



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 6/13/2002

GAIN Report #CA2072

Canada

Agricultural Situation

House of Commons Agriculture Committee

Recommends Canadian Wheat Board Authorize

Free-Market Trial for Wheat and Barley

2002

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Report Highlights:

The Standing Committee on Agriculture and Agri-Food, after extensive consultations with the Canadian agriculture industry, made a number of sweeping recommendations that would better equip Canadian producers to face its current challenges and embrace new opportunities. Of the 33 recommendations made, one called for the Canadian Wheat Board to authorize on a trial basis, a free market for wheat and barley. The CWB expressed "shock and dismay" at the recommendation.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Ottawa [CA1], CA

"THE FUTURE ROLE OF THE GOVERNMENT IN AGRICULTURE"

The following is based on the Canadian House of Commons Standing Committee on Agriculture and Agri-Food report, *The Future Role of the Government in Agriculture*, released June 11, 2002.

Chair's Foreword

The Canadian agriculture sector is in a period of great transition. Recognized as a model of productivity and quality for many years, agriculture in this country has witnessed dramatic changes with respect to world trade and modes of production. With change come new challenges and, perhaps more importantly, new opportunities.

The Standing Committee on Agriculture and Agri-Food has made a number of sweeping recommendations that would better equip Canadian producers to face these challenges and embrace new opportunities. To ensure that our recommendations were representative of the Canadian agriculture industry, the Standing Committee visited 15 municipalities across the country, most of them located in rural areas, and heard the opinions of more than 350 witnesses.

The Canadian agriculture sector is in need of profound change, which explains why Canada is currently examining options to shape the architecture of its agricultural policies at the beginning of the 21st century. The fact that this report received unanimous approval¹ from the members of the Standing Committee sends a strong message to those who are developing Canada's agricultural programs. I sincerely believe that the report's recommendations provide excellent guidelines for assisting them in their task, and are a reminder that farmers are the foundation of the sector.

I would like to thank, on behalf of all the members of the Committee, the Canadian farmers who shared their insights with us. I hope that this report responds to their concerns and contributes to meeting the challenges of their sector.

Background

When the Standing Committee began its consultation trip across Canada in February of this year, the national action plan for the creation of the Agricultural Policy Framework (APF) unveiled in Whitehorse on June 29, 2001, had just been discussed at the federal -provincial-territorial conference of ministers of agriculture held in Toronto on January 24, 2002. It is therefore not surprising that the themes of the APF repeatedly came up in the discussions. The Standing Committee's meetings showed that the concept of the APF, that is to say a concerted and comprehensive agricultural policy for a long-term strategy, is generally well perceived by Canadian farmers, but who is not in favor of virtue? In fact, one central message came out of the discussions: a new architecture for a long-term Canadian agricultural policy is needed, but that architecture must be flexible in order to be consistent with the diversity of the agricultural sectors and regions of Canada. For the government, that flexibility also means that its role sometimes amounts to simply being less present. Any new architecture must also acknowledge that farmers are the foundation of the sector, and it is imperative that foundation be consolidated before a

new structure is erected.

In addition to holding numerous meetings in Ottawa, the Standing Committee traveled from west to east and stopped in some 15 rural areas where its members met more than 350 witnesses. Some agricultural sectors and regions are doing better than others, but, as a result of the close interrelationships in agriculture, when a sector such as grains goes through an excessively long period of crisis, that can have long-term negative impact on the rural world as a whole. The government cannot allow a portion of the foundation to collapse without fearing that will cause a crack in the structure as a whole.

This report is divided into eight chapters, which address the major themes that arose in the Committee's meetings. Each chapter sets out the farmers' major concerns and contains recommendations that reflect the solutions proposed by those who experience the agricultural reality on a daily basis.

The entire report can be accessed on the internet at:

<http://www.parl.gc.ca/InfoComDoc/37/1/AGRI/Studies/Reports/AGRIRP5-e.htm>

At the time this GAIN report was written, the Standing Committee on Agriculture report could only be accessed via Microsoft's web browser, Internet Explorer. The rest of this GAIN report lists the 33 recommendations made by the Standing Committee and contains selected segments from the report, *The Future Role of Government in Agriculture*.

LIST OF RECOMMENDATIONS

Recommendation 1

The Committee recommends that the Net Income Stabilization Account be improved, in particular by increasing the federal government's contribution, introducing greater flexibility in withdrawal mechanisms and transforming the program to make it more accessible to new farmers by adopting a formula tailored to their situation.

Recommendation 2

The Committee recommends that the government review the Crop Insurance Program to adapt it more effectively to new production conditions, in particular by introducing more flexibility in computing averages and areas where losses occur and increasing its funding to provide greater individual protection and higher price options more consistent with actual production value.

