

**Standing Senate Committee
on Agriculture and Forestry**



**Comité sénatorial
permanent de l'Agriculture
et des forêts**

CANADIAN FARMERS AT RISK

INTERIM REPORT

**The Honourable Leonard Gustafson
Chair**

**The Honourable John Wiebe
Deputy Chair**

June 2002

MEMBERSHIP

THE STANDING SENATE COMMITTEE ON AGRICULTURE AND FORESTRY

The Honourable Senators

Liberals

Michel Biron
*Sharon Carstairs, P.C. (*or Robichaud, P.C.*)
Thelma Chalifoux
Joseph Day
Joyce Fairbairn, P.C.
Elizabeth Hubley
Jim Tunney
John (Jack) Wiebe (Deputy Chair)

Conservatives

Leonard Gustafson (Chair)
Marjory LeBreton
*John Lynch-Staunton, P.C. (*or Kinsella*)
Donald Oliver, Q.C.
Terry Stratton
David Tkachuk

(*Ex officio members)

June Dewetering
Frédéric Forge
Lorie Srivastava
Researchers

Daniel Charbonneau
Clerk of the Committee

Note: The Honourable Senators Catherine Callbeck; Jane Cordy; Joan Fraser; Janis Johnson; Laurier LaPierre; Frank Mahovlich; Gerard Phalen; Brenda Robertson; Nick Sibbeston; Herbert Sparrow; Mira Spivak and Raymond Setlakwe also served on the Committee.

ORDER OF REFERENCE

Extract of the *Journals of the Senate*, Tuesday, March 20, 2001:

The Honourable Senator Wiebe moved, seconded by the Honourable Senator Banks:

That the Standing Senate Committee on Agriculture and Forestry be authorized to examine international trade in agricultural and agri-food products, and short-term and long-term measures for the health of the agricultural and the agri-food industry in all regions of Canada;

That the papers and evidence received and taken on the subject and the work accomplished by the Standing Senate Committee on Agriculture and Forestry during the Thirty-sixth Parliament be referred to the Committee; and

That the Committee submit its report no later than June 30, 2002.

The question being put on the motion, it was adopted.

Paul C. Bélisle

Clerk of the Senate

LIST OF ABBREVIATIONS

ACORN – Atlantic Canada Organic Regional Network

APF – Agricultural Policy Framework

BSE – Bovine Spongiform Encephalopathy

CAP – Common Agricultural Policy

CARD – Canadian Adaptation and Rural Development

COFFS – Canadian On-Farm Food Safety Program

EFP – Environmental Farm Plan

EU – European Union

FFA – Feed Freight Assistance

GDP – Gross Domestic Product

GM – Genetically Modified

HACCP – Hazard Analysis and Critical Control Point

MII – Matching Investment Initiatives

NISA – Net Income Stabilization Account

U.S. – United States of America

TABLE OF CONTENTS

	PAGE
FOREWORD	
EXECUTIVE SUMMARY	2
LIST OF RECOMMENDATIONS	4
THE HEART OF OUR COUNTRY	9
Rural Canada is the heart of our country	9
FACTORS AFFECTING FARM INCOME	13
Costs from Input Markets	13
Climate Change and Environmental Stresses	13
Costs of Changing Consumer Preferences	14
Higher Input Prices due to Decreased Competition in Input Markets	16
The Effect of Transportation on Feed Costs	16
Labour Costs	17
Revenue from Product Markets	19
Reduced Farm-gate Revenues due to World Market Prices	19
Changes in Farm-gate prices due to Evolving Consumer Preferences	21
The Effect of Limited Competition on Farm-gate Prices	23
Safety Net Programs	24
The Effect of Trade Disputes on Farm-gate Prices	25
FARMERS ARE MARKET DRIVEN	30
Diversification	31
Value-Added Agriculture	33
On-Farm Food Safety Programs and Environmental Farm Plans	38
Food Safety Programs	38
Environmental Farm Plans	41
Supporting Food Safety and Environmental Programs	43
Who Will Adapt?	45
FARMERS ARE PART OF RURAL CANADA	49
Financial Contribution to Rural Canada	49
Frictions with Non-Farming Populations	51
Multifunctional Values of Farms in Rural Canada	53
Improving the Viability of Rural Communities	58
RESEARCH IS THE KEY TO THE FUTURE OF AGRICULTURE	63
CONCLUSION	68
APPENDIX A	70
APPENDIX B	77
APPENDIX C	81
APPENDIX D	83

FOREWORD

From May 2001 to March 2002, the Standing Senate Committee on Agriculture and Forestry held hearings in Ottawa, and travelled to Washington, D.C., the Maritime provinces, and the European Union (EU) to discuss international trade in agricultural and agri-food products, and short- and long-term measures to ensure the health of Canada's agricultural and agri-food industry. The Committee met with farm groups and interested parties involved in rural development in Canada (see the Appendix for a list of the groups). Members of the Committee also met with parliamentarians from the United States (U.S.) and the EU, as well as representatives from various U.S. Departments and the EU Commission.

Such issues as the farm income situation, U.S. and EU agricultural policies, trade disputes, rural development, and agricultural research were raised during the meetings. This report expresses the thoughts and views of the Committee following these comprehensive hearings and visits, and provides recommendations to guide the development of Canadian agriculture and agri-food policy, and improve the future health of agriculture in Canada.

EXECUTIVE SUMMARY

Rural Canada is the heart of our country. This is not simply an emotional attachment. Rural Canada contributes significantly to our economy. It generates 15 per cent of our gross domestic product and 40 per cent of Canadian exports.

Farmers are central to rural Canada. Not only do they generate employment, but they also provide environmental benefits, through their working pastoral landscape. These open green spaces provide tourism opportunities and fulfil recreational needs for an increasing number of urban dwellers.

Canada's non-farming population must understand that farmers make numerous positive economic and social contributions beyond food production. Farmers play a fundamental role in our society, and governments must not abandon their responsibilities toward them.

Yet Canadian farmers are facing a wide variety of stresses, including declining farm incomes due to rising costs and lower prices for farm products, unparalleled subsidies given by foreign governments, changing consumer preferences, climatic changes, increased food safety and environmental requirements, insufficient competition in key agricultural markets, corporate consolidation in packer, wholesale, and grocery retail markets, and limited support from governments.

Farmers need support from the government through better focussed research, non-production distorting government support for the many benefits they provide to all Canadians, and a farmer-focussed, vision-driven multi-year agricultural policy.

These support measures will provide farmers with a competitive edge. Given a level playing field, Canadian farmers can compete with any farmers from around the world.

But, without this support, Canadian farmers will remain at risk.

LIST OF RECOMMENDATIONS

Recommendation 1: Agriculture and Agri-Food Canada explore the feasibility of formalized, comprehensive reviews of agriculture and agri-food policy every five years in a manner similar to that which is undertaken in the United States with its Farm Bill process, and by the European Union with its Common Agriculture Policy. (Pages 9 – 10)

Recommendation 2: The government commit itself to spending at least 1 per cent of its Gross Domestic Product for assistance to agriculture. (Pages 11 – 12)

Recommendation 3: In addition to the current slate of safety, quality and agronomic evaluation issues, the government must include a “market acceptance” criterion in its approval process for new crop varieties. (Pages 21 – 23)

Recommendation 4: The Competition Bureau, prior to approving a merger or acquisition, be required to undertake a thorough analysis of the effects of the change on the agriculture and agri-food industry. This analysis should be reported to the agricultural committees of the Senate and the House of Commons. The analysis and report should be completed by Competition Bureau personnel who possess in-depth agricultural expertise. (Pages 23)

Recommendation 5: Furthermore, the Committee recommends that the Competition Bureau investigate the agricultural input markets in

Canada, as well as the grocery retail industry, to determine whether there is sufficient competition in these markets to ensure efficient prices for farmers. (Pages 23 – 24)

Recommendation 6: The government develop farm income programs that are flexible in order to meet regional needs. (Pages 24 – 25)

Recommendation 7: The Minister of International Trade and the Minister of Agriculture and Agri-Food negotiate with their U.S. and EU counterparts the development of a mechanism to resolve bilateral agricultural trade disputes expeditiously. In particular, this mechanism should be used where the agricultural product in question is perishable or of significant economic importance to a particular region. (Pages 26 – 28)

Recommendation 8: The Minister responsible for the Canadian Wheat Board, the Minister of International Trade, and the Minister of Agriculture and Agri-Food meet with the United States Trade Representative and the Secretary of Agriculture at the earliest opportunity to discuss a long-term solution to American concerns about Canada-U.S. grain trade. (Pages 28 – 29)

Recommendation 9: The government develop a comprehensive strategy that encompasses tax incentives as well as direct federal government funding and expertise to enhance the development of value-added industries, including farmer-owned initiatives, in rural Canada. (Pages 33 – 36)

Recommendation 10: The government develop an affordable accreditation system for Canadian certifying bodies under the national standard for organic agriculture, and ensure that this system meets the requirements of our main export markets for organic products. (Pages 37 – 38)

Recommendation 11: The government include in the Agricultural Policy Framework a cost-share mechanism for the implementation of Environmental Farm Plans and On-Farm Food Safety Systems that are adopted by farmers. This mechanism could be part of existing programs such as the Canadian On-Farm Food Safety Program. (Pages 43 – 45)

Recommendation 12: The government immediately establish a policy to finance, for those who wish, the transfer out of agriculture through programs such as re-education and retirement schemes. (Pages 45 – 46)

Recommendation 13: The federal annual contribution to the Canadian Adaptation and Rural Development fund be doubled, from \$25 million to \$50 million, and that diversification and value-added agriculture be targeted as adaptation priorities. (Pages 47 – 48)

Recommendation 14: The government, within the rural dialogue, initiates workshops and conferences to help rural communities racked by agonizing debates between non-farming residents and farmers. (Pages 51 – 52)

Recommendation 15: The federal government work with farm organisations in developing a powerful communications campaign to ensure that all Canadians appreciate farmers' economic and social contributions to our society. (Pages 53 – 54)

Recommendation 16: Agriculture and Agri-Food Canada study the application of the concept of multifunctionality to Canadian agriculture. This examination should include a determination of the various roles of agriculture in different parts of the country, as well as an analysis of the means to promote them. (Pages 54 – 58)

Recommendation 17: The government provide financial assistance for infrastructure programs aimed at upgrading key highways to improve their safety, and to link regional markets to wider markets. (Pages 58 – 60)

Recommendation 18: The government partner with private companies to ensure that 100 per cent of Canadians have access to high-speed Internet services by following a plan like SuperNet in Alberta and connecting all public institutions. (Pages 60 – 62)

Recommendation 19: The federal and provincial governments must increase their financial support for research and development activities. They must account for regional opportunities and concerns to ensure that Canadian farmers remain competitive and are able to adapt to their changing environment. For example, governments must provide new research dollars for such promising areas as organic farming. The

Committee also recommends that the government review its research programs to reflect what the farming industry may look like in the future with respect to new crops and new applications, and increase its funding accordingly. (*Pages 63 – 65*)

Recommendation 20: The government take the long-term needs of research into account when developing research programs within federal facilities or attributing research grants to other research institutions. (*Pages 66*)

Recommendation 21: The government, in co-operation with the provinces and territories, formalize a mechanism whereby farmers are involved in the input to set public research priorities. (*Pages 66 – 67*)

THE HEART OF OUR COUNTRY

Rural Canada is the heart of our country.

This is not simply an emotional attachment, since rural Canada contributes significantly to our economy. It generates 15 per cent of our gross domestic product, and 40 per cent of Canadian exports, primarily through natural resources industries, including agriculture, fishing, forestry and mining. More importantly, rural Canada provides environmental benefits, and its open green spaces provide tourism opportunities and fulfil recreational needs for an increasing number of urban dwellers.

During the Committee's hearings, numerous witnesses suggested that the viability of many rural communities depends upon the health of the agricultural industry. The agriculture and agri-food industry is Canada's third-largest employer, and even urban centres such as Toronto benefit economically from it; approximately \$1.3 billion in agriculture-related economic activity occurs in the greater Toronto area. At a local level, the majority of residents in most rural municipalities still engage in agricultural pursuits, or their work is directly related to agriculture. Indeed, most of our towns and villages rely on the agricultural community as their key customer base. Canadian farmers have always made, and still make, a crucial contribution to the social health of our rural communities. For instance, social services such as schools in rural areas depend heavily on farm families to help maintain adequate service levels. Additionally, Canadian farmers are the day-to-day caretakers of a large amount of Canada's landscape.

Between 1999 and 2001, the number of full-time farmers in Canada decreased by 26 per cent, the largest decline in about 35 years; the Committee was told that the average age of full-time farmers has increased to 57. Moreover, young people are not taking over their family farms for a variety of reasons, further exacerbating the problem of a decreasing and aging farm population. Such demographic trends in society are major concerns for the future of our country. This situation is not unique to Canada, as the Committee heard that the EU is losing 3 per cent of its farmers every year. Whether in Western Europe, the United States, or Canada, there are concerns over the extent to which young people seem to find agriculture less attractive as a career.

