



# **Agriculture and Agri-Food Policy in Canada: Putting Farmers First!**

Interim Report  
of the Standing Senate Committee on Agriculture and Forestry

The Honourable Joyce Fairbairn, P.C., *Chair*  
The Honourable Leonard J. Gustafson, *Deputy Chair*

June 2006

*Ce rapport est aussi disponible en français*

.....

Available on the Parliamentary Internet:

[www.parl.gc.ca](http://www.parl.gc.ca)

(Committee Business – Senate – Reports)  
39th Parliament – 1st Session

## TABLE OF CONTENTS

---

<b>MEMBERS.....</b>	<b>II</b>
<b>ORDER OF REFERENCE.....</b>	<b>III</b>
<b>INTRODUCTION.....</b>	<b>1</b>
<b>AN INDUSTRY IN A DIRE SITUATION .....</b>	<b>1</b>
<b>A NEW COMMITMENT TO AGRICULTURE.....</b>	<b>4</b>
<i>Farm Income Support — Preparing for Better Market Conditions .....</i>	<i>4</i>
<i>Investing in the Future of Agriculture.....</i>	<i>7</i>
<b>CONCLUSION .....</b>	<b>9</b>
<b>RECOMMENDATIONS.....</b>	<b>13</b>
<b>APPENDIX A: WITNESSES HEARD .....</b>	<b>14</b>

## MEMBERS

---

The Honourable Joyce Fairbairn, P.C., Chair of the Committee

The Honourable Leonard J. Gustafson, Deputy Chair of the Committee

The Honourable Senators:

Catherine S. Callbeck

Ione Christensen

Frank W. Mahovlich

Terry M. Mercer

Grant Mitchell

Donald H. Oliver

Robert W. Peterson

Hugh Segal

David Tkachuk

*Ex-officio members of the committee:*

The Honourable Daniel Hays (or Joan Fraser) and Marjory LeBreton (or Gerald Comeau)

In addition, the Honourable Senators Campbell, Cordy, Cowan, Eyton, Forrestall, Fraser, Hubley, Meighen, Nolin, Pépin and Stratton were members of the committee during the 1<sup>st</sup> session of the 39<sup>th</sup> Parliament.

Extract from the *Journals of the Senate*, Wednesday, April 26, 2006:

The Honourable Senator Fairbairn, P.C., moved, seconded by the Honourable Senator Fraser:

That the Standing Senate Committee on Agriculture and Forestry be authorized to hear from time to time witnesses, including both individuals and representatives from organizations, on the present state and the future of agriculture and forestry in Canada;

That the papers and evidence received and taken on the subject during the First Session of the Thirty-eighth Parliament be referred to the Committee; and

That the Committee submit its final report to the Senate no later than March 31, 2007.

After debate,

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

Paul C. Bélisle  
*Clerk of the Senate*



## **INTRODUCTION**

Farmers and farm communities have known for some time that the situation is economically unsustainable, and we are now starting to see the cumulative effects of year-after-year revenue loss in the farming sector. As a result, farmers rallied in front of Parliament Hill at the beginning of this 39<sup>th</sup> Parliament, making urban Canada realize that there is something seriously amiss with the current state of agriculture in Canada.

While the BSE crisis and the avian influenza outbreak in British Columbia have been the most visible episodes of the crisis, the grains and oilseeds industry has faced severe and chronic unfavourable conditions, including low commodity prices. If the situation does not quickly change, there will be a fundamental transformation of the agricultural sector throughout all regions of Canada with profound social and economic consequences to the lives of all our citizens, particularly in our rural communities.

This report gives a brief overview of the farm income crisis and makes a call for strategic action to put Canadian agriculture in a better situation now, so it will be able to help curb the impact on our country's rural communities and take advantage of future opportunities.

