

**AGRICULTURE: THE POLICY AGENDA**

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N.B. Any substantive changes in this publication which have been made since the preceding issue are indicated in **bold print**.

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## AGRICULTURE: THE POLICY AGENDA\*

### ISSUE DEFINITION

In 1989, on the eve of the decade ushering in a new century, the Canadian government launched a major review of the agriculture sector to identify which policy instruments would best respond to the market, health and environmental challenges facing the agri-food industry during a period of rapid change.

The review provided an opportunity for a working partnership of farmers, processors, suppliers, consumers, and government to create a strategic plan to take a viable agriculture sector into the twenty-first century. The federal government established 11 Task forces composed of members of these groups, which, over a period of 18 months, met to consult and develop policy options. By 1991, they had presented their reports to federal and provincial ministers and the process of translating recommendations into action began.

As a result, the 1990s have been characterized by reduction of trade barriers and the introduction of cost recovery, user pay, and a greater role for the private sector. The government that came to power in the fall of 1993 continued these practices and the emphasis on improving Canada's international competitive position. The emerging Liberal vision is of a market-oriented, environmentally sustainable agriculture that is less dependent on government support and more responsive to the changing food and non-food needs of domestic and international customers.

The purpose of this Current Issue Review is to monitor federal agricultural policy as it evolves, bearing in mind its principal objective of ensuring that the agriculture sector will remain viable as it responds to the new liberalized global trading environment.

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\* The original version of this Current Issue Review was published in February 1994; the paper has been regularly updated since that time.

## BACKGROUND AND ANALYSIS

### A. Overview

The agri-food industry is an important source of wealth to this country, representing 8% of Gross Domestic Product and 15% of total Canadian employment. Environmental and climatic variations across Canada contribute to an agriculture that is essentially regional. Eastern agriculture is diversified into livestock, dairy, grain and special crops and concentrates on serving the domestic market. In the west, grain monoculture developed for the export market predominates, especially in the Prairies. Over one third of agricultural receipts are derived from such exports, which have expanded as a result of new technological developments for increasing food efficiency. Overall, agricultural productivity almost doubled between 1961 and 1984; for example, grain yields increased from 1.5 tonnes per hectare to 2.2 tonnes per hectare, and one farm worker is now capable of providing food for more than 100 people.

Canada, as a small player in the international marketplace, is much more vulnerable to the international environment than are larger and less dependent nations or blocs such as the U.S. or the European Community. Though families continue to operate 98% of all farms, suggesting the marked resilience of the family farm as it adjusts to changeable economic, weather and market conditions, the high debt, drought and trade wars of the 1980s brought about significant structural change in the agricultural sector. On the one hand, farm numbers continued a 50-year decline, though at a much slower rate than in the 1950s and 1960s; they went from a peak of 730,000 in 1941 to the level of 280,000 recorded in the 1991 Census. On the other hand, farm size grew; farms with sales of over \$50,000 just about doubled between 1971 and 1986 and by 1991 represented 42% of all farms, accounting for 86% of sales.

These factors have contributed to instability in the sector and a corresponding reduced efficiency. Governments at both federal and provincial levels have felt the need to respond to the difficulties that farmers experience from time to time. Between 1984 and 1992, governments contributed \$22.4 billion to assist farm income, yet a comparable level of agricultural debt during this period did not decline. For their part, countries around the world, particularly the highly industrialized countries, have been raising subsidy levels in order to keep their own agriculture competitive. The 24 member countries of the OECD (Organisation for Economic Co-operation and Development) spent \$321 billion in 1991 in support of agriculture. Now, all these countries,

including Canada, find they must re-evaluate their assistance policies in light of global trade liberalization.

Many consumers here begrudge farmers this government support; even so, they expect a broad selection of high quality food to be available all-year round. Canadian consumers are indeed fortunate in having among the highest quality, widest selection and most reasonably priced food in the world. Relative to income, we have the second-lowest food costs after the U.S. (This average, of course, masks disparities in the purchasing power of individuals). The former Minister of Agriculture stated in June 1993 that a society measures its standard of living by the price of its food. In other words, when one spends only about 10% of disposable income on food, 90% is left to spend on better education, good health care or recreation and so on. Moreover, without a healthy food sector, Canada would be very vulnerable to the food policies and politics of other countries.

Our good fortune is not necessarily widely recognized. A recent U.S. nationwide survey revealed that 49% of the respondents did not know that white bread contained wheat. Very few people realize how few cents of the price of a loaf of bread go to farmers, who have supplied the grain. During the 1980s, increases in retail prices almost tripled those in farm prices. For instance, the spread between the farmer and store prices for milk was 37 cents a litre in 1980 but 91 cents in 1990. City dwellers seem not to understand that consumers have a stake in ensuring that the food producers who contribute to our advantages receive a living wage. Whereas 60% of farms in Saskatchewan, a primarily agricultural province, produce enough to live on, 40% require off-farm income to survive.