The federal and provincial governments must not abandon their joint responsibility to Canadian farmers. Although the federal Rural Action Plan and the new Agricultural Policy Framework (APF) are positive steps toward a commitment to the farming community, more needs to be done. Governments have to develop a long-term strategy that defines the various targets for agriculture and the means to reach them.

The Committee supports consistent and regular reviews of agricultural spending and policies, rather than the ad hoc approach that has been taken in Canada. We believe that, in the past, changes to Canadian agricultural policy and levels of support have been crisis-driven – not vision-driven – with the result that policy changes have not always been farmer-focussed, putting Canadian farmers at risk. Consequently, the Committee recommends that:

Recommendation 1: Agriculture and Agri-Food Canada explore the feasibility of formalized, comprehensive reviews of agriculture and agri-

food policy every five years in a manner similar to that which is undertaken in the United States with its Farm Bill process, and by the European Union with its Common Agriculture Policy.

The Committee believes that a regular and comprehensive examination of Canada's agriculture and agri-food policy is necessary to provide real help to farmers, since their circumstances evolve as the market place changes. The Committee also believes the government must reverse the decline in support for agriculture in order to facilitate a vibrant farming and agricultural community in rural Canada.

Witnesses repeatedly emphasized the need for assistance to farmers in a variety of key areas, including research, trade issues, and adaptation to the changing demands in the market. The seemingly immeasurable level of subsidies and protections offered by the U.S. to its farmers under the Farm Bill, and the support offered by the EU to its farmers, are encouraging overproduction, and are causing world prices to decrease.

To deal with the cumulative effects of low grain prices, high transportation costs and other factors, an immediate infusion of financial assistance to farmers was clearly needed in the short term...However, it is not enough to fix the problem, even in the short term. Between the years 1991-92 and 1998-99, the federal government has taken away approximately \$2 billion annually in support payments from the agricultural sector in Western Canada through the removal of the Crow rate subsidy, reducing safety net programmes, and reducing the amount spent on research and development. Even with the aid package recently announced by the federal government, this reduction funding has not been recovered.

– Mr. Wayne Motheral, President, Association of Manitoba Municipalities

The Committee heard from witnesses about the areas toward which the federal government should target its financing efforts. Numerous witnesses felt that, while the five key elements of the new agricultural policy framework are important, without financing from the federal government, the policy will not be meaningful for Canadian farmers. Nevertheless, the Committee is mindful

that such assistance must be fiscally responsible and must not compromise Canada's obligations under international trade commitments, such as those relating to the World Trade Organization.

Although some witnesses called for subsidies comparable to U.S. levels, the Committee recognizes that Canada cannot afford this. Nevertheless, Canada does lag behind the EU and the U.S. in terms of assistance to agriculture as a percentage of gross domestic product (GDP). In 2000, the EU spent 1.35 per cent of its GDP on farm support and the U.S. spent 1.05 per cent, while Canada committed only 0.78 per cent. Thus, even in terms of a proportion of its economic wealth, Canada does not support its agricultural industry at the same level as either the EU or the U.S. The Committee strongly believes that Canadian farmers can compete with any other country, if there is a *level-playing field*. Therefore, the Committee recommends that:

Recommendation 2: The government commit itself to spending at least 1 per cent of its GDP for assistance to agriculture.

Witnesses who appeared before the Committee expressed hope that the agricultural framework policy being developed by Agriculture and Agri-Food Canada and provincial agricultural ministries may help to alleviate the myriad challenges that Canadian farmers face. Nevertheless, in order to reduce risk significantly for Canadian farmers as they strive to succeed, the policy must address numerous issues. These include farm income, changing demands of the market, development of rural Canada, and future research needs. If these challenges are met, then Canadian farmers will be able to reduce their risk while continuing to contribute to Canada into the 21st century and beyond.

FACTORS AFFECTING FARM INCOME

Costs from Input Markets

Farmers' incomes are directly affected by the costs that they incur in producing their products. In recent years, farmers in both the Western provinces and the Maritimes have had to contend with drought conditions, changing consumer preferences, increasing input costs, and labour constraints.

[A]cross Canada, farmers are struggling to deal with continued low commodity prices, while at the same time farm input costs such as fertiliser, fuel, and chemicals continue to rise.. Many farmers cannot afford to put in a crop this spring. This will have a profound impact not only on the producers and their families but also on their communities and the rural economy.

— Mr. Wayne Motheral, President,
Association of Manitoba Municipalities

Climate Change and Environmental Stresses

Farmers have had great difficulty in the last several years with drought conditions, whether they farm grains and oilseed crops, potatoes, fruits, or livestock. Keystone Agricultural Producers reported that, as far back as 1999, southwestern Manitoba and southeastern Saskatchewan had the equivalent of a drought because farmers were unable to seed their crops.

The Committee was told that climatologists have determined that Nova Scotia has been in a drought for five consecutive years. The Nova Scotia Federation of Agriculture estimated that the dairy industry in Nova Scotia alone may have lost up to \$8 million in the year 2000 as a direct result of the drought. The P.E.I. Federation of Agriculture reported that the effect of the 2001 drought on the potato and vegetable sector was “crippling, with yield reductions of 40 [to] 60 [per cent].” It believes that the financial costs of the drought for the agricultural sector in P.E.I. will be about \$100 million.

Successive droughts and other climatic stresses led several individuals, farm groups, and provincial representatives to address the issue of climate change, and its effects on Canadian agriculture. For many, it is an issue on which the Government of Canada must show leadership, as farmers may have to make significant investments to adapt their practices to contend with more climate variability and uncertainty in the future. Indeed, in some jurisdictions, farmers have to implement Environmental Farm Plans for their operations, further increasing their costs as they comply with these requirements.

Successive droughts across Canada have affected agriculture and have put the future of rural communities in jeopardy. The lack of available water is challenging the very development of rural Canada; as a consequence, it should be taken into account when planning for the future of these communities. In fact, during the course of this study, the Committee found environmental stresses to be such a pressing issue for agriculture and rural Canada, that the Committee has decided to undertake a comprehensive study on the effects of climate change on Canadian agriculture.

Costs of Changing Consumer Preferences

Compounding environmental issues, Canadian farmers must also adapt to changing consumer preferences as the country moves into the 21st century. In order to meet changing preferences and demands with respect to food safety and environmental issues, farmers must make significant investments in their operations. These investments can include capital investments (for example, equipment or waste lagoons), management investment (for instance, seeking out new sources for organic feed or developing environmental farm plans and

keeping records), and investments in production changes (for example, new crops or new methods of production).

In the case of environmental issues, farmers are adopting environmental management plans to contend with nuisance odours, greenhouse gas emissions, soil management, and water protection. In P.E.I., over 60 per cent of farms have already completed an Environmental Farm Plan (EFP); the goal is to have 95 per cent of the province's primary agricultural sector complete an EFP by winter 2005. Despite initial financial assistance in starting such a plan, the ongoing record-keeping costs can be problematic for farmers, since they are limited in their ability to capture higher farm-gate prices from the market. This inability to recover costs may become critical if all farms are required to have an environmental plan, thus negating any possibility for farms that have completed an EFP to differentiate themselves from those that have not. This will be especially true for smaller farms with limited human and capital resources.

In the case of increased demand for more rigorous food safety systems on farms, again, farmers are faced with costs similar to those associated with Environmental Farm Plans. Systems such as Hazard Analysis and Critical Control Point (HACCP), though desirable, do entail record-keeping costs that farmers have difficulty in recovering. Although farmers recognize that such investments are necessary and beneficial, they may already be over-extended with limited cash flows and debt.

Higher Input Prices due to Decreased Competition in Input Markets

Witnesses noted that input costs have been rising in recent years. The Canadian Farm Business Management Council explained that there are fewer input suppliers across the country. With fewer suppliers, there is decreased competition in the input markets, resulting in higher input prices for Canadian farmers. For example, three companies distribute and retail the bulk of Canadian oil, gasoline, and diesel fuel, and three companies dominate the farm machinery sector. On this particular issue, Dr. Apedaile, Professor Emeritus in the Department of Rural Economy, University of Alberta, stated that:

“[T]he top five producers of fertilizer handle approximately 90 per cent of the supply of fertilizer. We say that concentration is starting to interfere with competitive outcomes that actually distribute revenue fairly to where the costs are being incurred. In grain handling, input processing and farm machinery...It is somewhat back to the territorial days when we only had one hardware store to deal with because the roads were so bad that we could not go anywhere. We had territorial monopolies. As soon as we could buy somewhere else, of course, we went where prices were lower. The competition phenomenon is that few firms account for almost all of the inputs to agriculture...”

The Effect of Transportation on Feed Costs

These increased costs are compounded by higher feed costs in the Maritimes due to transportation constraints. The Committee heard witnesses from all three Maritime provinces attest that they have faced higher feed costs since the Feed Freight Assistance (FFA) program was abolished in the 1995

federal Budget. The elimination of the FFA program has made feed grains expensive throughout the Maritimes; one dairy farmer from Nova Scotia stated that in 2000, he spent about 25 per cent of his gross output on purchased feed grain. He does not grow it on his farm because it is cost-prohibitive for him to do so. Porc NB Pork estimates that New Brunswick feed costs are \$30 higher per ton than in Ontario.

Under the FFA program, payments were made to livestock producers in feed-deficit areas to lower their feed costs in order to maintain a viable livestock industry. The bulk of these payments were made in Atlantic Canada, British Columbia and eastern Quebec. The funds directed towards FFA amounted to some \$15 million in 1994-1995. As of 1 October 1995, FFA ceased operating as a transportation subsidy. In subsequent years, the declining amount, about \$60 million over the 10-year period, was to be available to assist industry adjustment and development.¹

In Western Canada, the loss of the Crow rate has obliged farmers to pay the full cost of transporting grain to port while at the same time input costs such as those for fertilizer, seed and fuel have continued to rise, according to the Association of Manitoba Municipalities.

Labour Costs

Labour costs have also risen throughout the agricultural sector, as fewer people are drawn to it. The Agricultural Producers Association of Saskatchewan mentioned that the young people who are left in farming

¹ The 1995 federal Budget. See: <http://www.agr.gc.ca/budget/budget95/feedse.html>.

communities are working in the oil sector, not in agriculture. In addition, the Saskatchewan Association of Rural Municipalities highlighted the labour shortages in that province. This is also true of agricultural sectors in the Maritimes, such as the Christmas tree sector. The Nova Scotia Christmas Tree Council told the Committee that this sector employs 2,500 skilled, seasonal workers over a six- to eight-week period. These workers need a variety of skills in silviculture, pest management, marketing, business management, foreign exchange rates, export procedures, health and safety regulations in a variety of jurisdictions, and interpersonal skills. Sectors such as this are increasingly finding it difficult to attract labour, even at above-minimum wages.

In the Maritimes, the Committee heard evidence that the horticultural industry has a particular shortage of labour, as it is a labour-intensive enterprise relative to others such as grains. Indeed, Nova Scotia's horticulture industry employs 30 per cent of all agricultural labour in that province. The seasonal nature of labour in this industry entails additional problems in attracting workers, because changes in the Employment Insurance program in 1996 limited the insurance benefits payable to seasonal workers.

Furthermore, the Committee heard from Potatoes New Brunswick that the Employment Insurance qualifications should take into account regional variations to help alleviate problems with labour. Although the main potato-growing areas of the province – situated between P.E.I. and the U.S. – have the same Employment Insurance qualifications as the Acadian peninsula, they have an unemployment rate of 4 per cent, whereas the rate in the Acadian peninsula is 23 per cent. This inflexibility in the qualifications results in increased costs for farmers.

Revenue from Product Markets

With respect to farmers' revenues, a number of topics frequently arose during the Committee hearings, including prices in international markets, changes in consumer preferences, lack of competition at the wholesale and retail levels, and trade disputes.

Reduced Farm-gate Revenues due to World Market Prices

The Committee heard from witnesses across Canada that farmers increasingly are facing downward pressure on the prices that they receive. One significant source of this pressure is the low prices in international markets. Despite the aid package recently announced by the federal government, some producers in Western Canada have estimated that, at current prices, they will lose at least \$40 per acre on every acre of grain and oilseeds they seed this spring. These low prices are primarily due to large supplies from the United States and the EU, attributable to subsidies from their respective governments. In 1999, for every \$1 that Canadian wheat farmers received, only 11 cents came from the federal government, compared to the 46 cents that American farmers received and 58 cents for European farmers.

A number of witnesses expressed concern regarding the effects of U.S. and EU subsidies, and whether these subsidies comply with their respective World Trade Organization commitments. Their feelings are echoed by Mr. Laurence Nason's statement that "Canada decided [to]...be a boy scout in terms of world trade agreements... [but] the U.S.A. and Western Europe did not dismantle their programs to the same extent."