## **AN INDUSTRY IN A DIRE SITUATION**

Since the mid-70s, there has been an erosion of market-derived farm income mainly due to low commodity prices, and while there have been exceptions in some years, government support payments have not managed to reverse the trend (see Graph 1). A number of diverse factors have contributed to what are now the worst levels of Canadian farm incomes in our history. Recently, the increase in the value of the Canadian dollar has made Canadian exports more costly to foreign buyers, farm input costs are rising due to increasing oil and gas prices, and unexpected events such as the BSE crisis, and back-to-back droughts and floods in the Prairie Provinces have put a great strain on farmers

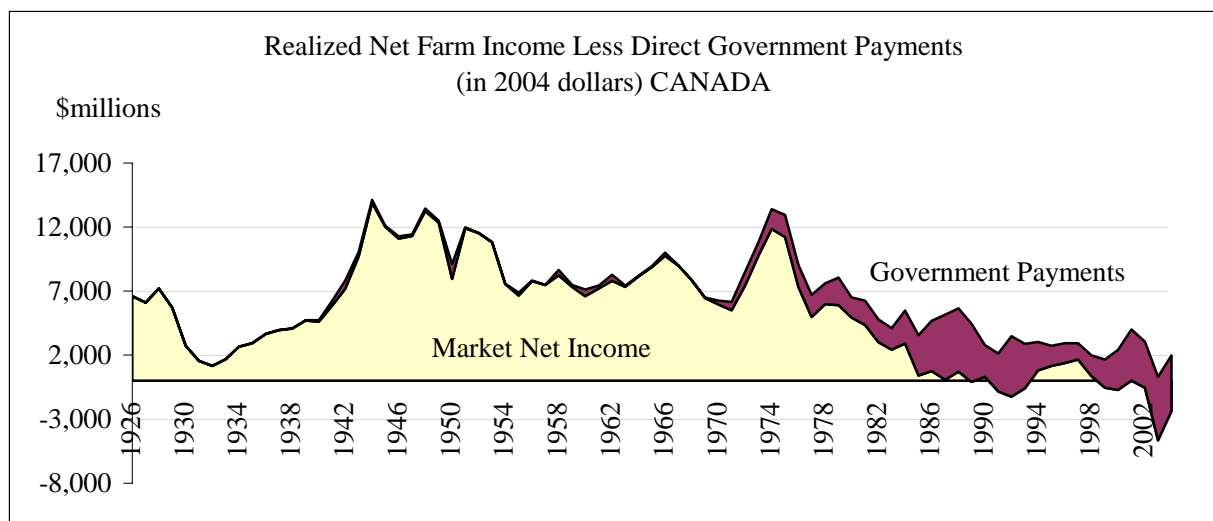
## Agriculture and Agri-Food Policy in Canada: Putting Farmers First!

---

and their families. While many industries, including those that benefit from supply management, can take advantage of market opportunities, the grains and oilseeds industry faces chronic unfavourable conditions.

Prices of grains and oilseeds have steadily declined for the last decades and remain extremely low — the Canadian Federation of Agriculture indicated that from 2002 to 2005, the price of grains and oilseeds dropped by over 25 per cent. Causes of this situation include: trade distorting subsidies paid to grain producers by large producing countries like the United States and members of the European Union; increasing agricultural exports from low-cost producing countries like Brazil; and, the increasing lack of competition upstream and downstream from primary production that leaves farmers without real power in the market are often cited as the cause of this situation. But irrespective of the causes, Canadian grains and oilseeds producers still have to compete with low-cost producers from countries like Brazil and heavily subsidized farmers from the United States and the European Union.

**Graph 1**  
**Realized Net Farm Income\* in Canada between 1926 and 2004**  
**(in 2004 dollars)**



\* Realized Net Income = Market Net Income + Government Payments.  
Source: Statistics Canada.



Farmers have increasingly been relying on borrowed money and between 1995 and 2005 the farm debt has increased by more than 90% to reach \$51 billion. While loans for expansion or diversification can make the operation more profitable, there is a recognition that farmers have been borrowing against their equity to survive. Ultimately, the farm income situation will have long-term effects on the rural economy and the rural population. Canadians must understand that agriculture does more for us than just supply food — it creates jobs in towns and cities, it provides habitat to wildlife, environmental benefits such as storing carbon in the soil, and it is a source of innovative products such as biofuel. It is truly the backbone of rural Canada.

The difficulties that the industry faces as a whole are putting tremendous pressure on hard working farmers and their families. Younger generations of Canadians who want to farm and carry on the family business are now thinking twice before entering the profession of their parents. This is a huge concern since many farmers today are close to a retirement age and therefore not only is the family farm structure in jeopardy but there is a new reality of depopulation of small and medium towns in agricultural areas. It appears that some communities are already facing social problems that are linked to rising poverty levels. Losing farmers and the jobs that rely on farm production will put pressure on social programs, increase unemployment, and place great demands on health services.