The ability of our farmers to continue to produce the type of food we take for granted is also threatened by urban sprawl; the best agricultural land in Canada is being paved over to expand our cities. Despite efforts on the part of provinces to protect agricultural land from development and rural life from invidious stereotypes, agriculture continues to lose both land and farmers. According to Statistics Canada, of the generation born between 1961 and 1971, fewer than 7,000 are choosing to go into farming.

Producing reasonably priced food creates financial stress for farmers, forcing them to plant more on marginal land in order to survive economically. This in turn, has an adverse effect on conservation of land, as discussed in Current Issue Review 87-8, *Agricultural Soil Conservation: Federal Policy*. In spite of the enormous pressures to feed an expanding global population, future production will have to come from a diminishing supply of farmland.

Nevertheless, the agri-food industry has gradually emerged from the doldrums of the 1980s. For example, the value of Canadian agri-food exports increased from \$13 billion in 1993 to \$22 billion in 1997. The objective of \$20 billion in exports by the year 2000, set by the industry in 1993, was achieved as early as 1996. The agri-food industry's export role is thus obvious, and the Canadian Agri-Food Marketing Council (CAMC) has set a new objective: to increase Canada's share of world agri-food trade from 3% to 4% (that is, from \$22 billion to \$40 billion) by 2005.

From this perspective, government measures for sustaining agricultural production, such as farm income stabilization and funding for research and other initiatives, are an investment whose benefits must be shared by the entire industry, including producers, processors and consumers. The following sections of this paper will examine some fields in which the government has taken action to implement its agricultural policy.

## B. The Role of Government Intervention in Agricultural Policy

### 1. Evolving Departmental Structure

Over the past 10 years, the role of Agriculture and Agri-Food Canada (AAC), the Department responsible for promoting the growth of Canada's agri-food industry and the main lever of government intervention in this industry, has changed from improving and maintaining productivity to increasing competitiveness. Policy objectives in the mid 1980s were to ensure supply; to allow producers, processors, and distributors to earn more income from their activities; to make the marketing system more effective; and to increase the economic viability of the industry. The present policy objective is to ensure the industry's viability in a context of freer trade.

This policy shift became clear in July 1993 with the creation of AAC's Market and Industry Services Branch, the purpose of which is to strengthen the industry's competitiveness and help it obtain a larger share of domestic and international markets, and the Department's name change from Agriculture Canada to Agriculture and Agri-Food Canada, a reflection of the government's desire to emphasize the production of food products of all kinds, not only primary products.

In addition to the reorganization of the Department over the past 15 years, the following changes have been made in order to increase effectiveness and reduce overlap:

- the International Agri-Food Trade Service (IATS) was set up in June 1995. It provides the industry with access to federal trade and market development programs; and
- the Canadian Food Inspection Agency (CFIA) was set up in 1997. This comprehensive agency combines the food inspection activities previously carried out by AAC, Health Canada, and Fisheries and Oceans Canada.

Since 1998, AAC has had a performance framework to help it achieve departmental objectives and better analyze the results. As part of this framework, four main activity groups were defined:

- expanding markets;
- innovating for a sustainable future;
- building a strong foundation for the industry and rural communities; and
- providing departmental policies and services.

Budget envelopes are now allocated to the various AAC directorates according to their administrative relation to these four activity groups. The first three activity groups define AAC's objectives for making the industry competitive and market-responsive, less dependent on government assistance, and able to compete internationally. Budget cuts at AAC, from \$2.86 billion in 1992-93 to \$1.6 billion in 1998-99, have reduced government assistance, and AAC now emphasizes the growth and financial security of the industry.

As a result, AAC has drawn up market development programs and negotiated trade agreements such as the 1992 GATT negotiations, in order to improve trade. Research has also been reorganized, in particular by reassigning resources to shared-cost research projects carried out by the industry. Research focuses on developing sustainable agricultural practices and value-added food and non-food products.

The next two sections will examine the farm income stabilization system and support for specific industry sectors.



## 2. Farm Income Stabilization

Budget cuts at AAC have reduced government assistance to the industry as follows:

- western grain transportation assistance of \$560 million was eliminated in 1995, thus terminating export subsidies for grains and oilseeds;
- eastern feed freight assistance was also eliminated, with compensation; and
- dairy assistance is being gradually eliminated, starting on 1 February 1998; it is to disappear by 2003.

As a result, farm income support measures are moving increasingly from price support to income stabilization: mainly to achieve a trade-neutral, production-neutral safety net for all farms, and protection such as crop insurance against production risks. Supply-managed products, however, are subject to a special policy.

