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THE MULTIFUNCTIONALITY OF AGRICULTURE: SUMMARY OF THE CANADIAN FEDERATION OF AGRICULTURE CONFERENCE

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During the round of World Trade Organization (WTO) negotiations that began in December 1999 in the U.S. city of Seattle, some countries – in particular, Japan and the countries of the European Union – used the concept of the multifunctionality of agriculture to justify the support they provide to their farm industry. The fact that the Canadian Federation of Agriculture (CFA) held a workshop on multifunctionality at its general meeting in February 2000 is a sign of growing interest in the concept among Canadian farmers. This document draws on the key presentations made during that workshop. It begins with a definition of the concept of multifunctionality, then briefly explains how the European Union uses multifunctionality to support its agriculture sector. The situation in Canada and the ambiguities of multifunctionality in terms of international trade are discussed in the following sections.

WHAT DOES "THE MULTIFUNCTIONALITY OF AGRICULTURE" MEAN?

An activity is said to be multifunctional when it plays a number of roles that may contribute to the well-being of society. In economic terms, impacts other than the primary objective of an activity are called "externalities"; these externalities may be positive or negative. For example, the pollution of water by fertilizers or pesticides is a negative externality of agriculture. However, references to multifunctionality focus more on the positive impact of an activity on the well-being of society.

Agriculture does more than produce food and fibres; it serves other functions that vary depending on the importance attached to them in each society or country. In Japan, agriculture contributes to flood prevention and the preservation of cultural elements, such as the traditional cultivation of rice. European Union (EU) countries focus on: preserving rural life (stopping population outflow from rural areas); carrying out land use planning (maintaining a balance between city and country); and protecting landscapes that attract tourists. During the

CFA conference, the Canadian delegates also noted agriculture's role in the protection of wildlife habitats and in carbon sequestration mechanisms that reduce the quantity of greenhouse gases in the atmosphere.

Multifunctionality is not unique to agriculture, but agriculture is the sector in which the concept is most often mentioned; multifunctionality is an increasingly prominent element of agricultural policy in some countries. The multifunctional nature of agriculture is referred to in a number of statutes, particularly those related to Europe's 1992 Common Agricultural Policy and Japan's *New basic law for food, agriculture and rural areas*. The Organisation for Economic Co-operation and Development (OECD) also recognized the concept in the communiqué from the March 1998 meeting of agriculture ministers:

> In many OECD countries, because of this multifunctional character, agriculture plays a particularly important role in the economic life of rural areas. There can be a role for policy where there is an absence of effective markets for such public goods, where all costs and benefits are not internalised. The reform of agricultural policy according to the principles agreed upon in the OECD in 1987, including well-targeted policy measures, will enable the sector to contribute to the viability of rural areas and address environmental issues, while enhancing efficient and sustainable resource use in agriculture.

Some countries have therefore introduced tools to support the multifunctionality of agriculture, which translates into increased revenue for the farming industry.

THE EUROPEAN MODEL

Although Europe's Common Agricultural Policy (CAP) was drawn up at the end of World War II to support the production of food and fibres, it was gradually broadened to include two other key roles played by agriculture:

- protection of the environment and landscapes; and
- preservation of an active rural community.

With regard to environmental protection, it is generally assumed that "sound farming practices" include compliance with a number of standards aimed at ensuring sustainable use of resources. In cases where society asks for more than simple use of sound farming practices (for example, measures to improve biodiversity or preserve a certain type of landscape), farmers provide a public service for which they are not compensated. Agro-environmental measures are the means adopted by the EU to provide compensation for those services. The payments cover extra costs or shortfalls incurred in pursuing an environmental objective, such as reducing the amount of nitrogen applied to sensitive land or converting of cropland to pasture.

For European institutions, the key to preserving an active and dynamic rural population lies in preserving agricultural activity, especially in very isolated areas. The EU uses structural and rural development programs to meet that objective. The programs encompass a wide range of tools, including:

- training and placement of young farmers;
- financial support for farm adjustment;
- support for disadvantaged areas or areas subject to environmental constraints; and
- support for diversification beyond agriculture.

Because of the tremendous variety of Europe's farming conditions, agro-environmental and rural development measures can be adapted to local conditions and managed in a decentralized manner through local projects. For example, since 1999, France has awarded land use contracts (CTEs) under which farmers agree to apply certain measures related to environmental objectives such as biodiversity protection, restoration of pasture and improvement of water quality, or objectives related to employment, for example, or diversification of activities. Measures are identified locally based on the environmental, land use and socio-economic problems faced by farmers in the particular region. The EU accepts this mechanism on the condition that the measures carried out by farmers under CTEs lead to additional costs or shortfalls. This means that no special assistance is given for "sound farming practices."

Despite the large number of tools which support the other functions of agriculture, the funding levels allocated to those programs remain low and account for only a small portion of European agricultural assistance. Most of that assistance is provided through price support

and direct aid for production; for example, there are direct payments for cultivated land. However, the EU is planning to shift funds for production support to support for multifunctionality.

Japan's approach to the multifunctionality of agriculture is very similar to that of the EU. The approach is recognized in legislation, and tools have been developed to implement it. Support for multifunctionality takes the form of direct assistance to enable farmers in mountainous areas (approximately 40% of all farms) to overcome the handicaps arising from the natural setting.