Down the road, various uncertain effects of climate change, and unexpected plant or animal diseases may have consequences for agricultural production and distribution in Canada. It is also likely that farmers will continue to face increasing fuel prices. But there will also be opportunities such as the rising demand for biofuel and for grain and animal protein in places such as China and India that will put upward pressure on prices. There will be also new areas of production like molecular farming — the production of pharmaceuticals or other substances such as industrial feed stocks using plants and animals.

As the fourth largest agriculture and agri-food exporter in the world, and the fifth largest importer, Canada needs and would benefit from fairer rules regulating international trade.

## **Agriculture and Agri-Food Policy in Canada: Putting Farmers First!**

---

A World Trade Organization (WTO) agreement may result, however, in trade-offs within our agricultural sector. A new WTO compromise on agriculture may lead to lower farm subsidies in the United States and European Union and increased market access for Canadian exporters, which is crucial to many of our farmers. Nevertheless, there is a risk to farmers that our supply-managed commodities may see a reduction in tariffs and increased competition from our trading partners.

In this time of crisis and uncertainty, the agricultural industry needs a real commitment from Canada. Our country has 167 million acres of agricultural land, and Canadians must realize that this wealth is useless without our farmers, who are the best in the world.

### **A NEW COMMITMENT TO AGRICULTURE**

As the current Agricultural Policy Framework (APF) will end in 2008, it is time to revise and develop a new “Farm Bill” for Canada. This revised APF should strategically address the current crisis, the long-term decline in farm income, and make it possible for the agriculture industry to take advantage of future opportunities.

#### ***Farm Income Support — Preparing for Better Market Conditions***

While farm groups have identified opportunities in the future and see better times coming, they have indicated that the industry needs help to survive until those better market conditions materialize. This is a key issue facing the industry at this time. Whether they call this “bridge funding” or “income deficiency payment”, they all agree that there is an urgent need for short-term support.

In its 2006 budget, the federal government announced an additional one-time investment of \$1 billion for farm support in 2006-07 along with a commitment of an additional \$500 million per year for five years. The Honourable Chuck Strahl, Minister of Agriculture and Agri-Food, indicated that the funding increase will be directed to a number of initiatives including:

- one-time only injection of \$900 million through the Canadian Agricultural Stabilization Income (CAIS) program, reflecting retroactive changes in inventory valuation for years 2003, 2004 and 2005,
- \$50 million enhancement of the eligibility criteria for negative margins under Canadian Agricultural Stabilization Income (CAIS),
- amendments to the *Agricultural Marketing Programs Act* (AMPA) to increase the maximum interest-free component of the Advance Payment Program (APP) and the Spring Credit Advance Program (SCPA), that provide spring and fall advances to producers — a portion of which is interest-free. Amendments to the AMPA will expand coverage to include livestock and other agricultural products, increase the overall limit on advances from \$250,000 to \$400,000, and will increase the maximum interest-free component from \$50,000 to \$100,000; and,
- \$50 million to address the 2005 and 2006 flooding in Saskatchewan and Manitoba. Farmers will receive a one-time payment of \$15 per acre for flooded land.

These announcements are good news for the farmers and will definitely provide necessary funding for their operations. The Grain Growers of Canada indicated support for the current efforts to improve the responsiveness of CAIS to grains and oilseeds producers. Nevertheless, farm groups have repeated that the CAIS program is not a good vehicle to flow money quickly in time of crisis. The Minister of Agriculture and Agri-Food also acknowledged before the Committee that support programs over the last few years have not been very successful.

Current farm support programs are not designed to address the continuous decline in farm income. The CAIS program protects farmers from small and sharp drops in income; payments are issued when the current year farm income falls below a reference margin based on farm incomes of the previous five years (the lowest and highest years excluded).

## **Agriculture and Agri-Food Policy in Canada: Putting Farmers First!**

---

However, farmers have experienced year-over-year drops in income due to declining commodity prices, extraordinary impacts due to weather and the BSE crisis. Therefore the average to which the current year is compared is shrinking resulting in smaller CAIS payments to farmers.