In December 1994, after a year of consultation with industry associations, the federal and provincial governments defined a new farm income stabilization system. Unlike price support measures, this system was designed so that it would not influence management practices or production decisions and would be compatible with the rules governing international trade. It operates on the basis of federal-provincial agreements and has three components:

- an income stabilization program for all farms. The Net Income Stabilization Account (NISA) is an option that makes it possible to stabilize income over time. Individual producers can deposit money each year into a personal account, and receive contributions from the federal government and the appropriate provincial government in return. Deposits earn a 3% interest bonus, over and above competitive rates. Earnings accumulate in the account; individual producers can withdraw money during low-income years. The provinces define eligible farm products: usually any products except those that are supply-managed, such as dairy products, poultry, and eggs;
- provincial crop insurance programs; and
- provincial income stabilization programs.

In December 1997, AAC announced a review of the farm income stabilization system. The framework agreement for this system was discussed at the July 1998 federal-provincial-territorial Ministers' conference. The Ministers decided to extend the present

financial assistance agreements for one year, until March 2000; discussed objectives and principles that should form the basis for a new framework agreement; and decided that a five-year framework agreement should be developed. They agreed that the system should allow stabilization of income within a framework that generally promoted better risk management and asked officials to follow an intensive work plan in order to settle disputes before their March 1999 meeting. The Ministers intend to sign the new framework agreement at their next annual conference, to be held in the summer of 1999.

In addition to the farm income stabilization system, the *Canada Grain Act*, which applies only to the four western provinces, requires grain dealers to obtain a licence and to give securities, to be used to reimburse producers if the dealers fail to pay or go bankrupt. In December 1997, Bill C-26 was tabled in the House of Commons. It proposed amending the *Canada Grain Act* to allow licensing and the giving of securities to be separated in the case of special crops. The inability to separate the two functions had long been perceived as the main block to setting up an insurance system for special crops in western Canada. The bill also proposed that the Canadian Grain Commission be allowed to administer a voluntary insurance system for this sector. After being passed by both the House of Commons and the Senate, Bill C-26 received Royal Assent on 18 June 1998.

**With the collapse of world commodity prices, net farm income dropped significantly in 1997, as was confirmed by recent Statistics Canada data on farm income for the first three quarters of 1998 and AAC projections indicating decreases in net farm income of 69.2% in Manitoba and 72.2% in Saskatchewan. In response to this crisis, in December 1998 the Minister of Agriculture and Agri-Food announced a comprehensive federal program to provide \$900 million in financial assistance to producers over two years. Of this Agricultural Income Disaster Assistance Program (AIDA Program), 40% is to be jointly funded by the provinces, thus bringing total assistance to \$1.5 billion. The AIDA Program's comprehensive approach covers all commodities. Payments are to be calculated using the gross operating margin (sales less variable expenditures) and a reference margin (the previous three years). The AIDA Program is linked to other income security programs, and AAC's 1999-2000 Estimates note the possibility of making the AIDA Program an element of long-term income protection.**

### 3. Support for Specific Industry Sectors

There are support agencies for specific types of products: the Canadian Wheat Board for grains in western Canada, and supply management boards for dairy products, poultry, and eggs. These agencies, which were set up according to policies that pre-date those now in place, have been retained mainly because Canada considers that they do not distort international markets.

#### a. The Canadian Wheat Board (CWB)

The former multiplicity of buyers and sellers on the world's grain markets has been largely replaced by a handful of national agencies and Canada relies on the Canadian Wheat Board (CWB) as a single-desk seller to market its grain. While the volume of the world grain trade has expanded over the past 50 years during the Board's period of operation, the number of players has been decreasing. By the early 1980s, the people who control 75% of the selling and buying in the world could be accommodated in one small room.

The Board's validity as a policy instrument has always been a subject of controversy. Born as an emergency expedient to meet an unparalleled combination of economic and environmental disasters in western Canada, the Board was at best an unwanted child in the eyes of its political fathers. First in 1917 for the war period, and then again in 1935, the government established the Board to ensure the orderly sale of grain under difficult conditions. In its original form, it was a compromise tool for increasing returns and stabilizing income, and was based on voluntary participation. In 1943, when agriculture and the supply of food to Canada's allies once again became an important national goal, farmers' participation in the Wheat Board became compulsory.

In 1949, the Board also became the sole marketing agency for oats and barley. Oats were removed from Board jurisdiction on 1 August 1989 and barley bound for the U.S. was removed on 1 August 1993. The latter order-in-council decision was dismissed by the Federal Court on 10 September within 10 days of its date of application, on the grounds that such a change could be made only through legislation passed by Parliament, not by Cabinet order. The challenge came from Prairie Pools Inc., who argued that the Wheat Board's orderly marketing powers were too historic and fundamentally important to be arbitrarily altered by Cabinet decree. Producers called for a plebiscite on the issue, since there had been indications that a solid majority of growers

opposed the barley move. On 20 November 1993, the new Liberal government announced it was dropping a court appeal of the 10 September decision initiated by the out-going Conservative government.