The Committee was in Washington not long after the House of Representatives Committee on Agriculture passed its Farm Bill proposal in July 2001. Since then, the Senate has approved its own Farm Bill version, which extends support to pulse crops. Although some groups and individuals described the House of Representatives proposal as “one of the greenest bills ever,” both Farm Bill versions remain highly production-distorting.

The EU will also start a mid-term review of its Common Agricultural Policy (CAP). Although outcomes of upcoming elections in France and Germany will influence the CAP review process, EU officials mentioned that they have to look at different ways to support farmers. Furthermore, the EU has frozen the CAP budget until 2006, and will possibly have to integrate 10 new member states by 2004. Although the Committee believes direct payments will still be part of the EU policy, indications suggest a shift from producer assistance to more rural development aid that will be *decoupled*; that is, they will not be production-distorting.

During the Committee’s trip to Europe, there was some discussion about the changing world supply. In the past 15 years, production has increased in countries with lower production costs, mainly in the southern hemisphere. It has become more difficult to compete in bulk commodities and, unfortunately, demand in export markets has not increased substantially to offset higher supplies, further contributing to low prices. For example, according to Agriculture and Agri-Food Canada, world demand for wheat decreased 47 per cent between 1995 and 2000, while world supply has risen by 26 per cent.

Changes in Farm-gate Prices due to Evolving Consumer Preferences

Another factor that affects the prices paid to farmers is changing consumer preferences. For instance, the increasing demand for organic foods means that organic foods now sell at significantly higher prices than conventional foods. Even though Canada's market share for organics is still in the 1–2 per cent range, with estimated sales at \$800 million, these sales figures will increase as more farmers, processors, and retailers are attracted by the higher prices.

Another example is the public's wariness with regard to genetically modified (GM) foods. Since the public acceptance of such foods is limited, some growers of GM crops must accept lower prices, while growers of GM-free crops are able to command higher prices in some markets. This lack of public trust is affecting the decisions of processors such as domestic millers, who have expressed concerns about the introduction of GM wheat. In most years, domestic millers are Western Canadian farmers' biggest customers. These customers are also exporters, and much of the wheat flour they produce goes to GM-resistant markets. U.S. millers are also worried about the introduction of GM wheat. The U.S. is another large market for Western Canadian farmers. The North American Millers Association has publicly expressed its position that crops that do not have wide market approval should not be placed on the market. These changing consumer preferences drive down the price that farmers can obtain for some crops – possibly even down to zero, if they cannot sell their crop. Thus, public concerns affect the planting decisions of Canadian farmers, and their revenues.

The Committee heard concerns from farmers and other agricultural stakeholders about the potential approval of GM wheat in Canada. The introduction of GM wheat in our country could jeopardize the whole industry, as markets are not ready to accept this type of product. As there is currently no way to effectively segregate GM wheat from conventional counterparts, the introduction of a single variety of GM wheat will close all markets that are reluctant to buy GM grains. Quite apart from the issues of science and safety, risking losing export markets for a commodity like wheat in times of great difficulty for our farmers is reason enough to act with extreme precaution.

Canadian canola exports to the EU peaked in 1994 at \$425 million, but are now virtually zero because the EU blocked its approval process for GM varieties. During its fact-finding trip to Brussels, the Committee heard that the EU now imports its canola from other countries such as Australia. Although the EU Commission claimed it will resume its approval process in the near future, the Committee is convinced the EU market for GM crop is lost, and that farmers should be careful in making their seeding decisions because it could jeopardize all Canadian agricultural exports.

Under the current approval process in Canada, a new variety will be registered for commercial production if it meets criteria for end-use quality, agronomic quality, and human and environmental safety. There is currently no process in place to prevent the introduction of a new variety, even if it is clear that the new variety will have a negative market impact and will result in lower farmer returns. Therefore the Committee recommends that:

Recommendation 3: In addition to the current slate of safety, quality and agronomic evaluation issues, the government must include a “market acceptance” criterion in its approval process for new crop varieties.

The Effect of Limited Competition on Farm-gate Prices

Witnesses from across Canada expressed concern about limited competition – or lack of competition – at wholesale and retail levels, contending that it adversely affects the prices that farmers receive. In the Maritimes, the Committee heard that only two retailers control 85 per cent of the market, and they compete against each other quite vigorously. One consequence is that they offer lower prices to farmers in order to maintain their profit margins. This dual monopsony² situation limits the ability of farmers to obtain the best price for their products. Evidence such as this raises concerns about corporate concentration among input suppliers and food retailers. For this reason, the Committee recommends that:

Recommendation 4: The Competition Bureau, prior to approving a merger or acquisition, be required to undertake a thorough analysis of the effects of the change on the agriculture and agri-food industry. This analysis should be reported to the agricultural committees of the Senate and the House of Commons. The analysis and report should be completed by Competition Bureau personnel who possess in-depth agricultural expertise.

² A monopsony occurs when there is a single buyer in the market; for instance, if there is a single processor in a market to whom farmers can sell their product, then the processor is said to exert “monopsony power”, and can dictate the price it will pay farmers. It is analogous to a monopoly, which is a single seller in a market.

Recommendation 5: Furthermore, the Committee recommends that the Competition Bureau investigate the agricultural input markets in Canada, as well as the grocery retail industry, to determine whether there is sufficient competition in these markets to ensure efficient prices for farmers.

Corporate concentration remains a concern for many in the agriculture and agri-food industry. While the benefits of some concentration are recognized, farmers must not be hurt by merger and acquisition activities in industries that affect their farming operations. When there are fewer companies in the input sectors – and less competition – farmers have been forced to pay higher prices for their inputs; with reduced competition at the wholesale or retail due to few buyers, farmers become price-takers and are forced to accept lower prices for their products.

Safety Net Programs

Witnesses from Atlantic Canada in different commodity groups commented repeatedly that programs such as the Net Income Stabilization Account (NISA) appear to be targeted at Western farmers who grow grains and oilseeds. Farmers

from livestock groups to horticultural groups expressed the desire for these programs to be examined and adapted to meet the regional needs of different commodity groups. For example, during the Committee's public hearings in Nova Scotia, it was mentioned that the wide diversification of agriculture in the

The federation believes that NISA is a very good programme but, like most Agriculture and Agri-Food Canada programmes, it is better suited to the Western and Central provinces than to the Maritime provinces. The size of businesses here is often smaller than in other regions of Canada. The climate and the diversity of possible crops are not of the same significance, which greatly affects the eligible revenue from our businesses.

– M. Paul-Émile Soucy, President of the Fédération des agriculteurs et agricultrices francophones du Nouveau - Brunswick

Maritimes frequently means the risks are so distributed that farmers do not qualify for some safety net programs that operate under a whole farm income scheme. For example, payments under the Canadian Farm Income Program are triggered by a sudden drop in farm income, which is unlikely to occur when a farm is highly diversified because revenues come from a variety of sources.

Grain and oilseed farmers, however, believe safety net programs do not address commodities with continuously low prices. As Minister Vanclief stated before the Committee, “*safety net policies ... are neither designed nor intended to meet the needs of farmers whose major problem is a chronically low level of income.*”

The perception that safety net programs are being developed for another commodity or region is a major impediment to the success of any program that targets farm income. Keeping in mind that the federal and provincial governments are currently discussing future risk management tools within the agricultural policy framework, the Committee recommends that:

Recommendation 6: The government develop farm income programs that are flexible in order to meet regional needs.

The Effect of Trade Disputes on Farm-gate Prices

Finally, a variety of trade disputes continue to hamper the ability of Canadian farmers to capture higher farm-gate prices. Witnesses repeatedly stated that they want imported products to be subject to the same food safety

and animal welfare standards that Canadians demand and to which they are entitled.

Some witnesses said that, although they were taking advantage of opportunities in both domestic and foreign markets, they still faced a variety of difficulties, such as non-tariff barriers. For instance, Mr. Len Giffen, Coordinator of the Nova Scotia Christmas Tree Council, contended that growers are no longer able to export their trees to the United Kingdom due to supposed phytosanitary reasons. The U.K. government requires Nova Scotia Christmas trees to have phytosanitary certificates that declare the trees are free of banned pests. The Nova Scotia Christmas Tree Council thinks that the U.K. government may add new species to its list of banned pests after the Nova Scotia growers are able to eliminate previously banned species, in order to exclude the Nova Scotia trees from the U.K. market. With respect to the United States, Mr. Giffen stated that “once the shipment crosses the border into U.S. territory, only U.S. citizens can unload and load the trees. Therefore, we are unable to send our own crews to handle problems when they arise.” Such trade irritants decrease the prices that Canadian farmers are able to get for the products that they sell in foreign markets.

From time to time, other bilateral trade irritants arise. During the Committee’s fact-finding trips in Washington, D.C., and in the Maritimes, there was some discussion about the Prince Edward Island potato wart and the time taken to reopen the U.S. border to P.E.I. potatoes. Although the Canadian view is that too much time was taken, Committee members were informed that, in the realm of sanitary and phytosanitary issues, the resolution was “very speedy,” as other sanitary and phytosanitary cases sometimes take years to

resolve. It was argued that Americans feared the potato wart, and the suggestion was made that the Canadian Food Inspection Agency had insufficient information. On the other hand, Canada made it clear that the scientific information was available.

The Committee also discussed market access issues for Canadian products such as wines and spirits, and beef produced with growth-promoting hormones with EU officials. Additionally, the Committee expressed concern about Canada's rating under the EU Bovine Spongiform Encephalopathy (BSE) risk assessment scheme. This scheme has already affected our ability to export meat products to the EU and may trigger further trade irritants, because the EU does not recognize Canada's BSE-free status under international standards.

As part of the discussions, the concept of independent bodies to assist in the resolution of scientific differences of opinion between countries was raised. Such a body might have been used, for example, in the recent case involving the potato wart. Committee members were told that countries must retain their right to protect themselves in the manner they see fit, with dispute resolution mechanisms available should the parties disagree.

Outcomes of bilateral discussions and dispute resolution mechanisms, however, can be mixed. While an agreement had been reached with the U.S. Department of Agriculture that would result in improved access by P.E.I. potatoes to U.S. markets, the EU market is still closed to Canadian beef despite two World Trade Organization rulings, and Canada has been forced to retaliate against the EU.

There is a need for timely resolution of these types of irritants, which can be financially crippling for individual farmers and for entire regions. The Committee is encouraged by the bilateral dialogue that appears to have occurred as a result of the potato wart issue, but believes that a permanent mechanism must be developed that can quickly resolve these types of bilateral agricultural disputes. To that end, the Committee recommends that:

Recommendation 7: The Minister of International Trade and the Minister of Agriculture and Agri-Food negotiate with their U.S. and EU counterparts the development of a mechanism to resolve bilateral agricultural trade disputes expeditiously. In particular, this mechanism should be used where the agricultural product in question is perishable or of significant economic importance to a particular region.

The outstanding investigation under U.S. legislation – the so-called “Section 301 action” – continues to create uncertainty for Western Canadian grain farmers. This investigation was launched by the North Dakota Wheat Commission with respect to the Canadian Wheat Board. Western grain farmers want to see the issue resolved as soon as possible. While the Committee was in Washington, D.C., it was told that American farmers are particularly upset about the Canadian Wheat Board when grain prices are low and exchange rates are not in their favour. In reviewing the history of bilateral trade irritants, it becomes clear that investigations of Canadian grain trade involve considerable time and costs for farmers on both sides of the border, which is particularly unfortunate in times such as these, when farmers throughout North America are in crisis.

The Committee believes that investigations of bilateral grain trade must be avoided in future. American farmers must be convinced that Canada is a fair trader in grain. In order to preclude future investigations, and thereby avoid the time lost and increased costs and instead focus on the positive aspects of our bilateral relationship, the Committee recommends that:

Recommendation 8: The Minister responsible for the Canadian Wheat Board, the Minister of International Trade, and the Minister of Agriculture and Agri-Food meet with the United States Trade Representative and the Secretary of Agriculture at the earliest opportunity to discuss a long-term solution to American concerns about Canada-U.S. grain trade.

FARMERS ARE MARKET DRIVEN

At a time when commodity prices are too low to cover the costs of production, options to remain viable seem limited. As mentioned by the Canadian

[W]e have a lot to learn about what the consumer wants and how to market our product ... We have to move away from viewing ourselves as commodity producers.

– Mr. Fraser Hunter, Chair, Industry Planning Committee, Nova Scotia Federation of Agriculture

Farm Business Management Council, there are three ways to address a low commodity price enterprise: become larger; diversify; or find a niche market. Since the end of the Crow rate and the Feed Freight Assistance fund, many farmers do not expect the federal government to subsidize every farm in Canada to make them viable. Evidence provided to the Committee suggested that income support might not solve the problem of less profitable farms. For example, in Manitoba, the 20 per cent least profitable of similar-sized grain farms were still operating at a below-profit level even though they received on average three times more income support than the 20 per cent most profitable farms.