The government also announced its intention to separate the two components of the CAIS program — farm income stabilization and disaster relief. This strategy reflects back on the era of the Net Income Stabilization Account (NISA), which was then supported by companion programs and different versions of a disaster program, such as the Agriculture Income Disaster Assistance (AIDA) and the Canadian Farm Income Plan (CFIP).

Any effort to address the issue of farm income must account for the steady decline in prices that grains and oilseeds producers have experienced. Unlike Canadian farmers, producers from the United States just had their best three years in farm income. While Canadian governments cannot compete with the U.S. treasury, there is surely something to be learned from our neighbours to the south. By supporting the grains and oilseeds producers, the U.S. government has ensured the supply of affordable inputs for its livestock and value-added industries, but most importantly they have supported the economies of their agriculturally dependent communities.

The Minister of Agriculture and Agri-Food stressed that in the past few years farmers did not have programs that were predictable and bankable. The Committee believes a direct payment based on historical yield and acreage for our grains and oilseeds sector would have both of these advantages. A payment tied to historical acreage and yields will not provide an incentive to increase production in the current year. Furthermore, it would target what many consider as the base of agricultural production in Canada, the grains and oilseeds industry, which benefits the livestock industry, the biofuel industry, and agri-food processors.

Farm groups stressed the importance of making a living from the market place and receiving a fair price for their products. Therefore, they are not calling for permanent

support but a short-term scheme until better market conditions are in place. While it is difficult to set an exact timeline, witnesses indicated that a three- to four-year horizon is conceivable before we see an improvement. Therefore, the Committee recommends:

**Recommendation 1:**

**In addition to income stabilization, production insurance and other business risk management programs, the government implement a direct payment program for the next four years with payments calculated on the basis of historical yield and acreage.**

***Investing in the Future of Agriculture***

This inflow of money, however, will have little effect if Canada does not also facilitate the conditions that allow farmers to take advantage of future market opportunities. While income stabilization and disaster relief have a role in agriculture, farmers will always prefer to receive returns from the market, as opposed to receiving ongoing government support. Farm groups have identified conditions that, once in place, would ensure fair returns for producers and thereby eliminate the need for ongoing government support.

In order to address the long-term decline in farm income, and make it possible for the agriculture industry to take advantage of future opportunities, the new “Farm Bill” should include elements such as:

- improving producers’ position in the value chain;
- investing throughout the entire production chain in the infrastructure required to foster the use of biofuels;
- investing in research and innovation;
- incentives for producers as providers of social benefits beyond food production such as environmental benefits;
- encouraging value-added agriculture; and,

## **Agriculture and Agri-Food Policy in Canada: Putting Farmers First!**

---

- an aggressive trade strategy that benefits farmers through the WTO and bilateral agreements.

The government has already laid down some of the elements needed. It has announced a target of 5% content of renewable fuel in all gasoline and diesel by 2010, and a framework to reach this target will be worked out in the summer of 2006. A new Science and Innovation Business Plan is also under development. Part One of this plan, the Science and Innovation Strategy, has already been completed and sets the direction for agricultural research to support long-term profitability and growth. But there is still work to be done to make sure farmers benefit from these initiatives. Proper tools have to be in place so that the increase in biofuel demand is translated into better profits for farmers and that research results can swiftly move from the research station on to the field.

This can be done by empowering farmers to receive increased returns from the marketplace, and investing strategically in rural infrastructure. Creating an environment that actually works for farmers means, for example:

- farmer-ownership in biodiesel and ethanol plants;
- mechanisms to give farmers the tools they need to get a maximum return from the marketplace; and,
- rural development including infrastructure spending in transportation, water works and management systems and advanced environmental programs.

At the WTO negotiations, Canada is continuing to push for the elimination of all forms of export subsidies, substantial reduction in trade distorting subsidies, and significant market access improvement. While the WTO negotiations may lead to a reduction in foreign subsidies, farmers and Canadians should not be under any illusion that it will bring immediate prosperity to the farm sector. It would, however, bring long-term predictable planning for farm programs and predictable market access.