The Board's chief mandate is to market wheat grown in western Canada in the best interests of western Canada's grain producers. The designated area includes the three Prairie provinces and small parts of British Columbia. The Board is the sole marketing agency for export wheat and barley and the main supplier of these grains for human consumption in Canada. Canadian feed grains for domestic consumption can be marketed either through the Board or directly to grain companies. The Board falls under the definition of a Crown corporation as defined in the *Financial Administration Act*. It is a large grain marketing agency, with sales between \$3 and \$6 billion.

The Board is administered by a Chief Commissioner, an Assistant Chief Commissioner, and three other Commissioners. All costs of Board operations are paid for by western grain producers. An Advisory Committee, elected from this producer group, advises the Board on policy. In October 1990, a Review Panel released its report on the challenges and opportunities facing the Board in the 1990s and beyond. As well as looking at marketing, transporting and handling grain, the Review Panel recommended that the Board relinquish its five-person team of politically appointed Commissioners in favour of a corporate structure made up of a President and Vice-President chosen by a part-time Board of Directors. Farmers would hold a majority on the Board of Directors, which would also include industry and government people. A corporate structure would purportedly make the CWB more accountable to its shareholders, the farmers of Canada, while the chief executive officer would be free to operate the day-to-day running of the Board. Though some of the Panel's recommendations have been implemented, those relating to corporate structure have not.

Through the operations of the Board and its pool accounts, Prairie grain farmers are paid a value for their grain that reflects overall market conditions, rather than the day-to-day fluctuations of international trade. The CWB administers the government-guaranteed initial prices paid to producers and operates a system of annual averaging (pooling) of producers' prices. The Board keeps separate accounts, or pools, by crop year for each grain it markets. As soon as the Board receives payment in full for all grain delivered to it by producers during any pool period, it determines the surplus in each pool after all marketing costs are deducted; this surplus is distributed as a final payment on the basis of producer deliveries to that pool. If a deficit occurs, the *Canadian*

*Wheat Board Act* states that losses shall be paid out of moneys provided by Parliament. The Governor in Council designates a member of the Cabinet to act as Minister for the purposes of the Act.

The Board uses the primary elevator companies located in grain-producing areas across western Canada to accept delivery of grain from producers, to make an initial payment, and to store, handle and ship Board grain as required. The Board generally does not own or operate physical marketing facilities but uses various grain-handling and marketing companies as agents to buy, handle, and sometimes sell grain on its behalf. The Board sells to state trading agencies or to international grain companies. For their part, customers from 70 countries are provided with a large variety of sales and delivery options. The overall marketing strategy of the CWB can best be characterized by its objective, which is to ensure that the kinds and quantities of grain needed to meet sales commitments are delivered where and when required.

The controversy over whether the Board should continue to market barley to the U.S. is only one of the questions being asked about the role of the Board as a single-desk marketing agency. Since the advent of the Canada-U.S. Free Trade Agreement of 1989 (FTA), the U.S. government has alleged that certain Canadian exports are violating the agreement; these include hogs, softwood lumber, cattle and durum wheat. The binational trade adjudicating panel absolved the Board in February 1993 from dumping durum across the U.S. border, but recommended an annual confidential audit of Board selling practices. Despite this finding, the North Dakota Wheat Commission continued to use its bargaining power within the context of NAFTA (the North American Free Trade Agreement) signed in January 1994, to lobby for trade sanctions against Canadian durum imports. Late in 1993, it accused the CWB of using “liberal freight subsidies and predatory pricing practices” to gain unfair trading advantages. According to Canadian industry officials, their American sales have increased because the U.S. is exporting large volumes under its Export Enhancement Program, thus depriving domestic processors of the durum they need to make pasta, and creating a premium market for top quality Canadian durum. In mid-January 1994, President Clinton ordered the International Trade Commission to conduct a study of Canada’s durum trade practices, to be finished within six months. Canada exported 708,000 tonnes of its total 2.25 million tonnes of durum to the U.S. during the 1992-93 crop year.

The results of the first independent audit of the CWB for the period 1 January 1989 to 31 July 1992 were released on 10 March 1994. Of the 105 contracts for durum wheat sales completed, only three were found not to be in compliance with Article 701.3 of the FTA. Article

701.3 requires that the CWB will not sell durum wheat to the U.S. below the acquisition price of the goods, plus any storage, handling or other costs it has incurred with respect to these goods.