The need to adapt to changing demands in the market was a topic addressed at all the meetings held in Ottawa and in the Maritime provinces. Farm groups provided the Committee with numerous examples of diversification and value-added initiatives, in response to increasing demands from consumers for food safety and environmentally friendly practices. Needless to say, managing these issues was seen as essential to staying in business.

In June 2001, federal and provincial agriculture ministers announced a national action plan for a new agricultural policy framework (APF). They

agreed to “the common goal of securing the long-term prosperity and success of the agriculture and agri-food sector by being the world leader in food safety, innovation and environmentally responsible production.” Minister Vanciel stated before the Committee that, to be successful, Canadian farmers must ensure that they can meet demands in the areas of food safety and environment, that they are equipped to grow and diversify, and that they can take advantage of opportunities offered by science and technology.

Although the APF is still under discussion, it is already seen as a policy that can promote a more market-oriented agriculture. The majority of the witnesses who appeared before the Committee felt that being more market-driven might help farmers improve their farm income. Several areas were mentioned as being important for farmers and the agricultural industry, namely, diversification, value-added agriculture, on-farm food safety plans, environmental farm plans, and measures for dealing with farmers who cannot adapt to a changing market.

Diversification

Agricultural diversification is generally defined as a system of farming that encourages production of a variety of plants and animals and their products, as opposed to monoculture or large-scale specialization.³ Advocates of diversification argue that it provides greater income stability by mitigating the negative effects of a sudden drop in production or sale of a specific product. For instance, a farmer with a diversified farm operation would not be so adversely affected by a phytosanitary trade barrier such as the potato wart

that affected P.E.I. in 2000-2001, since the farmer is able to generate revenue from other enterprises on the farm.

During its meetings in Ottawa with stakeholders from Western Canada, the Committee learned that grain farmers in the Prairies have taken up the challenge of diversification. Farms have moved from a dominant wheat production to more diversified operations, as witnessed by the growth in the production of specialty crops including pulse crops and mustard seeds, as well as an increase in livestock production. In the Maritimes, an area where agriculture operations are traditionally more diversified, additional productions have emerged. For example, the wild blueberry industry has experienced tremendous growth in the last 15 years.

Witnesses from the research community have shared with Committee members the future opportunities coming down the research pipeline. Research will be able to make new products possible and permit farmers to fill niche markets. The Committee heard of such examples as food with health benefits (nutraceuticals), spices, molecular farming (the use of crops and animals, not for food production but for pharmaceuticals production), etc.

There are, however, some drawbacks to diversification, as highlighted by the following examples given by witnesses:

In areas such as the Maritimes where the agricultural land base is relatively small, with too much diversification, there may not be enough

³ Jasper Womach, *Agriculture: A Glossary of Terms, Programs, and Laws*, Congressional Research Center, 2nd Edition, 1999.

farmers producing an adequate amount of a particular product to ensure a viable industry.

Niche markets are, by definition, limited markets. As Saskatchewan has about 50 million acres of land, it may be unrealistic to think every farm can produce for niche markets, since the demand might be satisfied with a small-scale production.

Diversification does not eliminate production-specific problems and low commodity prices. For instance, the U.S. Senate Farm Bill proposal would include support to pulse crops, which could undermine the diversification effort and the market dominance gained by Prairie farmers.

The Committee encourages diversification efforts in order to provide greater income stability, and it emphasizes the importance of increasing the number of diversification opportunities available to farmers.

Value-Added Agriculture

Value-added agriculture includes any means by which farmers can capture a larger share of the consumer food dollar.⁴ Examples might include direct marketing, farmer ownership of processing facilities (pasta or ethanol plants), and producing farm products with a higher intrinsic value (such as identity-preserved grains, organic produce, or

As the primary producers we realize that the money is in food processing and added-value.

– Mr. Terry Hildebrandt, President, Agricultural Producers Association of Saskatchewan

free-range chickens) that fetch a higher price than more traditional farm commodities.

Canadian agriculture and agri-food exports reached record high levels in 2001, totalling \$26.49 billion. The Committee believes that while this is good news for the Canadian agriculture industry, too large a proportion of these exports are raw materials. Canada should achieve its goal of accounting for four per cent of world food trade, not by continuing to export more raw materials, but rather by increasing value-added production in ways that will truly help farmers capture a larger share of the consumer food dollar.

As the Association of Manitoba Municipalities mentioned, new economic approaches based on the production of specific high value-added products, instead of generic products or commodities, must be put in place to revitalize the economies of a number of rural communities in Canada. For many, it is becoming apparent that the ability to retain the farm population in Canada, particularly in Western provinces, may be possible only by developing value-added processes and enterprises.

During its trip to Europe, the Committee heard that the EU cannot compete with the Southern Hemisphere in bulk commodities but it can compete in the processed food market. The Committee believes this situation increasingly applies to Canada and that the value-added business should be encouraged; otherwise, Canada will lose those benefits to the countries to which our farmers export their commodities.

⁴ Jasper Womach, *Agriculture: A Glossary of Terms, Programs, and Laws*, Congressional Research Center, 2nd Edition, 1999.

The Committee heard about potentially successful value-added initiatives in rural Canada, such as pie and fresh blueberry and cranberry juice production in the Maritimes, special cheese processing in Quebec, and alfalfa dehydration plants in Western Canada. Adding value can also be as simple as roadside markets selling fruits and vegetables. In Europe, the Committee heard that protected geographical indications for certain high-quality food such as Parma ham and many raw-milk cheese products are considered as value-added agriculture and permit farmers to fill niche markets.

The Committee thinks, however, that farmers themselves must look at entering the value-added business to capture a larger share of the food price.

In Canada, the challenge remains to put the money into the farmers' pockets, since processing plants are not generally farmer-owned. Committee members were told that in the Maritimes, companies such as McCain and Cavendish provide income stability for farmers because of their year-round demand for potatoes. The Committee thinks, however, that farmers themselves must look at entering the value-added business to capture a larger share of the food price. In New Brunswick, for instance, the food processing industry represents 375 per cent of the farm-gate value, according to the New Brunswick Department of Agriculture, Fisheries and Aquaculture.

Again, the diversity of our country implies different types of value-added agriculture will be relevant for the different regions. According to the Atlantic Canada Opportunities Agency, small farmers are trying to move down the food

chain. The proximity of urban centres and bigger markets, such as New England and Quebec, provides incentives for value-added initiatives at the farm level. Examples of these on-farm initiatives include direct marketing, and small to medium-sized processing plants that target niche markets with specialty items such as “home-made” jams and pies. The Committee also heard that farmers could use their location and their smaller size as a marketing advantage because of geographical proximity to the consumer. Organic agriculture, for instance, is seen as a possible means of keeping farms small and selling locally. The Nova Scotia Federation of Agriculture also told the Committee that developing a value-added business on the farm may facilitate the generational transfer, as the farmer is able to pass on part of the operation to children.

Due to the large scale of Prairie agriculture and the remoteness of markets, farmers in that region will have to take a different approach. The type of value-added initiatives that were foreseen by witnesses involved larger-scale processing plants, such as ethanol or pasta plants. The Committee emphasizes the importance of farmers’ owning such plants through co-operatives or other type of holdings.

There are, however, many impediments to the development of value-added agriculture. During the Committee’s meetings, a number of issues frequently arose, including the availability of capital, infrastructure requirements, and lack of resources to conduct business-marketing research. Therefore, the Committee recommends that:

Recommendation 9: The government develop a comprehensive strategy that encompasses tax incentives as well as direct federal government

funding and expertise to enhance the development of value-added industries, including farmer-owned initiatives, in rural Canada.

The development of the organic industry is one example of the difficulties encountered by farmers when they want to develop value-added enterprises. With an annual growth rate between 20 and 25 per cent per year, the organic food industry represents the fastest growing product category in the agri-food industry. The current market share held by organic foods (now less than 2 per cent) is expected to quadruple by 2010. As consumers are willing to pay more for these products, the Committee is convinced organic agriculture is a very profitable alternative for farmers.

The Atlantic Canada Organic Regional Network (ACORN), however, emphasized the issue of the transition period during which a farmer must use organic practices without being allowed to sell the products as organic. On that score, the Committee heard that the EU has special measures to compensate farmers during this transition period. Organic farmers also recognize the need to improve their marketing approaches, through links with the retailers, direct marketing, and harmonization of standards and certification procedures. As mentioned by ACORN, there is concern about the absence of a clear and affordable process for revising Canada's national standard in a timely and regular fashion. Furthermore, the current accreditation system that would permit international recognition for certifying bodies in Canada is deemed to be too expensive and can result in potentially higher costs for farmers applying for certification. It is also feared that the current national system will not meet the requirements of our export markets, particularly the EU. Therefore, the Committee recommends that:

Recommendation 10: The government develop an affordable accreditation system for Canadian certifying bodies under the national standard for organic agriculture, and ensure that this system meets the requirements of our main export markets for organic products.

On-Farm Food Safety Programs and Environmental Farm Plans

The provincial and federal agricultural ministers have committed to the new agricultural policy framework (APF) in terms of its broad elements: risk management, food safety and food quality, environment, renewal, and science and innovation. A number of witnesses commented that while they agreed with these elements in theory, they could not fully endorse it without knowing how farmers would be assisted to meet these principles. They especially voiced concern for the need for financial assistance for further environmental and food safety measures. For example, both the P.E.I. Federation of Agriculture and Porc NB Pork stated that their members want to comply with environmental requirements, but lack resources – both human and financial – to meet increasingly higher air- and water-quality demands.

Food Safety Programs

During the past few years, the issue of food safety has become increasingly popular with the media and Canadian consumers. This

awareness is due to, among other things, outbreaks of animal diseases such as “mad cow disease” and foot-and-mouth, which have resulted in the destruction

I do not think our food is any less safe than it once was. I think that the public perception is that farmers are becoming increasingly removed from the production of food. I think the public likes to know ... where their food comes from.

– Dr. Tim Ogilvie, Dean, University of Prince Edward Island Atlantic Veterinary College

of many herds in Europe and Asia. There has been no large-scale food safety problem in Canada, but consumers have expressed concerns about the use of antibiotics in livestock, and genetically modified crops.

The Canadian food safety system has been a key component of the overall image of Canadian agriculture as being safe and reliable. As mentioned by the New Brunswick Federation of Agriculture, it is a pillar of public confidence and support for the agriculture industry. Among the farming community, very few argue against the importance of the food inspection system, and most people firmly believe that the food sold in Canada is safe.

During his presentation before the Committee, Minister Vancilief stated that since the Canadian food safety system has mainly focused beyond the farm gate, the APF intends to shift attention to on-farm improvement in the food safety continuum. Food safety tools such as Hazard Analysis and Critical Control Points are increasingly being used on farms. On-Farm Food Safety Programs based on HACCP enhance on-farm management techniques, and improve documentation, data handling and analysis. An HACCP certification ensures that the food has gone through a series of checkpoints, providing assurance to processors and retailers – and ultimately consumers – that safety standards have been met in the production process.

Some stakeholders hope that the auditing and certification process will be completed at arm's length – possibly by a third party – although it may result in additional expenditures for farmers and extra human resources for certifying bodies.

The Committee is aware that national commodity groups have used federal funding from the Canadian On-Farm Food Safety Program (COFFS), administered by the Canadian Federation of Agriculture. For instance, the Chicken Farmers of Canada have developed a program to implement an HACCP system on their farms. The program entails management and record-keeping procedures. According to the provincial chicken farmer organizations that the Committee met, the audit process for certifying participants will begin in the near future. Similar programs for pork and eggs are currently under development.

Dissenting opinions exist within the farming community, however. Some think governments must still convince consumers that our system is safe, instead of trying to implement expensive on-farm food safety systems. On the other hand, others think Canada has been very fortunate not to have experienced serious food safety incidents, and that the agriculture industry must position itself to provide accountability of the production system and food quality to its customers. If the agricultural industry fails to do so, this could result in market erosion and loss of access to foreign markets. Furthermore, there is a growing movement within the Canadian retail sector for traceability, that is, the means to trace back any food safety problem to its origins, including back to individual farms.

Overall, it is agreed that farmers cannot win the battle against public perception, and that the bottom line must be the consumers' confidence in farm products. Since the APF is still under discussion, little has been said about how on-farm food safety systems would be implemented, nor who would pay for them. Some hope that the agricultural industry – including farm

organizations – will take leadership in this area, as witnessed by the program developed by the Chicken Farmers of Canada.

There is currently no assurance of higher returns for farmers with such a food safety system. The P.E.I. Department of Agriculture and Forestry, however, is hoping to develop brand recognition with its “Food Trust” initiative, as well as entry into niche markets, and higher returns for its farmers. The Committee believes all Canadians and customers in foreign markets benefit from such initiatives, thereby justifying public funding for such initiatives.