Recommendation 3

In the case of natural disasters, exceptional or prolonged, the Committee recommends that Agriculture and Agri-Food Canada establish a permanent compensation fund capped at C\$1 billion. This would form a contingency fund to provide farmers registered for crop insurance with full compensation, covering the loss of the estimated gross revenue, and the annual minimum contribution would be C\$500 million subject to the ceiling of C\$1 billion. By favoring crop insurance as a compensation vehicle, the Committee acknowledges that farmers must assume a moral hazard.

Recommendation 4

The Committee recommends that present and future government agricultural support programs remain accessible to everyone who qualifies as a farmer so that the diverse nature of agriculture and the importance of all types of farms, large and small, for the viability of rural areas be taken into account.

Recommendation 5

The Committee recommends that the government give special attention to tax incentives that may promote the development of rural communities — in particular through value added, biofuels and farm tourism — and be innovative in its use and application of tax measures.

Recommendation 6

Whereas the federal government must draw on the lessons learned over the past four years of Rural Dialogue, the Committee recommends that funds be invested in the development of infrastructures that meet the demands of farmers and other rural stakeholders.

Recommendation 7

The Committee recommends that the government, with the provincial governments, invest more in the road system in western Canada.

Furthermore, since the use of producer cars is an effective and competitive method for transporting cereals, the Committee recommends that the government and the Canadian Grain Commission facilitate the use of this method, in particular by protecting producers from financial losses which could result from damage to grain in transport or bad elevator debts.

Recommendation 8

The Committee recommends that the rural Secretariat's next action plan, which will be developed from 2002 to 2004, include a specific component on agriculture and the environment so that the important role of farmers is defined and recognized. The Committee further recommends adequate compensation for measures aimed at protecting the environment and the landscape in recognition that farmers play an important role in the stewardship of the land.

Recommendation 9

The Committee recommends that Agriculture and Agri-Food Canada discuss with the provinces on a regular basis the problem of urban sprawl.

Recommendation 10

Whereas agricultural cooperatives are powerful tools for rural development, the Committee urges the government to be flexible in enforcing its regulations and to be as innovative in its policies as the cooperatives are in product development. The Committee further recommends that the government examine and adopt tax incentives such as the carry-over of tax on patronage dividend paid, that can facilitate the capitalization of cooperatives.

Recommendation 11

Whereas the emphasis must be placed on agricultural succession, the Committee recommends that the government examine all tax incentives that will facilitate the intergenerational transfer of farms, in particular by raising the capital gains exemption to C\$1 million.

Recommendation 12

The Committee recommends that current government budgets earmarked for agricultural training be increased each year to meet farmers' growing need for technical knowledge.

Recommendation 13

The Committee here reiterates the importance of its other recommendation — recommendation 10 — on cooperatives and emphasizes that it is necessary for the government to be flexible and innovative.

The Committee further recommends that the government support, notably through tax incentives, the new generations of cooperatives and other corporate structures owned by farmers, as well as the efforts of farmers who are developing business plans to market their own products.

Recommendation 14

Whereas additional on-farm activities and local value-added processing are an excellent way to give farmers more influence in pricing, the Committee recommends that the board of directors of the Canadian Wheat Board authorize, on a trial basis, a free market for the sale of wheat and barley, and that it report to this Committee on the subject.

Comment by Dick Proctor, New Democrat Party (NDP) (left of the centrist Liberal party, on the political spectrum) MP, Palliser, on recommendation 14:

"I object strongly to any suggestion that the Canadian Wheat Board be asked to authorize use of an open market for the sale of wheat and barley, even on a trial basis. This would undermine the Board's effectiveness as a single desk seller, it would reduce returns to farmers, and eventually it would destroy the Canadian Wheat Board."

Recommendation 15

As a result of the many positive effects that renewable fuels may have on agriculture and the environment, the Committee recommends that the government establish a comprehensive policy in this field and support its development, particularly through tax incentives.

Recommendation 16

In view of the requirements of the main organic products export markets, the Committee recommends that the government and the organic sector move to establish a mandatory minimum standard for organic farming and an affordable accreditation system for certifying agencies.

Recommendation 17

The Committee recommends that, in the pursuit of an on-farm food safety strategy that will benefit consumers, retailers, processors and exporters, the government offer an adequate financial and technical support to farmers and their industries to develop and continue national on-farm food safety programs.

Recommendation 18

The Committee recommends that the government, together with groups representing farmers, launch a public education and information program on the origin of foods.