On 22 April 1994, the U.S. notified the GATT (General Agreement on Tariffs and Trade) Secretariat of its intention to renegotiate tariffs on wheat and barley under Article 28. The U.S. must wait 90 days after signaling its intent to impose new tariffs on durum wheat, after which Canada is free to cut off exports of U.S. exports of equal value. Possible targets are U.S. wine, pasta and breakfast cereals. The Canadian dairy and poultry industries have expressed concerns that the supply management system may be threatened by efforts to placate the wheat states.

Under the terms of a bilateral agreement with Canada, reached 1 August 1994, the U.S. said it would not pursue renegotiation under Article 28, thus avoiding a potential food trade war. The agreement, valid to 12 September 1995, imposed punitive tariffs on wheat exports to the U.S. above 1.5 million tonnes; a record-setting amount of 2.5 million tonnes was shipped south in 1993-94. The deal did not affect the 400,000 tonnes of barley, semolina and wheat, mostly from Quebec and Ontario, not handled by the Canadian Wheat Board. A Canada-U.S. joint "blue ribbon" commission, established in September 1994, had a year to study the dispute and half a year to make preliminary recommendations.

On 22 June 1995, the Canada-U.S. Joint Commission on Grains released its interim report, in which it recommended the elimination of discretionary pricing policies in both countries. This would mean ending the U.S. Export Enhancement Program and having the CWB operate "more at risk of profit or loss in the marketplace," with greater transparency in its pricing methods. The CWB's price-pooling practices were said to be undercutting prices, even though its mandate is to operate in a business-like manner and to sell wheat for no less than market value. The Commission recommended allowing producers to decide for themselves whether to participate in Canadian wheat and barley pools.

The final report of 11 September 1995 elaborated on the operation of the two grain marketing systems and recommended the establishment of a Consultative Committee to address short-term cross-border issues.

Critics of the CWB claim there is a need for more transparency in Board dealings and for farmers to have fair pricing options. In March 1992 the Board adjusted its pooling system to allow farmers to truck their grain directly to U.S. export markets, rather than through the elevator system; however, it vehemently opposed giving up its monopoly role in the marketing of barley to U.S. customers. Supporters of the Board see U.S. pressure since the Free Trade Agreement as

responsible for moves to reduce the marketing powers of the Board. In their view, the government guarantees on initial prices and central desk selling are the two pillars that allow the Board to net higher returns to Prairie farmers.

Memories of the battle to create the Board out of the chaos and weakness of the free market of the 1920s and 1930s are now dim. Progressive farmers are no longer necessarily those who see strength in cooperative action; the young generation of commercial farmers show evidence of preferring to substitute individual management skills for collective approaches. It is clear that the formerly unchallenged position of the Board is becoming a subject of controversy in the freer trading environment of the 1990s. Individual farmers have been defying the Board's role and marketing their grain to the U.S themselves. In response, on 17 May 1996 Cabinet approved an order requiring wheat and barley exporters to show an export permit from the Canadian Wheat Board at the U.S. border.

In an attempt to end the acrimony over how wheat and barley are sold, in 1995 Minister Goodale appointed a nine-member Western Grain Marketing Panel to look at all aspects of Canadian grain marketing, including the CWB monopoly. On 9 July 1996, he released the findings of the year-long study. The Panel suggested allowing a quarter of western Canada's annual \$5-billion wheat crop to be sold at market prices, along with 100% of the \$250-million feed-barley crop. The Board would remain the sole buyer of both categories of wheat, paying either the current spot price or the average pooled price as the grower chose. Proposed amendments to the *Canadian Wheat Board Act* would, as suggested in an earlier study, make the Board operate more like a private company with an elected Board of Directors. The findings do not seem to have resolved differences in the farm community over the role of the CWB. The Minister intends to consult farmers on the recommendations before implementing any change to the CWB's mandate.

In December 1996, the government tabled amendments to the *Canadian Wheat Board Act*. Under Bill C-72, the CWB would have become a mixed-economy agency headed by a full-time President (CEO) and a Board of part-time Directors. Any changes to the CWB's monopoly on the marketing of wheat and barley would have been subject to an order and a vote among producers.

Before receiving second reading, in February 1997 Bill C-72 was referred to the Standing Committee of the House of Commons on Agriculture and Agri-Food. The Committee

heard approximately 100 witnesses and made major amendments to the bill, particularly with respect to CWB matters. On 16 April 1997, the Committee reported the bill with amendments to the House and recommended that 10 Directors be elected by producers. Other amendments would have increased the Board's powers, altered the status of the CWB and changed the function of the contingency fund. Bill C-72 died on the Order Paper when Parliament was dissolved and a general election called in April 1997.