Environmental Farm Plans

Agriculture faces a number of environmental issues such as groundwater pollution (nitrates, pesticides, pathogens),

In our business in agriculture, we get questions such as, “Are you environmentally friendly?”
– Ms. Anne Forbes, President, Canadian Farm Business Management Council

soil erosion, air quality (greenhouse gases, odour, ammonia) and the loss of biodiversity (genetic diversity and ecosystem diversity). The Committee believes farmers have always tried to practise responsible stewardship of our land and our natural resources; however, in an effort to cut costs and increase production, farmers feel that they are being forced into making decisions that are not in the long-term interest of the environment or their farms.

Ducks Unlimited Canada suggested that technological advances and declining profit margins for agricultural crops have resulted in agricultural activities that have negatively affected water, soil, fish and wildlife resources in agricultural landscapes. Moreover, there has been tillage of marginal or highly

erodible soils, wetland drainage, overgrazing on native pasture, removal of vegetative buffer zones along waterways and field margins, and over-reliance on fertilizer and pesticide use. The result has been degradation of the ecological integrity of agricultural landscapes. The Association of Manitoba Municipalities also stated that farmers have used practices with potentially long-term and damaging environmental consequences because they believe the present economic system does not provide the incentives for alternate approaches.

Citizens are growing more concerned with the environment, and since an increasing portion of the rural population is not directly employed in agriculture, farmers are beginning to feel the pressure more directly from their neighbours. Consumers want assurance that farmers use environmentally friendly practices, even if sometimes their expectations may put farmers in a quandary. For example, many witnesses told the Committee that some genetically modified crops such as Bt potato may help reduce pesticide use, but the varieties were pulled off the market because consumers are wary of GM foods.

Environmental Farm Plans (EFPs) were often mentioned as a tool for reassuring the public that farmers follow good agricultural practices. Like On-Farm Food Safety Systems, EFP is a checklist process that looks at farm practices such as pesticides storage and buffer zones. Some provinces have already developed such initiatives; for example, as mentioned earlier, 50 per cent of farmers in P.E.I. already have an EFP.

With respect to conflicts with standard farming practices and rural non-farm population – even when farms, particularly livestock operations, are

following guidelines and regulations – the Committee believes EFPs could be used as a tool by farmers to partially shield themselves from lawsuits from downstream customers, and thus mitigate their legal liability. Indeed, some witnesses suggested that customers and consumers will be demanding environmental sustainability, and will write this into future contracts for agricultural products. The Canadian Farm Business Management Council considers EFPs as a way to protect farmers and perhaps ultimately a necessity for staying in business, as it expressed the concern that bankers may also look at the way farmers address EFPs when choosing their clients.

Nevertheless, raising awareness of the economic effects of environmentally sustainable practices (and the lack of them) is a major part of the solution. For example, since the “Soil at Risk Report” in the 1980s, and following discussions on the effect of soil erosion on agriculture, major improvements have been made with respect to soil conservation. According to the Prairie Farm Rehabilitation Administration, approximately one-third of the cultivated area of the Prairie region employs some form of minimum tillage methods.

Supporting Food Safety and Environmental Programs

The improved environmental benefits that farmers help generate are known as *high exclusion cost* goods. A high exclusion cost good is one where it is too

costly to exclude someone from enjoying the benefits of that good. For example, if a farmer changes his management practices so that a nearby stream

Increased environmental conservation is of benefit to all Canadians and ... landowners must be paid for their protection [and] conservation ... of this environment.

– Mr. Terry Hildebrandt, President,
Agricultural Producers Association of
Saskatchewan

is no longer degraded, the farmer has effectively improved the quality of the stream – and the environment – for all Canadians. The farmer has generated what is known in economics as a *positive externality* by changing his/her farming practices. An externality is the effect of one individual on another that is not taken into account by normal market behaviour. In this case, the farmer has created a benefit to society by improving water quality – thus achieving a positive externality – even though the water is not being traded in the normal agricultural markets where people buy and sell agricultural products.

As the P.E.I. Federation of Agriculture asked, “who pays the costs?” for these contributions to the environment made by farmers. Standard economic theory suggests a role for the government in subsidizing farmers’ efforts in providing this high exclusion cost good, since it is a positive externality that benefits all Canadians.

Furthermore, as these types of environmental standards become commonplace at the retail level, farmers will be unable to differentiate their product from one another’s, and will not be able to extract higher prices for their environmentally friendly products, since everyone’s product will be environmentally friendly. Farmers will be unable to charge those to whom they sell crops or livestock – wholesalers and processors – and thus will not be able to recover any increased costs they may have incurred in the process of improving the Canadian environment.

These same arguments are also true for costly food safety measures, such as traceability, that farmers may have to undertake. Similar to environmental benefits, the expense of achieving these food safety benefits cannot be

recovered by individual farmers once all farmers implement systems such as HACCP. Their products will become homogeneous in this regard and, again, wholesalers and retailers will not reimburse them for any added costs. Yet all Canadians benefit from these food safety measures – through lower health-care costs, for instance, and greater accountability in our food system.

The U.S. House of Representatives version of the Farm Bill proposes to increase baseline spending for soil, water, and wildlife programs by 75 per cent, representing more than US\$16.5 billion in additional funding over ten years. This funding will enable farmers to modify their farming practices to meet regulatory requirements on a cost-shared basis. For this reason, the Committee recommends that:

Recommendation 11: The government include in the APF a cost-share mechanism for the implementation of Environmental Farm Plans and On-Farm Food Safety Systems that are adopted by farmers. This mechanism could be part of existing programs such as the Canadian On-Farm Food Safety Program.

Who Will Adapt?

Diversifying, innovating, adding value, and answering market demands are all strategies aimed at improving the farm income

situation. Some witnesses suggested that either a small family farm or a large integrated operation could enter the value-added business, and implement HACCP systems such as On-Farm Food Safety Programs or Environmental

We call the bottom 40 per cent “disconnected”, because it is very difficult to come up with a word that does not denigrate or demoralize. If anything, this is the group where we have to assure that we maintain dignity.

– Ms. Anne Forbes, President, Canadian Farm Business Management Council

Farm Plans. Those solutions do, however, require adaptation skills and resources of Canadian farmers. With a new round of multilateral trade negotiations, and new market constraints, farmers must constantly rethink their production processes. Strengthening human capital and its capability will be a key initiative in helping Canadian farmers adapt to the changing environment in which they have to work.

According to a study carried out by the Canadian Farm Business Management Council, however, approximately 40 per cent of farmers are unwilling or unable to change. This group is not homogeneous and includes all ages, equity levels, commodities, incomes, education levels, and regions. Thus, many forecast that if nothing else is done, these solutions will simply accelerate the decline in the number of farmers in Canada.

New Zealand drastically reduced its number of farmers when it cut farm subsidies, forcing its farming industry to follow the dictates of the market. On the other hand, even with a high level of subsidization, the EU still experiences a constant decline of 3 per cent per year in the number of its farmers. Indeed, as part of the rural development section of its Common Agriculture Policy (CAP), the EU has implemented an early retirement scheme and other measures to help farmers leave the industry, but remain in rural areas. Therefore, the Committee recommends that:

Recommendation 12: The government immediately establish a policy to finance, for those who wish, the transfer out of agriculture through programs such as re-education and retirement schemes.

The Committee believes that, in a decade or so from now, Canada will have the same amount of food, produced in a more environmentally friendly manner and with better guarantees of safety, but produced by fewer farmers. For these reasons, the Committee believes that the proposed adjustments for agriculture described in this section might not be enough to sustain a vibrant farming and agricultural community in rural Canada.

Witnesses in general emphasized the need for assistance to make the transition away from production-oriented agriculture to one that is more market-oriented. Farmers need assistance for initial investments, as well as assistance when they cannot recover costs from the market.

While in the United States, Committee members were told that the funding of conservation efforts, including those contemplated by the House of Representatives Committee in their Farm Bill proposal, shifts some federal support from commodities to conservation efforts. There is public support in the United States for these efforts, especially those that will have long-term public benefits.

Such assistance can be given to farmers to meet Canada's obligations under international agreements such as the WTO, as long as they qualify as *green box* subsidies. In order to qualify for the green box, a subsidy must not distort trade, or at most cause minimal distortion. These subsidies must be government-funded, without charging consumers higher prices, and must not involve price supports. They tend to be programs that are not directed at particular products, and they include direct income supports for farmers that are not related to current production levels or prices; that is, these programs are

decoupled from current production levels or prices. Green box subsidies are allowed without limits, provided they comply with the relevant criteria. They also include environmental protection and regional development programs.⁵

The Government of Canada and provincial governments can fund rural and environmental programs to assist Canadian farmers in transforming the agricultural industry to meet the challenges of the 21st century as long as they meet the green box criteria.

Moreover, there are indications from the United States and the EU that they will realign more of their subsidies. They will continue to invest in their agricultural sectors, but will ensure that they are green box subsidies in order to avoid retaliation from their trading partners.

Since 1995, the Canadian Adaptation and Rural Development (CARD) fund has helped farmers to adapt to the changing environment. About \$60 million annually in federal funding is shared between national and provincial programs. An annual allocation of \$25 million is administered by 13 provincial councils, which support initiatives that are unique to specific regions. The Committee thinks CARD is a useful tool to help farmers enter value-added agriculture and meet the demands of a changing market. The Committee therefore recommends that:

Recommendation 13: The federal annual contribution to the CARD fund be doubled, from \$25 million to \$50 million, and that diversification and value-added agriculture be targeted as adaptation priorities.

⁵ WTO Phase 1: Domestic support — amber, blue and green boxes. See: http://www.wto.org/english/tratop_e/agric_e/negs_bkgnd08_domestic_e.htm#green

FARMERS ARE PART OF RURAL CANADA

Canadian farmers are an integral part of rural Canada. They share the rural landscape with their non-farming neighbours, and contribute to it through their farming activities. Their farms enrich the local economy not

[T]he development of the capabilities of rural communities is definitely a necessary condition for the development of rural Canada today, but that condition may not be sufficient ... it is my view that, as a result of the concentration process in agriculture, a number of rural communities in Canada are in danger of disappearing and that new economic approaches must be put in place to revitalize the economies of those areas.

– Dr. Bruno Jean, President, Canadian Rural Revitalization Foundation

only through their input purchases – such as labour, feed, machinery, and fertilizer – but also through the visual and environmental benefits that are created by their operations. Nevertheless, there appears to be an ever-increasing rift between farmers and the general population due to such issues as environmental and food safety concerns. Since Canada's farmers are part of our national wealth, these two groups need to be reconciled across these issues.

Financial Contributions to Rural Canada

Agriculture is a major sector of the economy; it generates about 8.5 per cent of Canada's gross domestic product (GDP); it is the largest manufacturing sector in seven of Canada's ten provinces; and it

Many of the small communities across the Prairies were developed as service centres for the surrounding farms, and many continue to perform this role today ... they are still dependent on farmers as their largest customers. These include farm machinery dealerships, banks, vehicle dealerships, grocery and hardware stores, and all the other businesses that make up small communities and employ their residents. Clearly, the fate of these communities is tied closely to the future of agriculture.

– Mr. Wayne Motheral, President, Association of Manitoba Municipalities

contributes \$5–7 billion annually to Canada's trade surplus. While the rural economy is not entirely dependent upon agriculture, farmers do make significant financial investments in rural communities, through the people they employ, other inputs they buy, the machinery they purchase, and the municipal

taxes that they pay. Indeed, agriculture accounts for one of every seven jobs in Canada – in some rural areas it accounts for one in every five jobs. Through these financial investments, farmers help to create a vibrant rural community with local businesses, schools, and community organizations.

Younger people who want to become farmers are not doing so because of a variety of financial barriers. The Committee strongly believes that young people who want to enter agriculture must be supported since they provide numerous economic and social functions for our entire country, not just rural Canada. For instance, the agri-food sector is the country's third-largest employer, employing 1.9 million people, in both rural and urban Canada. In Alberta, the food and beverage industry is the province's largest manufacturing industry, employing almost one in five of the manufacturing workforce. The employment ramifications alone justify support for new entrants to the industry.

New entrants will be attracted to farming only if it can provide them with a positive future. Among other factors, the Committee learned that young people will be attracted to farming if it is financially viable, and if independent ownership is maintained. Although some provincial governments have programs to assist new entrants – a step in the right direction – farming has to be more profitable for farmers. Some areas in which the government can assist young farmers is inter-generational transfers of farming assets (example, machinery, land, and quotas), and development of sectors that hold appeal to young people such as organics, production of fur animals like mink, and value-added ventures that are more attractive due to their higher profit margins.

Yet, with the numerous challenges facing Canadian farmers today, more farmers are going out of business. As the Association of Manitoba Municipalities stated, “Farmers are being forced off the land, grain elevators are closing, local businesses are suffering, schools are closing, and municipalities are losing their tax base.” This situation has been characterized as “a community crisis that threatens the social fabric of ... Canada.”

