is essential.



Market access issues are becoming increasingly complicated because of their technical nature. Investing in our food safety and quality systems is key to reducing trade risks associated with increasingly rigorous import requirements. Generally speaking, value-added products face fewer obstacles than live animals and bulk commodities (e.g. beef products versus cows). Therefore, attracting investment into value-added production will not only create more wealth in Canada, but will also reduce the risks associated with exporting.

The next generation of agriculture and agri-food policy could emphasize:

- Reassessing Canada's trade policy approach;
- Influencing international standards in our favour through strategic partnerships and enhanced participation;
- Mirroring our US advocacy program with other key partners;
- Linking our international development activities to our market development and market access objectives.

## 10. Summary

The approach in the five areas outlined above differs somewhat from current policy in that it places more emphasis on the domestic market, market intelligence and differentiation, infrastructure and systems constraints that affect our brand, support to innovation and investment, collaboration, and marketing strategies to promote Canadian agri-food domestically and abroad.

## 11. Questions for Discussion

1. As a stakeholder, do you think that we are on the right track with the suggested approach?
2. Are there other issues and approaches that are not captured?
3. If you agree that we are on the right track, where would you put emphasis in the elements of strategy?
4. If you think that this is not the right approach, what should be the elements of our market development and trade strategy?

## ADDING YOUR VOICE TO THE DISCUSSION

Federal, provincial and territorial governments look forward to hearing from a wide variety of individuals and organizations, and to 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

## Annex A

### International Success Factors

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Success Factors	Example
Sophisticated marketing and branding approach linked with market intelligence	The special crops industry recently conducted branding and bench-marking analysis vis-à-vis main competitors in key markets. The objective was to identify strengths and deficiencies in its ability to keep its brand promise. This exercise has helped identify product deficiencies resulting from national regulatory and infrastructure gaps that government and industry must address in order to find success.
Product innovation	Canadian soybeans face considerable subsidized competition on the international market. In response, our soybean sector developed a tofu product to meet the specific demands of Japanese buyers and consumers thereby positioning itself in a lucrative niche market.
Strong value chain collaboration	Several sectors welcomed the opportunity to come together at value chain round tables to adopt national strategies in order to approach sector-wide opportunities and challenges.
Customer-responsive domestic investments	Canadian producers' investments in on-farm food safety programs such as <i>Canadian Quality Assurance</i> .
Capitalized on market access	After successive countervailing and anti-dumping trade actions by US protectionist interests, the Canadian pork industry resisted temptation to focus all its efforts on the lucrative US market and instead diversified to secure access in other markets. In 2005, the US accounted for 38% of exports compared to 80% in 1990. Total pork exports grew by 287% during the same period.