In September 1997, Bill C-4, An Act to amend the Canadian Wheat Board Act and to make consequential amendments to other Acts, was given first reading in the House of Commons. In October 1997, before being given second reading, it was referred to the Standing Committee of the House of Commons on Agriculture and Agri-Food. Bill C-4 was based on Bill C-72 as amended by the Committee in April 1997, with some additional technical amendments (see Legislative Summary LS-292E). The most important amendments dealt with the appointment of the Chairperson of the Board by the Board itself, and the possibility of extending CWB jurisdiction to other types of grain under certain conditions. The Committee made several other amendments to the bill, one of which was that only producer associations could write to the Minister requesting that CWB jurisdiction be extended to their type of grain. The Committee reported the bill with these amendments to the House on 7 November 1997.

From 24 March to 2 April 1998, the Standing Senate Committee on Agriculture and Forestry held public hearings in Brandon, Regina, Saskatoon, Calgary, Edmonton, and Winnipeg. It heard from 92 producers, 34 producer organizations, and three provincial Ministers of Agriculture. In Ottawa, it also heard from the Minister responsible for the CWB and representatives of the CWB and AAC. In its Report, tabled in the Senate on 14 May 1998, the Committee made the following recommendations:

- the CWB Board should be consulted about the appointment of its Chairperson;
- the Auditor General of Canada should be authorized to audit the CWB; and
- the clauses on including and excluding grains from CWB jurisdiction should be eliminated.

The Senate Committee also recommended that electoral districts be defined for electing producers to the Board, so that five Directors would come from Saskatchewan, three from Alberta, and two from Manitoba; that each permit book holder have a vote; that the



contingency fund have a \$30-million ceiling; and that separate accounts be created for each of the three activities covered by the contingency fund: guaranteeing adjustments to initial payments; providing for potential losses from early pool cashouts; and providing for potential losses from cash trading.

Bill C-4 received Royal Assent on 11 June 1998. **The new CWB structure has been in place since the fall of 1998. A President and CEO now oversees day-to-day activities, while a Board of Directors is responsible for CWB strategy. Of the 25 Directors, 10 are elected producers; five, including the President and CEO, are government appointees.**

b. National Supply Management Agencies

Another means of responding to difficulties in balancing supply and demand has been the establishment of supply management systems. These first become evident with the scientific industrialization of the poultry industry. Rapid technological advances in the 1950s and 1960s caused a dramatic reduction in cost of production, an increase in output, a fall in real prices, and extensive structural and organizational changes in a more competitive economic climate. Sustained low prices and cyclical price fluctuations throughout the 1960s favoured economies of scale, forcing small chicken and egg producers out of the market. Prices tended to be set by U.S. companies, whose vertically integrated poultry production system of ownership by feed companies and processors made them more competitive. Contractual arrangements south of the border paid fees to farmers for services provided and reflected disparities in the bargaining power of producers and integrators.

In response, individual provinces established provincial marketing boards to stabilize price, production or both. By the 1970s, it became evident, however, that only a national system of supply management could coordinate production with demand and prevent uncontrolled flows of product from the U.S. or other provinces. *The Farm Products Marketing Agencies Act*, establishing supply management, came into effect in 1972. The Act created the National Farm Products Marketing Council to advise the federal Minister of Agriculture on the operation of marketing agencies so as to promote an efficient agricultural industry. Over the next several years, national agencies were created for eggs, turkey and chicken. They functioned as federations of the provincial marketing boards, which represented a majority of producers. Their role was to establish national quotas based on market need, allocate these to the provinces and set administration levies

and penalties for over- and under-production. The provincial boards for their part allocated quotas to individual producers and enforced these within the province by imposing a penalty if production exceeded quota by more than 1%. These boards exercised control over who might participate in production by establishing the maximum size of individual production units and rules applying to quota retention and transfer.

The system of quota allocation has allowed Canadian processors to purchase a small portion of Canadian requirements from foreign producers. Since the signing of the Canada-U.S. Free Trade Agreement in October 1987, the permitted level for chicken imports has stood at 7.5% of domestic consumption and for turkey at 3.7%. Despite the fact that this is about a one percentage point increase over past practice, Canadian food processors have complained that product is not available when and where it is needed and at a competitive price. It is claimed that in the U.S. where the chicks, feed, and technical inputs are under their control, processors can schedule the volume and timing of birds coming to the plant. Growers are paid a pre-determined fee for the management and use of their facilities but, unlike Canadian growers, have no bargaining power in price determination by means of negotiations with the processing sector.

The supply-management system was supposed to allow industry-wide input into the quota-setting process for each time period and in each province. Its supporters consider supply management has protected small farming operations from the type of vertical integration that has come about in the U.S. industry and has ensured a reasonable return on labour, management and investment to Canadian farmers. Supporters of supply management see it as injecting stability into the marketplace. Its critics, however, see it as an inflexible monopolistic regulatory system, incapable of responding to regional, consumer or technology changes affecting market demand or production costs, and often reflecting prices above the cost of the most efficient producer.

Under the Canada-U.S. Free Trade Agreement, tariffs will disappear over a ten year period. The phase-out period for tariffs under NAFTA is five years.