Frictions with Non-Farming Populations

As we enter the 21st century, Canadian farmers face not just traditional risks from weather, pests, and global market fluctuations, but

Probably more important than that, it is a people issue. It is not just about crops, livestock or statistics, but it is about Canadians.

– Mr. Jack Hayden, Federation of Canadian Municipalities

also changing preferences in Canadian society. Food safety and environmental concerns are uppermost in Canadians’ minds. Consumers are demanding to know where their food comes from, how it is produced, and how it affects natural resources such as water and air quality. In response, some food manufacturers and retailers are requiring their suppliers to provide food safety and environmental assurances. These concerns are exacerbated in the rural communities where farmers live and work, and where a significant portion of the rural population is not made up of farmers. They have to share the rural natural resources with sometimes competing economic and social demands.

Although farmers do try to practise responsible stewardship of their land and rural natural resources, farmers feel that increasingly they are being forced into making decisions that are not in the long-term interest of the environment, in an effort to cut costs and increase production. For example, in an effort to

maximize production, marginal land in riparian and other ecologically sensitive areas is being cultivated, and normal crop rotations are being abandoned in order to grow higher-value crops more frequently than the land can sustain. It is precisely this type of use of space that troubles non-farming rural residents.

While farmers must learn to do their work while respecting others, as good citizens, other rural residents must also accept the agricultural potential of the cultivable land around them. To do so, courteous and positive dialogue must be opened up between the various stakeholders. Nevertheless, and despite the multifunctional benefits of agriculture, frictions will likely continue to exist. Therefore, the Committee recommends that:

Recommendation 14: The government, within the rural dialogue, initiates workshops and conferences to help rural communities racked by agonizing debates between non-farming residents and farmers.

Although the farming practices mentioned above may have damaging long-term environmental consequences, farmers believe the present market climate provides no alternatives. Consequently, farmers and the non-farming rural population are increasingly at odds over such issues as expansion of livestock operations, nuisance odours, and degradation of water and air quality. Yet farmers help to provide the very same amenities that the rural population enjoys. Farmers do not just produce food. They also fulfil multiple positive environmental roles.

Multifunctional Values of Farms in Rural Canada

Multifunctionality recognizes the economic and social values that agriculture performs beyond just food production. Although these goods have economic value – that is, society places

[W]e are suggesting to Canadians that we have more to offer than wheat, beef and hogs. We have the ability to be stewards of the environment. We have been in the past and we are prepared to do so in the future. A clean environment, which is so important to all of us, can certainly be part of what we have to offer. However, we need reimbursement for our part in keeping the environment clean.

– Mr. Terry Hildebrandt, President Agricultural Producers Association of Saskatchewan

value on such things as a pastoral landscape – they may not have direct market prices. Indirect benefits include environmental values such as green space and carbon sinks, rural amenities, and cultural value. Several witnesses attested to these benefits that farmers provide to rural areas. Even though farmers enrich the quality of life of rural inhabitants, these benefits may not necessarily be obvious to non-farming residents because they are indirect.

By making the non-farming public more aware of the values that farmers generate for their communities and for the country, it may be possible to reconcile these two diverging rural groups. Witnesses from both Western Canada and the Maritimes urged the Committee to assist in heightening the non-farming public's awareness of the positive economic and social contributions that farmers make beyond food production. For instance, the Committee heard that the P.E.I. tourism industry is dependent upon the working pastoral landscape provided by the agricultural industry. The Committee strongly agrees with the witnesses of the need to make the non-farming population understand the fundamental role farmers play in our society, and the need for their continued survival, while also recognizing the failure of governments in achieving this has hindered the development of rural Canada. It is essential that the federal government work with farmers and farm

organizations to show to non-farming Canadians that agriculture makes positive contributions to our society. For this reason, the Committee recommends that:

Recommendation 15: The federal government work with farm organisations in developing a powerful communications campaign to ensure that all Canadians appreciate farmers' economic and social contributions to our society.

Furthermore, by helping to maintain an attractive working landscape, ecological diversity and a healthy environment, farmers may be able to demonstrate to the non-farming population that both sides share similar values. The Agricultural Producers Association of Saskatchewan suggested that by improving the environmental health of Canada's rural landscape, farmers could help Canada meet its obligations under such multilateral international environmental programs as the Kyoto Protocol. Through their agricultural activities, farmers may be able to mitigate some global environmental risks through carbon sequestration, as well as stewardship of biodiversity, endangered species, and species at risk.

As the Federation of Canadian Municipalities indicated, there are many linkages between agriculture and rural communities. These include links to the rural economy, the social fabric of rural communities, and environmental health. During its fact-finding trip to Europe, the Committee looked at the various rural development measures that are part of the CAP. These measures target the adaptation of farm operations, human resources (early retirement scheme, training, young farmers), the rural economy (processing and marketing

of agricultural products, diversification in off-farm activities, etc.), and the environment. Except for the agri-environmental measures, all measures are voluntary. Each member state presents a rural development plan identifying the most appropriate geographical area that represents the chosen priorities, and also specifies the steps to ensure successful implementation.

During its fact-finding trip to Northern Ireland, the Committee learned a great deal of how farmers are supported to provide environmental benefits. Farmers, who voluntarily enter the program, have to follow a series of environmental practices: for instance, on lowland wet grassland, a rich habitat which is often prone to seasonal flooding, farmers cannot apply any type of fertilizer, and must follow specific requirements for grazing periods and stocking density. In return, as the practices may not be financially viable, farmers receive a compensation payment based upon the additional costs or the loss of income resulting from these requirements. The end results are increased biodiversity, better water quality of rivers and lakes, and the maintenance of specific landscapes.

Other programs target the conservation of heritage features or the development of agri-tourism activities on farms. The non-farming citizens of these countries are prepared to provide support to their farmers in order to accomplish several goals simultaneously, including the provision of a safe domestic food supply, protection of the environment, preservation of wildlife habitat, provision of open green spaces, and preservation of the rural way of life.

In the EU, farmers receive support from two different types of programs: (1) production linked payments such as direct payments based on historical yields or reference numbers of livestock, and (2) rural development support that target the multifunctional roles of agriculture such as the agri-environment scheme.

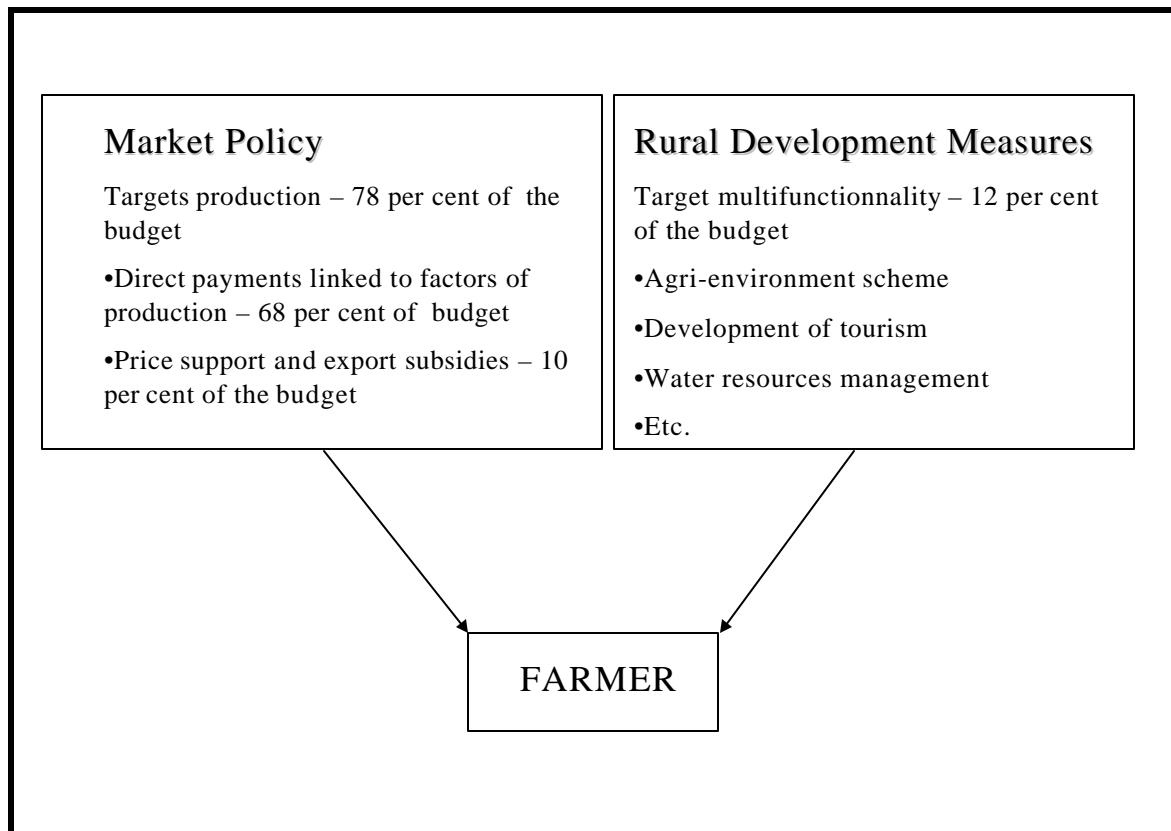


Figure 1: EU Support for agriculture under the Common Agricultural Policy

For example, the current budget for agri-environment schemes in Northern Ireland is around £6 million a year (\$13.8 million). This is set to increase to £12 million (\$27.6 million) under current proposals, depending upon any policy decisions arising from the mid-term review of CAP, and the continuing emphasis on rural development measures. With around 5000 farmers engaged in agri-environment schemes in Northern Ireland, the average

payment is about £1200 per farm (\$2,760). Payments under agri-environment schemes only represent around 3 percent of all direct payments to farmers in Northern Ireland (£200-225 million each year - \$460-520 million)⁶. It is a small percentage of all direct payments because only a small percentage of farmers participate in these programs (around 16.7 percent of all farms).

For those farms that do engage in agri-environment schemes, however, these payments can represent a significant share of their income. For example, payments under the agri-environment scheme account for 18 percent (£4,400) of the farm cash receipts of a 40 cow beef operation that the Committee visited – a full-time farmer with a 80 hectare farm. These payments compensate him for the maintenance of hedgerows, the loss of income due to the prohibition of applying fertilizer in environmentally sensitive areas, and other similar restrictions. Market policy payments (direct payments linked to factors of production) account for 25 percent (£5,700) of the farm cash receipts of this particular farm, and the sales of livestock represent the remaining 57 percent (£13,240).

Although the Committee recognizes that multifunctionality has been criticized as a way of legitimizing production subsidies that are trade-distorting, this need not be the case if programs are correctly designed. For instance, the EU has also developed programs that target some of the other benefits of agriculture, of which the agri-environmental measures are an example. Consequently, the Committee recommends that:

⁶ This is scheduled to increase to 6 percent by 2005-2006.

Recommendation 16: Agriculture and Agri-Food Canada study the application of the concept of multifunctionality to Canadian agriculture. This examination should include a determination of the various roles of agriculture in different parts of the country, as well as an analysis of the means to promote them.

The Committee believes that support should be provided to farmers in recognition of their role as stewards of the land, and that government support should target the other roles of agriculture to promote rural values.

Improving the Viability of Rural Communities

Rural development is a complex issue, and sustainable solutions require the examination of a diverse set of relationships that include economic, political and socio-cultural phenomena. The uniqueness of rural areas requires government involvement that must be undertaken in partnership with rural stakeholders such as farmers and local governments.

We remain unproductive for lack of a few kilometres of asphalt.

– Mr. Paul-Émile Soucy, President of the
Fédération des agriculteurs et agricultrices
francophones du Nouveau-Brunswick

The framework of the Canadian rural development policy materialized in 1998 through the creation of the “Canadian Rural Partnership” for the delivery of federal policies and programs. This was followed in 2000 by the “Rural Lens,” which is a way of obliging federal departments and agencies to view issues through the eyes of Canadians living in rural and remote areas.

Governments must understand – and the Rural Partnership approach indicates that they increasingly do – that simply injecting funds into rural communities is not sustainable. If an agricultural base in the future is unviable, the alternatives are to develop businesses and job possibilities within the community, or leave. Governments must then realize that one of their roles is to help create market opportunities through the development of viable markets in rural areas. On the other hand, people who live in rural areas must see themselves as an interest group with a common objective, otherwise maintaining a rural way of life is not possible.

To work well, markets need several conditions. First, there must be a commodity or service to be exchanged; second, there must be an adequate number of buyers and sellers so the exchange is competitive; third, the bargaining process must be perceived as being fair; and finally, there must be a set of rules governing exchanges. Typically, in many rural areas, one or more of these conditions is missing. The government must understand that, in some rural areas, years of intervention might have only limited success in facilitating the development of viable markets and their benefits.