The Honourable David Emerson, Minister of International Trade, told the Committee that Canada has to spend more resources on bilateral trade agreements to open markets elsewhere. He mentioned to the Committee:

“...[W]e are looking at a variety of bilateral or regional free trade arrangements. We are ranking them in terms of what I refer to as the discounted, expected present value of a deal. In other words, how beneficial for Canada is a deal? How likely is it able to be negotiated? How long will it take? We are trying to take a systemic approach....”

In fact, the United States is actively pursuing bilateral trade agreements with other countries in order to obtain preferential market access. This may result in loss of market share for Canadian exporters. There is a fear that, even if a WTO agreement is reached, it will not fix the unequal access to markets created by bilateral agreements. A comprehensive agricultural trade strategy is clearly needed to complement the investments in the agri-food and biofuel value chains and research.

To connect all these elements together, the government must establish clear goals for the industry and put the farmer at the center of this commitment to agriculture. Therefore, the Committee recommends that:

**Recommendation 2:**

**The government develop a true “Canadian Farm Bill” in which all the elements would be better integrated and more focused toward farmers than the current Agricultural Policy Framework.**

## **CONCLUSION**

The Committee undertook these hearings in a time of crisis for producers but the message is clear: there is a viable future in farming in Canada if appropriate programs and policies are implemented. Because it is one of the foundations of our country, Canadians have a

## **Agriculture and Agri-Food Policy in Canada: Putting Farmers First!**

---

responsibility toward the farming community to help it through difficult times until it can again achieve sustainability.

Nevertheless, the limited extent of these hearings did not allow the Committee to put forward all the adequate tools to address the issues facing the agricultural industry and the impact on our rural communities. It is therefore the Committee's intention to follow up on these hearings, notably under the mandate adopted in the Senate on May 16, 2006 that authorizes the Committee to examine and report on rural poverty in Canada. This includes the development of biofuel opportunities in the farm sector as emphasized by witnesses.



**Recommendation 1:**

**In addition to income stabilization, production insurance and other business risk management programs, the government implement a direct payment program for the next four years with payments calculated on the basis of historical yield and acreage. (*See page 7*)**

**Recommendation 2:**

**The government develop a true “Canadian Farm Bill” in which all the elements would be better integrated and more focused toward farmers than the current Agricultural Policy Framework. (*See page 9*)**

## APPENDIX A: WITNESSES HEARD

---

May 11, 2006	<b>Canadian Federation of Agriculture:</b> Bob Friesen, President; (Wawanesa, MB) Laurent Pellerin, First Vice-President; (Quebec) Marvin Shauf, Second Vice-President. (Staughton, SK)
May 18, 2006	<b>Natural Resources Canada:</b> The Honourable Gary Lunn, P.C., M.P., Minister of Natural Resources; (Sidney, BC) Richard B. Fadden, Deputy Minister of Natural Resources; Brian Emmett, Assistant Deputy Minister, Canadian Forest Service. (Sarnia, ON)
May 30, 2006	<b>National Farmers Union:</b> Stewart Wells, President; (Swift Current, SK) Colleen Ross, Women's President; (Iroquois, ON) Barry Robinson, District Director, District 8 (Ottawa Valley); (Beachburd, ON) Jack Hoogenboom, President, Local No. 1 — Stormont, Dundas, Glengarry, Prescott, Russell and Carleton Counties. (Mountain, ON)
June 6, 2006	<b>International Trade Canada:</b> The Honourable David Emerson, P.C., M.P., Minister of International Trade; John Gero, Assistant Deputy Minister, Trade Policy and Negotiations Branch.
June 8, 2006	<b>Grain Growers of Canada:</b> Chris Moran, Executive Director; (Ottawa, ON) William Van Tassel, Director. (Herbertville, QC)
June 12, 2006	<b>Agriculture and Agri-Food Canada:</b> The Honourable Charles Strahl, P.C., M.P., Minister of Agriculture and Agri-Food; (Chilliwack, BC) Christiane Ouimet, Associate Deputy Minister. (St. Albert, ON) <b>Canadian Food Inspection Agency:</b> François Guimont, President. (Latuque, QC)
June 13, 2006	<b>Canadian Wheat Board:</b> Ken Ritter, Chair of the Board of Directors; (Kindersley, SK) Adrian Measner, Chief Executive Officer; (Winnipeg, MB) Victor Jarjour, Chief Representative — Trade. (Ottawa, ON)