Recommendation 19

Whereas the interpretation of the previous multilateral trade agreements has not been standardized among the signatory countries, the Committee recommends that the government and its negotiators require that the rules of application of future agreements be established with a higher degree of transparency than those of the Uruguay Round. The Committee further recommends that Canadian negotiators maintain a firm position on Canada's ability to maintain supply management and that they negotiate market access for all sectors that is transparent, genuine and fairly administered by all member countries.

Recommendation 20

The Committee recommends that the government provide C\$1.3 billion a year in bridge funding for the sectors most affected by the agricultural subsidies of other countries for as long as those subsidies unduly reduce the price of Canadian agricultural commodities.

Recommendation 21

The Committee therefore recommends that the federal government, together with the provincial and territorial governments, continue its consultations on the environmental component of the national action plan and establish a genuine partnership with the agricultural sector for the purpose of developing a national framework for the implementation of environmental farm plans. In addition, farmers should receive appropriate technical and financial assistance to carry out this exercise.

Recommendation 22

The Committee therefore recommends that the federal government and its partners in the provinces and territories implement effective programs to sensitize and educate all Canadians about the new national action plan on agriculture.

COMMENTARY:

As Bill C-5 is still under consideration by Parliament, it is somewhat inappropriate for the Committee to make a formal recommendation on the subject. However, the Committee nevertheless hopes that, should the bill be passed, the Department of Environment will quickly make known the terms of compensation of property owners and set aside sufficient sums for that purpose.

Recommendation 23

A marginal agricultural land conservation environmental program would provide benefits for all Canadians. If such a program were created, the Committee recommends that a fair and reasonable compensation be paid to farmers for the withdrawal of their marginal farm land from agricultural production.

Recommendation 24

The Committee recommends that Department of Fisheries and Oceans (DFO) review its criteria for the application of section 35 on fish habitat in the context of agricultural areas and practices, and that it adopt a more standard approach for the Canadian agricultural sector as a whole which takes into account its particular socio-economic characteristics.

Recommendation 25

In order to facilitate the liaison between farmers and DFO regarding the protection of fish habitat, the Committee recommends that DFO and Agriculture and Agri-Food Canada appoint regional habitat management/agricultural coordinators, and that the two departments pay associated costs.

Recommendation 26

Whereas there is a critical mass of research that must aim to serve the public interest, the Committee recommends that the government play a leadership role and increase budgets intended for government research centers, colleges and universities.

Recommendation 27

The Committee recommends that the government base part of its research and innovation strategy specifically on the effects that bio-engineered crops could have on the environment and on Canada's

ability to maintain the genetic biodiversity of crops. Furthermore, the government must better inform the public of the various types of crops and the close link between biodiversity and agriculture.

Recommendation 28

Whereas, to be a leader in food safety, Canada needs a sufficient number of veterinarians and to maintain their certification, the Committee recommends that the government immediately invest the necessary funds in the infrastructures of the faculties of veterinary medicine to develop their potential and maintain their international certification.

Recommendation 29

The Committee recommends that an ombudsperson, independent of the Pest Management Regulatory Agency and reporting directly to the Minister of Health Canada, be appointed to facilitate discussions on farmers' various needs regarding pest control.

Recommendation 30

The Committee recommends that the Auditor General of Canada conduct a value-for-money, or performance auditing, to examine the management practices, controls and reporting systems of the Pest Management Regulatory Agency.

Recommendation 31

The Committee recommends that Agriculture and Agri-Food Canada (AAFC) provide at least C\$1 million a year in funding for a research and analysis program similar to the U.S. IR-4, that will be developed in cooperation with agricultural stakeholders to generate, or complete, the necessary data for the approval of new minor use products or to expand the use of previously approved products.

Recommendation 32

The Committee recommends that an advisor on matters pertaining to minor use pest control products be appointed to intervene in decisions and policies to facilitate activities relating to minor use products. The advisor's mandate should include a special focus on the harmonization issues with the United States, such as the equivalency of similar zone maps, and the consideration of data that already exist in an Organization for Economic Cooperation and Development (OECD) country. The advisor should report to the ministers of Health and Agriculture and Agri-Food.

Recommendation 33

In response to the stakeholder feedback provided during the cross-country hearings, the Committee urges the federal government to formally consider the nation's ability to produce safe and affordable agricultural products to be an issue of national security. The Committee further recommends that, to achieve this national security objective, the federal government should aggressively pursue a course that ensures an appropriate monetary return to primary producers.

End of Recommendations.

Comments:

It is of interest to note that regarding concentration in the agri-business sector, the Standing Committee on Agriculture writes that:

As the agri-food system economy has evolved, farmers have adapted their production methods and become more efficient, but have not created alliances that would have enabled them to increase their influence beyond the farm. Cooperatives and the supply management system have enabled some farmers to maintain their influence, but many are still facing declining margins. It seems clear, that the solution to this situation will lie in a market approach which will enable farmers to gain more from their production. Witnesses moreover informed the Committee that the challenge in agriculture is not merely to produce, but to market from the farm.