The Committee heard from witnesses across Canada that there is a need for government to invest in the infrastructure of rural Canada to ensure that it does not wither in the 21st century. Infrastructure requirements include traditional roads as well as digital connections to the Internet. In terms of traditional infrastructure constraints, the Committee heard from witnesses in Atlantic Canada that they are unable to penetrate national and international markets due to poor roads and limited highway systems. For example, in New Brunswick, the Committee heard that access to Quebec and to the Canadian

market in general is achieved by means of highway 185, which is not only small but also one of the most deadly highways in the country. This inadequate highway infrastructure relegates farmers to the fringes of a vast continent. It is a major handicap, as it denies them quick access to lucrative markets in the central provinces and the United States. In fact, only some sections of the Trans Canada highway have four lanes. Thus, some regions have limited access to the U.S. market, as they cannot quickly access a decent road system.

Farmers in this part of the country are, in a sense, doomed from the beginning, since agricultural commodities are often perishable and major clients need suppliers that are able to meet delivery schedules, in order to run their businesses. Farmers are further denied the opportunity for growth, as the population of the Maritime provinces alone cannot support the agricultural infrastructures required for mass production at competitive prices. In order to give regional Canadian farmers the opportunity to meet the demands of their markets, the Committee recommends that:

Recommendation 17: The government provide financial assistance for infrastructure programs aimed at upgrading key highways to improve their safety, and to link regional markets to wider markets.

In addition to traditional types of infrastructure investments, the Committee heard from private and Crown corporations that governments must assist them in linking rural communities to the Internet. This could prove a vital step in ensuring young people stay in rural areas in the future.

In fact, a representative of Bell Canada acknowledged that telecommunications capability and telecommunications infrastructure may be more important in rural Canada than it is in urban Canada. Bernard Courtois, Chief Strategy Officer stated that:

[A]cross Canada, farmers are struggling to deal with continued low commodity prices, while at the same time farm input costs such as fertiliser, fuel, and chemicals continue to rise ... Many farmers cannot afford to put in a crop this spring. This will have a profound impact not only on the producers and their families but also on their communities and the rural economy.

Representatives from both Bell Canada and Aliant Canada in Atlantic Canada indicated that across the country, Internet service providers will reach about 70 to 80 per cent of the population, leaving behind the remaining 20 to 30 per cent, largely in rural areas, that lack the population density of major urban areas to attract investments required by private companies. The estimated costs for Atlantic Canada to bring high-speed Internet to that remaining population are between \$6,000 and \$12,000 per customer, with a 12- to 15-year payback timeline. While Canadians may express some unease at the idea of the government's investing in a joint venture that may be perceived as a luxury, and which they feel should be left to the private sector, private companies will not make the investment because it is unprofitable for them to do so.

Yet the need to invest in rural Canada is vital, indicating a role for the government. This is especially true since it can be argued that the value of advanced communications is even greater in rural Canada than in urban Canada. Indeed, technology can be used as an enabler for rural Canada.

Technology, including information technology, can provide more services to the rural areas – vital government and social services, such as education, health, and administrative services. Perhaps even more important, it may keep young people in rural areas. Aliant Canada, which appeared before the Committee in Nova Scotia, attested to attracting highly skilled, young individuals to high-paying jobs, and keeping them in Atlantic Canada. It is clear, though, that a mix of public and private roles is required.

Bell Canada mentioned the SuperNet project in Alberta. Through this project, the provincial government is partnering with Bell Canada and investing each year in telecommunications to connect all the public institutions – schools, health facilities, and government offices – and will pay for that service. Other provincial governments, however, do not have the same kind of financial resources as the Government of Alberta. Thus, the Committee recommends that:

Recommendation 18: The government partner with private companies to ensure that 100 per cent of Canadians have access to high-speed Internet services by following a plan like SuperNet in Alberta and connecting all public institutions.

RESEARCH IS THE KEY TO THE FUTURE OF AGRICULTURE

According to many groups, the need for innovative research has never been more critical to the success of agriculture than at present. The Committee visited several research centres in Atlantic Canada where it was encouraged to find that the research is not targeted simply to increase production or lower farmers' production costs. The Committee believes such innovative research is the key factor that can allow farmers to decrease their risks and compete effectively in today's global economy.

There are new challenges in terms of research. First, it must help farmers meet global competition, notably in finding new products or adding value to existing ones. Such areas as biofuels, nutraceuticals, pharmaceuticals, and organic processed food could be extremely rewarding avenues of research.

As the agriculture industry has to respond to environmental concerns, research must develop low-cost, adaptive, environmentally friendly practices for farmers. The Eastern Canada Soil and Water Conservation Centre emphasized the importance of Best Management Practices that will integrate principles of production that enhance the long-term economic and environmental sustainability of agriculture. There is also insufficient research on organic agriculture. The Committee views organic agriculture not only as a market opportunity for farmers, but also as a laboratory to develop farming practices for sustainable agriculture in the future. In this regard, the Committee welcomes the establishment of the Organic Agriculture Centre of Canada at the Nova Scotia Agricultural College.

Finally, there is the major challenge of adapting Canadian agriculture to climate change and its effects on resource availability, and changing pest and disease patterns. For instance, the Committee heard different views on the need for irrigation in eastern Canada. In this regard, it became obvious that improving our knowledge of groundwater resources is paramount before any irreversible decisions are made.

As the New Brunswick Federation of Agriculture mentioned, the need for a public research strategy is pressing. Canada must own its agricultural research for the benefit of all Canadians as research ownership has important effects on farmers. For example, to protect their investment in the development of GM crops, private companies licence farmers to use the crop under certain conditions including to use the seed solely for planting a single commercial crop and agreeing not to save any crop produced from this seed for replanting. On the other hand, any research done by the Government of Canada means a freer access to the technology or the new products. Public research can produce success stories that have a major effect on Canadian agriculture, as witnessed by the introduction of canola in the Prairies, and the shepody potato variety in the Maritimes.

There is also a role for industry-funded research, but this could be focused on a different type of goal than publicly funded research, such as business marketing. The Matching Investment Initiatives (MII) allows industry to fund research at a federal research institution, with a matching contribution from the federal government. But a system that requires matching funding will not necessarily be able to focus on future agricultural applications, because new crops may not have a critical mass of producers to generate enough revenue

and participate in the MII. Furthermore, agricultural research at the federal level is organized around the 18 “centres of excellence,” which focus on regional historical production such as potato in the Maritimes or cereals in the Prairies. Thus, the pulse industry, for instance, cannot ask for money under the MII since there are no pulse programs in the federal system.

Canadian research programs have been very helpful to farmers. For example research efforts have provided Canadian farmers with improved crop varieties suitable for our climate and regional soil conditions. These positive research results have also benefited consumers, for example, through a greater variety of foods. The Committee acknowledges that while funding for agriculture has increased recently, new monies are needed to help Canadian farmers compete with their heavily subsidized counterparts in the U.S. and the EU. Furthermore, research programs must not simply take into account what is grown today, but must also look at issues that farmers may face in the future. Therefore, the Committee recommends that:

Recommendation 19: The federal and provincial governments must increase their financial support for research and development activities. They must account for regional opportunities and concerns to ensure that Canadian farmers remain competitive and are able to adapt to their changing environment. For example, governments must provide new research dollars for such promising areas as organic farming. The Committee also recommends that the government review its research programs to reflect what the farming industry may look like in the future with respect to new crops and new applications, and increase its funding accordingly.

The Committee believes the federal government can have a balanced role in delivering a strategy that will reduce risks in the Canadian agricultural industry. As new applications may often be developed on a small scale, regional research is important to ensure those applications apply to the relevant farming conditions and needs.

When dealing with new applications such as biofuels or other uses of existing products, research must also focus on the long term. The Committee was also told that long-term research of less than three years in such areas as soil conservation, climate change, and water quality is often meaningless. For instance, the effects of climate change and carbon sequestration may need to be studied over periods longer than five years. Therefore, the Committee recommends that:

Recommendation 20: The government take the long-term needs of research into account when developing research programs within federal facilities or attributing research grants to other research institutions.

Lastly, the Committee believes the key to the success of any research strategy will be the communication of results and access by industry to the range of data used to generate them. Many witnesses emphasized the importance of involving farmers in setting research priorities. This permits successful technology transfer, so when new products or practices are developed, farmers are able to use them effectively. Farmers can be involved in many ways; for instance, ACORN noted that in P.E.I., the provincial government offers research grants enabling organic farmers to develop a

research project in which they are interested. Therefore, the Committee recommends that:

Recommendation 21: The government, in co-operation with the provinces and territories, formalize a mechanism whereby farmers are involved in the input to set public research priorities.

CONCLUSION

During the Committee's hearings and fact-finding trips, it reached several conclusions. In addition to the points made above, the Committee recognizes that:

- Canadian farmers, regardless of sector or region, are in great difficulty, resulting from low commodity prices, high input costs, unpredictable weather, a lack of infrastructure, and/or increasing regulatory and market requirements.
- Rural Canada is the heart of our country by making significant economic and social contributions that improve our quality of life. Nevertheless, a variety of stresses are resulting in the slow death of rural Canada.
- Given a level playing field, Canadian farmers can compete with any farmers from around the world.
- Due to the diversity of our agriculture throughout the country, federal government policies may be perceived as favouring one region over another, or one commodity over another.
- Provinces have a responsibility, along with the federal government, for the future health of agriculture. In order to fulfill this responsibility, provincial and federal governments must make greater effort to develop a common multi-year policy.

- Canada has gone beyond its WTO commitments by reducing its support for agriculture – it has eliminated funding at a faster rate than is required under WTO rules. The Committee believes the Canadian government must not continue to do so in the future. In fact, although it is not feasible for the federal and provincial governments to fund the agriculture and agri-food industry to the same extent as is the case in the United States, governments should fund agriculture to the same proportion of our economic wealth as our main trading partner, and commit themselves to spend at least 1 per cent of our GDP to support agriculture.
- Prosperity in the Canadian agriculture and agri-food industry must be pursued through such means as:
 - research,
 - the identification of value-added opportunities,
 - answering market demands such as food safety and environmentally responsible practices,
 - a focus on rural values and the other roles of agriculture such as land and water stewardship, and
 - the pursuit of international trade rules that create a trade environment within which Canadian farmers – who are highly efficient and produce a high-quality product – can prosper.

Barring absence of these changes, Canadian farmers will remain at risk.

APPENDIX A

ISSUE NO.	DATE	WITNESSES
34	March 21, 2002	Bell Canada: Bernard Courtois, Chief Strategy Officer Linda Gervais, Vice President, Federal Government Relations SaskTel: Pat Tulloch, General Manager, Marketing
32	February 19, 2001	The Honourable Lyle Vancilief, P.C., M.P., Minister of Agriculture and Agri-Food Agriculture and Agri-Food Canada: Samy Watson, Deputy Minister Diane Vincent, Associate Deputy Minister
31	February 14, 2002	The Honourable Ernest Fage, Minister of Agriculture and Fisheries – Government of Nova Scotia Eastern Canada Soil and Water Conservation Centre: Jean-Louis Daigle, Director New Brunswick Federation of Agriculture: Paul Vautour, Executive Director Dairy Farmers of Nova Scotia: John C.H. Vissers, President Soil and Crop Improvement Association of Nova Scotia: Andrew McCurdy, President Nova Scotia Agricultural College: Dr. David Percival, Research Professor Dr. Kirsti Rouvinen-Watt, Research Professor
30	February 13, 2002	Nova Scotia Agricultural College: Dr. H. Garth Coffin, Principal Nova Scotia Federation of Agriculture: Fraser Hunter, Chair, Industry Planning Committee Laurence Nason, Executive Director Atlantic Canada Organic Regional Network (ACORN):

APPENDIX A

Jennifer Melanson, Director of Administration

Fédération des agriculteurs et agricultrices francophones du Nouveau-Brunswick :

Paul-Émile Soucy, President

Potatoes New Brunswick:

Patton MacDonald, Executive Director

Aliant Telecom:

Alan Buchanan, Director, Government Relations

Mike Howard, Senior Government Relations Advisor

Nova Scotia Christmas Tree Council:

Shawn Lacey, President

Len Giffen, Coordinator

Organic Agriculture Centre of Canada:

Dr. Phil Warman, Chairman

Nova Scotia Agricultural College:

Dr. Robert Gordon, Professor

University of Prince Edward Island – Atlantic Veterinary College:

Dr. Tim Ogilvie, Dean

Agricultural Development Institute:

Heather Anne Grant, Special Projects Researcher

Nova Scotia Egg Producers:

Ralph De Long, President

29 December 13, 2001

Health Canada:

Richard Aucoin, Acting Director, Efficacy and Sustainability
Assessment Division, Pest Management Regulatory Agency

Government of Saskatchewan, Department of Agriculture and Food :