THE SITUATION IN CANADA

The multifunctionality of agriculture is not officially recognized in Canada, but the various federal government representatives attending the CFA conference acknowledged that support for other functions of agriculture is already being provided. In addition to providing production support based on risk management (crop insurance, etc.), the federal government has introduced a number of rural development tools and initiatives that support the environmental benefits of agriculture.

For example, the Canadian Adaptation and Rural Development (CARD) Fund provides project funding to enable the farm industry to preserve an active rural component by adjusting to technological changes, environmental constraints, new markets, etc.

One example of the environmental benefits of agriculture is linked to the ability of farm soil to trap carbon and thus reduce the impact of greenhouse gases. Canada supports the inclusion of farm soil in the Kyoto Protocol and the creation of a market for the reduction of carbon emissions that would enable farmers to reap economic benefit from a service they provide to society. There are other programs that reward efforts to conserve wildlife habitat (North American waterfowl management plan), and Bill C-33 on endangered species tabled in April 2000 was designed to compensate landowners if it became necessary to prohibit the destruction of habitats essential to certain species of wildlife. Bill C-33 died on the *Order Paper* in October 2000.

THE AMBIGUITIES OF MULTIFUNCTIONALITY

Most countries agree that agriculture entails more than the production of food products and fibres, and that it has other functions. The issue debated in the CFA workshop, and being discussed by the WTO, is which tools can be used to enable agriculture to play its multiple roles.

The New Zealand and Canadian delegates at the CFA conference underscored the need to decouple multifunctionality assistance tools from food and fibre production. Those tools must target their goal directly, whether that goal is a specific environmental benefit (preserving a specific area of hedge) or a socio-economic benefit (economic diversification beyond farming). The instruments described in the two previous sections meet that criterion.

However, the speaker from the International Trade Policy Directorate of Agriculture and Agri-Food Canada pointed out that support for multifunctionality may be legitimate, but it must not conflict with other objectives, such as trade liberalization. The New Zealand delegate sees multifunctionality as a way of preserving types of assistance that create trade imbalances and lead to overproduction by encouraging too many farmers to devote all their energy to farming.

These remarks were clearly aimed at the direct production aid provided by the EU to European farmers – aid that indirectly supports externalities such as the preservation of a rural population. The EU is therefore in an ambiguous situation, because it does not officially recognize this multifunctionality assistance. The amounts it allocates specifically to “other functions” of agriculture remain low in comparison to the amounts spent on price support and direct production assistance. Moreover, official EU documents do not establish a close link between the various types of production assistance and the multifunctional nature of agriculture. This implies to some that multifunctionality is nothing more than a way to justify forms of production assistance that can create trade imbalances and affect agriculture in other countries.

Some countries, Japan in particular, are engaged in a more enlightened debate. The Japanese believe that multifunctionality is closely related to production and that subsidies based on or tied to production are needed to support the other functions of agriculture; for example, rice paddies have to be created in order to prevent erosion.

The New Zealand delegate pointed out, however, that production assistance can have adverse effects that are the opposite of what support for multifunctionality endeavours to achieve: specifically, they can foster intensive production systems that create more pollution. To reduce the adverse environmental impact of having too many animals on marginal lands, New Zealand eliminated assistance for the production of mutton, lamb and wool, which has reduced its sheep population by more than a third, allowing some land to be converted to more suitable uses (reforestation, for example). However, as another delegate noted, in addition to greatly reducing undesired environmental impacts, the measure has also led to a drop in the number of farmers.

Although the links between production assistance and multifunctionality are still unclear in some cases, multifunctionality may well be a way to tap other budget envelopes, such as environmental budgets, to reduce production assistance. There is a strong desire in Europe to reduce spending on agriculture, which accounts for a large chunk of the EU's budget. As matters stand, agricultural spending may increase sharply if the EU expands to include countries in eastern Europe. Because environmental issues are a major consideration in WTO trade negotiations, subsidies for positive externalities could be provided in the name of environmental protection rather than in the name of multifunctionality.

CONCLUSION

Some Canadians view multifunctionality as a possible gateway to the future for agriculture in this country. Because the WTO trade negotiations are moving toward a decrease in production aid, it is tempting to look for ways of supporting agriculture other than with traditional risk management tools, but within the rules of international trade.

Before a policy supporting multifunctionality can be adopted in Canada, the following and other political questions will have to be considered.

- People in Europe and Japan seem to support this approach to agriculture. Where do Canadians stand?
- If farmers bear the cost of negative externalities (polluter-pay principle), can they be compensated for the services they provide, particularly environmental services?

- If so, how can they be compensated (subsidies, tradeable permits for carbon sequestration, etc.)?

Steps must also be taken to ensure that support for multifunctionality does not conflict with other objectives Canada has set for agriculture. Specifically, any link between production and support for multifunctionality must be decoupled so as not to create an incentive to increase production or to produce in a way that creates more pollution.

In its February 2000 report on the farm income safety net, the Standing Committee on Agriculture and Agri-Food recommended that the government continue to work on a rural development policy that identifies the direction agriculture should take in Canada and the role agriculture should play. Because, according to some officials, there is already a form of multifunctionality in Canada, it remains to be seen whether the concept of multifunctionality has to be formally included in such a policy and what tools should accompany it.