Protection for supply management had come through direct reference to GATT Article XI and its provisions permitting import restrictions to uphold supply management. As the seven-year-old Uruguay Round - with its agricultural emphasis on converting all external controls to tariffs - drew to a close, Canada became increasingly isolated in its support of a clarified and strengthened Article XI, as the EC, Norway, Israel, Switzerland, Japan and Korea abandoned their backing. Canada's stand on supply management was not helped by the fact that its goal for market-driven commodities such as grain and meat was totally different; for those commodities it

wanted to see a reduction in all export subsidies. Under the new GATT/WTO (World Trade Organization) regime agreed to in December 1993 and signed 15 April 1994, border import quotas were to be replaced in 1995 by border tariffs of up to 300%, to be reduced by only 15% over six years. The government takes the view that GATT/WTO rules prevail over any FTA or NAFTA rules, whereas the U.S. considers that the new GATT/WTO regime violates NAFTA (which bars new tariffs and promises to get rid of all existing tariffs by 1998).

In light of the GATT agreement, Canadian and U.S. negotiators have been trying to find common ground on such issues as processed food products, including yogurt and ice cream. The U.S. wants to eliminate the proposed tariffs over six years while Canada is proposing lowering tariffs by 36% over six years and eliminating them only over another four. One U.S. source has said that the U.S. would probably agree to a 10-year phase-out of ice cream and yogurt tariffs if the proposed tariffs on all supply-managed farm products, including eggs, chicken, cheese and other dairy products, were to follow the same schedule. Canadian negotiators have offered to exchange 5% of market access to dairy products for 3% of the U.S. market.

On 17 July 1995, the U.S. requested a review by a binational panel on the imposition of tariff equivalents under chapter 20 of NAFTA. Canadian producers are concerned that the loss of protective tariffs could mean an end to supply management, with U.S. dairy giants undermining Canadian prices and taking domestic market share. On 26 February 1996, Canada tabled its defence of supply management tariffs imposed in the previous year to comply with the new world trade rules. An interim ruling on the dispute, released in July, upheld the right of Canada's 32,000 supply management producers to maintain high border tariffs indefinitely, regardless of NAFTA provisions.

The relationship of supply management to the Uruguay GATT Round is explored in Current Issue Revue 89-7E, *GATT, the Eleventh Hour for Article XI*. Suffice it to say that the future of marketing boards has become uncertain, even though in Canada's view, they do not disrupt or distort international trade in any way. Pressure has been growing on marketing boards to become less protectionist and more market responsive. Much of the pressure is coming from poultry processors, who report that raw product under supply management is 25% more expensive for them than for their American counterparts. Once tariffs under the FTA are gone, they fear they will not be able to compete with less costly American products, which also benefit from other cost and tax advantages.

Supply management was one of the first areas to come under scrutiny in the Agri-Food Policy Review announced in December 1989. Industry-government task forces issued reports on dairy and on poultry, which were reviewed at the Meeting of Agricultural Ministers of July 1991. A steering committee was established to draw up an action plan to implement the recommendations of the two task forces. Eleven guidelines defined “a second generation” supply management that would be more flexible in structure and operation and more sensitive to competition and the marketplace. Since that time, the Annual Reports of the various supply management agencies reflect their attempts to introduce such marketing systems. Agriculture and Agri-Food Canada designated an Assistant Deputy Minister to be solely responsible for National Marketing Systems. The government appointed a five-member Task Force to report on changes needed to make marketing boards conform to the new GATT/WTO agreement. The Task Force was headed by Lyle Vanclief, Parliamentary Secretary to the Minister of Agriculture.

On 23 March 1994, the Task Force released its agenda for action. Five commodity committees comprising all interested parties were to review national plans, allocation formulas, compliance mechanisms and so on, for the dairy, chicken, broiler hatching eggs, turkey and egg industries, as they were to work under the new GATT/WTO trade sales.

At present, supply management is being questioned, both by government and by some producers, even in supply-managed sectors. At issue is finding a balance between the wish to grow through expanded exports and the maintenance of some production stability in order to ensure higher prices for producers. Canada’s dual-pricing approach, which has one price for domestic sales and another, lower price for exports, is far from having unanimous support among Canada’s trading partners. The government nevertheless maintains that the present supply management system does not distort international markets. It is also seeking ways to help the industry develop a long-term strategy for exporting value-added products.

**The United States and New Zealand, arguing that the current dual-pricing system for dairy products constitutes an export subsidy, lodged a complaint with the WTO Dispute Settlement Body. In March 1999, a WTO panel ruled that Canada was violating its obligations under the 1994 agriculture agreement by providing export subsidies to its dairy industry. The government announced that it intended to appeal the decision, arguing that dual pricing did not affect supply management itself.**

## PARLIAMENTARY ACTION

The subject of GATT and supply management was allotted discussion under Standing Order 81 on 12 February 1992, in response to the move by the Secretary General of GATT, Mr. Dunkel, in favour of tariffication. Parliament passed a motion supporting Article XI and supply management.