Cameron Wilk, Pesticide Management Specialist, Inspection
and Regulatory Management

Scott Hartley, Provincial Specialist, Insect and Pest
Management

APPENDIX A

- Saskatchewan Association of Rural Municipalities:**
Ken Engel, Executive Director
Robert Schultz, Director
- 28 December 11, 2001 **Canadian Rural Revitalization Foundation (CRRF):**
Bruno Jean, President
- University of Alberta :**
Peter Apedaile, Professor Emeritus
- Rural and Small Town Programme, Mount Allison University:**
David Bruce, Director
- Centre for Rural Studies and Enrichment, St. Peter's College:**
Diane Martz, Director
- 27 December 6, 2001 **Canadian Bankers Association:**
Terry Campbell, Vice-President, Policy
- Scotiabank :**
Bob Funk, Vice-President, Agriculture
- RBC Royal Bank:**
Pieter Kleinschmidt, National Director, Agriculture and Agribusiness
- 26 December 5, 2001 The Honourable Pierre Pettigrew, P.C., M.P., Minister for International Trade
- Department of Foreign Affairs and International Trade:**
Claude Carrière, Director General, Trade Policy Bureau
- Agriculture and Agri-Food Canada:**
Suzanne Vinet, Chief Agriculture Negotiator, International Trade Policy Directorate
- 25 December 4, 2001 **Canadian Farm Women's Network:**
Judy Brown, President, Ontario Farm Women's Network
- Statistics Canada:**
Ray Bollman, Chief, Research and Analysis Section
- 24 November 29, 2001 The Honourable Lyle Vanclief, P.C., M.P., Minister of

APPENDIX A

Agriculture and Agri-Food

Agriculture and Agri-Food Canada:

Samy Watson, Deputy Minister

Diane Vincent, Associate Deputy Minister

Canadian Food Inspection Agency:

Ron Doering, President

- 23 November 27, 2001 **Canadian Farm Business Management Council:**

Anne Forbes, President

Jim Laws, Executive Director

- 22 November 22, 2001 **Agriculture and Agri-Food Canada:**

Kevin Doyle, Manager, Federal Policy Integration, Rural Secretariat

Bob Cumming, Manager, Departmental Coordination, Rural Secretariat

Heather Clemenson, Manager, Rural Research and Analysis, Rural Secretariat

- 21 November 20, 2001 **Delegation of the European Commission in Canada:**

Ambassador Danièle Smadja, Head of the Delegation

Philippe Musquar, Counsellor, Economic and Commercial Affairs

Fred Kingston, Senior Advisor, Economic and Commercial Affairs

- 20 November 8, 2001 **National Farmers Union:**

Stewart Wells, Board Member

Agricultural Producers Association of Saskatchewan:

Ivan Ottenbreit, Vice-President

Arlynn Kurtz, Executive Director

Greenpeace Canada:

Holly Penfound, Campaign Coordinator - Environmental Health

Keystone Agricultural Producers:

Don Dewar, President

Saskatchewan Organic Directorate:

APPENDIX A

Marc Loiselle, Director

Council of Canadians:

Nadege Adam, Biotechnology Campaigner

Canadian Health Coalition:

Bradford Duplisea, Health Researcher

- 19 November 6, 2001 The Honourable Ralph E. Goodale, P.C., M.P., Minister responsible for the Canadian Wheat Board and Minister of Natural Resources
- Agriculture and Agri-Food Canada:**
Howard Migie, Director General, Marketing Policy
Directorate, Strategic Policy Branch
Suzanne Vinet, Chief, Agriculture Negotiator, International Trade Policy Directorate, market and Industry Services
- Jamie Oxley, Chief, Cross-Sectoral policy Development Division, Strategic Policy Branch
- Canadian Wheat Board:**
Brian T. Oleson, Senior Economist
- 18 November 1, 2001 **Solidarité rurale du Québec:**
Jacques Proulx, President
Marie Anne Rainville, Director of Public Affairs
- 15 October 18, 2001 **As individuals:**
Daryl Knight
Murray Downing
Andrew Denis
- 13 October 4, 2001 **Agriculture and Agri-Food Canada -
Prairie Farm Rehabilitation Administration:**
Bernie Ward, Director, Analytical and Communications Service
Gerry Luciuk, Director, Land Management and Diversification Service
- 10 June 7, 2001 **Agricultural Producers Association of Saskatchewan:**
Terry Hildebrandt, President
Cecilia Olver, Director

APPENDIX A

- 9 May 31, 2001 **Association of Manitoba Municipalities:**
Wayne Motheral, President
Joe Masi, Director of Policy and Research
- Saskatchewan Association of Rural Municipalities:**
Mr. J. Sinclair Harrison, President
Arita Paul, Manager of Agricultural Services
- 8 May 17, 2001 **Federation of Canadian Municipalities:**
Jack Hayden, Member, National Board of Directors
- Department of Health Canada:**
Anthony Chu, Director, Innovation and Investment Division,
Office of Health and the Information Highway, Information,
Analysis and Connectivity Branch
John Wootton, Special Advisor on Rural Health
- 7 May 8, 2001 **Ducks Unlimited Canada:**
Brian Gray, Director of Conservation Programs;
J. Barry Turner, Director of Government Relations
- 6 May 1, 2001 The Honourable Andy Mitchell, P.C., M.P., Secretary of
State (Rural Development) (Federal Economic Development
Initiative for Northern Ontario)
- Department of Agriculture and Agri-Food Canada:**
Diane Vincent, Associate Deputy Minister
Lynden Johnson, Executive Director, Rural Secretariat
- 5 April 24, 2001 **Farm Credit Corporation:**
John Ryan, President and Chief Executive Officer
Louise Neveu, Executive Vice-President, Chief Knowledge
Officer
Jacques Lagacé, National Director, Government and Industry
Relations
Scott Grant, Portfolio Management Officer
- 4 April 4, 2001 The Honourable Lyle Vanclief, P.C., M.P., Minister of
Agriculture and Agri-Food Canada
- Department of Agriculture and Agri-Food Canada:**
Samy Watson, Deputy Minister

APPENDIX A

Diane Vincent, Associate Deputy Minister
Tom Richardson, Director General, Farm Income and
Adaptation Policy Directorate, Strategic Policy Branch
Suzanne Vinet, Director General, International Trade Policy
Directorate

3 April 2, 2001 The Honourable Ralph E. Goodale, P.C., M.P., Minister
responsible for Canadian Wheat Board and Minister of Natural
Resources

Department of Agriculture and Agri-Food Canada:

Howard Migie, Director General, Marketing Policy
Directorate, Strategic Policy Branch

2 March 29, 2001 **Canadian Federation of Agriculture:**
Bob Friesen, President
Jennifer Higginson, Trade Policy Analyst

Department of Foreign Affairs and International Trade:

Claude Carrière, Director General, Trade Policy Bureau I,
Chief Negotiator, Free Trade Area of the Americas (FTAA)

Department of Agriculture and Agri-Food Canada:

Terry Norman, Director, Western Hemisphere Trade Policy
Division, International Trade Policy Directorate, Market and
Industry Services Branch

APPENDIX B

The Standing Senate Committee on Agriculture and Forestry's Fact-Finding visit to Europe
March 9 – 15, 2002

Individuals and organizations with whom the delegation met included:

BRUSSELS

Mission of Canada to the European Union

Directorate General for Agriculture European Commission

Directorate General for Health and Consumer Protection European Commission

Directorate General for Agriculture European Commission

Eurogroup for Animal Welfare

European Landowner's Organization

STRASBOURG

Mission of Canada to the European Union

Commissioner Fischler (Agriculture and Fisheries)

Members of the European Parliament

NORTHERN IRELAND

**Northern Ireland Minister of Agriculture and Rural Development
Brid Rodgers**

Department of Agriculture and Rural Development for Northern Ireland

Agriculture Committee of the Northern Ireland Assembly

Northern Ireland Assembly of Agriculture and Rural Development Committee

APPENDIX B

The Standing Senate Committee on Agriculture and Forestry's Fact-Finding visit to the Maritimes
February 10 – 15, 2002

Individuals and organizations with whom the delegation met included:

FREDERICTON, NEW BRUNSWICK

Maurice Bernier, Deputy Minister Ministry of Agriculture, Fisheries and Aquaculture

Forest Products Commission

SAINT JOHN, NEW BRUNSWICK

Mayor Shirley McAlary, City of Saint John

Shipping Port and Forest Products Terminal

New Brunswick Milk Marketing Board

Dairy Farmers of New Brunswick

Southern New Brunswick Forestry Products Marketing Board

The Fundy Model Forest Program

MONCTON, NEW BRUNSWICK

Atlantic Canada Opportunities Agency

Cavendish Farms

CHARLOTTETOWN, PRINCE EDWARD ISLAND

The Honourable Mitch Murphy, Minister of Agriculture

PEI Potato Board

WOLFVILLE, NOVA SCOTIA

Donald Lightfoot and Poultry Producers

Nova Scotia Fruit Growers Association

Nova Scotia Cattleman's Association

APPENDIX B

Horticulture Association of Nova Scotia
KENTVILLE, NOVA SCOTIA

Atlantic Food and Horticulture Research Centre

APPENDIX B

The Standing Senate Committee on Agriculture and Forestry's Fact-Finding visit to Washington
July 30 – August 2, 2001

Individuals and organizations with whom the delegation met included:

American Farm Bureau Federation

House Committee on Agriculture

The International Trade Commission:

International Trade Commission

National Cattleman's Beef Association

National Farmers Union

Office of the U.S. Trade Representative

United States Department of Agriculture

House of Representative Agriculture Committee

Congressional Rural Caucus

American Farmland Trust



NEWS RELEASE

Le comité sénatorial permanent de l'agriculture et des forêts

CANADA NEEDS A NATIONAL AGRICULTURAL POLICY

Ottawa (February 15, 2002) – Canada needs a comprehensive, flexible, national strategy to support and protect farmers, Senator Leonard Gustafson, Chair of the Standing Senate Committee on Agriculture and Forestry, said today at the conclusion of the Committee's five-day fact-finding tour of the Maritime Provinces.

"Canada's agricultural policy is a checkerboard today," Sen. Gustafson said. "We have policies to address specific farm issues in each region, such as drought, export, disease, pest infestations, transborder transportation and environmental stewardship, but no overall strategy for the country's agricultural sector that can deal with problems and opportunities on a national level.

"And, from what we have heard, not only in the three Maritime Provinces but from the agriculture industry right across this country, Canada very much needs one. We were looking to see what policies, laws and regulations need to be amended or put in place."

The Agriculture Committee visited New Brunswick, Prince Edward Island and Nova Scotia February 11 – 15 and heard from elected and non-elected provincial and municipal officials, industry associations, processors, marketers and other non-government organizations. It also heard presentations from operators of large and small dairy, potato, vegetable and organic farmers and other stakeholders. In addition, the Committee had the opportunity to tour several agricultural research and educational institutions. In all, the Committee received information from 34 witnesses on:

- The present state of agriculture in the Maritimes;
- Obstacles to the expansion of the industry;
- Stakeholder reaction to the national action plan to make Canada the world leader in food safety, innovation and environmental protection that was agreed to by federal, provincial and territorial Ministers of Agriculture;
- The impact on agriculture of the 2001 drought in the Maritimes;
- Issues related to the international trade of agricultural products; and
- The state of agricultural research.

“The people in the Maritimes told us that, while we need national policies to support the agricultural sector, we also need flexibility in those policies,” Sen. Gustafson said. “For example, while Canada needs a national policy on drought relief, we need a policy that can be applied as effectively in Prince Edward Island as it can be applied in Saskatchewan. While many of the problems farmers are encountering are similar across the country, many of the agricultural problems – and the opportunities – are unique, special and different in the Maritime Provinces.

“Additionally, if Canadians want vital rural areas, we need to make sure that more of the money from farm produce stays at the farm gate. Farmers need to make enough money to keep them on their farms. Canada cannot afford to lose any more farmers.”

The Report by the Agriculture Committee is expected in March, 2002.

The Standing Senate Committee on Agriculture and Forestry comprises Senators Leonard Gustafson (Chair), John Wiebe (Deputy Chair), Michel Biron, Thelma Chalifoux, Joseph Day, Elizabeth Hubley, Marjory LeBreton, Donald Oliver, Gerard Phalen, Terry Stratton, David Tkachuk, and Jim Tunney.

- 30 -

For further information, please contact:

Daniel Charbonneau
Clerk of the Committee
Tel: (613) 991-0719 or 800-267-7362
Fax : (613) 947-2104
Email: afgo@sen.parl.gc.ca

Other written submissions received:

Canadian Agri-Food Trade Alliance

Canadian Bison Association

Canadian Coalition for Agricultural Safety and Rural Health

New Brunswick Pork

Prince Edward Island Federation of Agriculture

Manitoba Chamber of Commerce