A more general debate was held under the same Standing Order on 9 February 1993; it included references to GATT and to the role of the Canadian Wheat Board in marketing barley to the U.S.

Following hearings in the fall of 1992, the Standing Committee on Finance issued the report of its sub-committee on regulations and competitiveness in January 1993. The sub-committee had been asked in the budget announcement of February 1992 to assist in reviewing the federal regulatory process and its impact on competitiveness. Recommendations were made in relation to the departments of Agriculture, Consumer and Corporate Affairs and Transportation.

Following hearings in the fall of 1994, the House of Commons Standing Committee on Agriculture and Agri-Food released a report on its priorities for the future of agriculture. It stressed the need for keeping research and regulation to ensure an innovative and safe food system.

The Standing Committee has always been very active in monitoring the annual departmental Estimates. In 1996-97, the Estimates were used as a pilot document in the Treasury Board's *Improved Reporting to Parliament* project, one of whose principal goals was to significantly enhance Parliament's ability to understand and influence departmental expenditure plans. The Committee found the new format less "user-friendly" but acknowledged that it included additional useful information on proposed AAFC activities. The Committee expressed concern about introducing program changes without adequately documenting the financial implications. "User fees" were cited as an example of inadequate documenting of the potential cumulative impact on Canadian farmers, particularly as implementation of these fees might affect farmers' ability to compete internationally.

During the 36th Parliament (1997-98), Parliament considered the following bills:

- Bill C-4, An Act to amend the Canadian Wheat Board Act and to make consequential amendments to other Acts; and
- Bill C-26, An Act to amend the Canada Grains Act and the Agriculture and Agri-Food Administrative Monetary Penalties Act and to repeal the Grain Futures Act.

Bills C-4 and C-26 received Royal Assent on 11 and 18 June 1998 respectively.

**In the fall of 1998, the Standing Committee of the House of Commons on Agriculture and Agri-Food considered the farm income crisis in Canada. In its report, it recommended “that a third line of defence be added to the present farm income safety net, based on a National Income-Based Disaster Program.” It also held exploratory hearings on the Multilateral Trade Negotiations (MTNs) on agriculture slated to begin late in 1999. These hearings gave various sectoral groups an opportunity for the first time to discuss their expectations of the MTNs on agriculture.**

#### CHRONOLOGY

- September 1986 - GATT Uruguay Round was launched at Punta del Este.
- January 1988 - The Canada-U.S. Free Trade Agreement came into force.
- December 1988 - GATT Mid-Term Review proposed reductions in agricultural subsidies.
- April 1989 - GATT Mid-Term Review proposals were agreed to.
- August 1989 - Oats were removed from CWB jurisdiction.
- December 1989 - Canada’s agricultural review *Growing Together* was launched.
- May 1991 - The Dairy Policy Task Force issued its final report, a follow-up to a preliminary report released in June 1990.
- May 1991 - The Poultry Task Force issued its final report, a follow-up to its first report of May 1990.
- December 1991 - Mr. Dunkel’s recommendations regarding GAIT tariffication were released.
- December 1992- An omnibus regulation was issued on changes to Agriculture Canada’s regulatory system.
- July 1993 - Agriculture Canada’s name was changed to Agriculture and Agri-Food Canada.
- August 1993 - Barley was removed from CWB jurisdiction.
- September 1993 - Barley was reinstated under CWB jurisdiction.

- December 1993 - GATT Uruguay Round concluded with an agreement to replace import quotas by a system of tariffs.
- January 1994 - The North American Free Trade Agreement came into force.
- April 1994 - The GAIT Agreement implementing December tariff proposals and creating the *World Trade Organization*, GATT's replacement, was signed.
- December 1994 - *An Act to implement the Agreement Establishing the World Trade Organization* (Bill C-57 received Royal Assent.
- December 1994 - Amendments to the *Canada Grain Act* (Bill C-51) to deregulate grain handling received Royal Assent.
- February 1995 - Agriculture and Agri-Food Canada released its three-year outlook document entitled *Agenda: Jobs and Growth*.
- March 1996 - Agriculture and Agri-Food Canada released an update of *Agenda: Jobs and Growth* entitled *Building for Success*.
- April 1997 - The Canadian Food Inspection Agency was set up.
- June 1998 - Bill C-4, An Act to amend the Canadian Wheat Board Act and to make consequential amendments to other Acts, received Royal Assent.
- Bill C-26, An Act to amend the Canada Grains Act and the Agriculture and Agri-Food Administrative Monetary Penalties Act and to repeal the Grain Futures Act, received Royal Assent.

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