In order to address this issue of increasing concentration in the agri-business industry, the Standing Committee then made its 13th recommendation that the government foster new generations of cooperatives and corporate structures owned by farmer as well as support the efforts of farmers who want to market their own products.

The Committee then noted:

The Standing Committee cannot travel to consult Canadians without triggering discussions on the Canadian Wheat Board (CWB) as those for and against a mandatory CWB appear to share hearing time and each make valid arguments, it is often difficult to determine exactly whether one group is more right than the other.

It is still striking, however, that this debate has gone on so long. There is no other example of this kind of situation in the field of Canadian agricultural policy. Some producers who benefit

from supply management may have different views on the orientations of their marketing system, but their arguments never take on the scope of those concerning the CWB.

When visiting Ontario and Quebec, the Committee observed that the grain producers of those two provinces enjoy increasing flexibility in the marketing of their wheat and barley. Although it must be acknowledged that the volumes produced by those provinces bear no relation to those in Western Canada, there is nevertheless a lack of uniformity, which does nothing to resolve the debate on the CWB's future role.

We can only observe that it is not healthy for the grain sector to have devoted so much energy for so long to a debate which invariably comes to a dead end. However, one emerging factor is a concern. As a result of the current transition characterized by low grain prices and producers' loss of influence over pricing, one of the ways that could be adapted to restore more power over markets to farmers would be to increase on-farm economic activities.

Witnesses again informed the Committee that the producer direct sales process (better known as the buy-back policy) established by the CWB is not flexible enough and that it does not encourage local processing activities. The voices of organic wheat producers were also part of this debate. Organic production is considered a niche market and a good way for certain young farmers to start out in agriculture, particularly because of low production costs. However, the terms and conditions imposed on organic production are often perceived as a deterrent. Changes made over the years to improve the buy-back policy have not always put an end to criticism, which, on the contrary, is now on the increase.

The Canadian Wheat Board (CWB) has been identified by many in the industry as being the single largest obstacle to the value-added industry in western Canada. New generation durum pasta cooperatives have been effectively shackled by the CWB due to its onerous buy-back process. In order to foster on-farm activities and local value-added processing as a means of giving farmers more influence in pricing, the Committee, in its 14th recommendation, calls for a free market for wheat and barley, for a trial period.

Both the Grain Growers of Canada (GGC) and one of the elected members of the Board of Directors for the CWB have called for various forms of increased flexibility in marketing prairie wheat and barley outside of the monopoly of the CWB. Under the GGC proposal, prairie wheat and barley growers would be able to obtain exemption certificates allowing them to export up to 25% of their grain or to sell directly to domestic processors outside of the CWB in a two-year pilot project. Under the elected CWB director's plan, wheat and barley growers would be able to direct market a certain percentage of their wheat production for domestic food processing only and not for export after obtaining exemption certificates from the CWB.

In addition to these proposed marketing options, the Alberta provincial government, in Bill 207, provides for the Alberta government to enter into an agreement with the CWB and/or the federal government to establish an open test market for barley and wheat produced in Alberta.

There appears to be considerable demand, if not momentum for greater flexibility for prairie farmers to market their wheat and barley. Both the 13th and 14th recommendations of the Agricultural Standing Committee fit in with the Federal-Provincial-Territorial agricultural ministers' June 29, 2001 Whitehorse communiqué, *Ministers Set Out a Vision for Agriculture*, that stated:

Ministers agreed that work must continue on other issues such as transportation and value-added production so that the sector can realize its full potential, through diversification and growth. (.....)

Governments agree to help farm families to pursue options including: maximizing income through improvements to the farm operation, (.....) enhancing income through additional economic activities on-farm."

The CWB's reaction to the Committee's 14th recommendation was of "shock and dismay." CWB CEO and Board of Directors Chairman Ken Ritter said that it would be extremely difficult to return to collective selling after allowing farmers to sell their products on the open market. "Once you break it up, it's impossible to put back together," Ken Ritter said.

In 1993, the federal minister of agriculture, Charlie Mayer, who was the minister responsible for the CWB, removed barley from under the control of the CWB and created a continental free market for barley which operated outside of the Board's monopoly powers. Although the free market for barley was eventually overturned and monopoly powers of the CWB were restored, the experience nevertheless counters the point made by Ritter that the CWB would not be able to recover from anything other than single-desk selling for marketing prairie wheat and barley.

Ritter, in a press release from the CWB, disputes the reference in the Committee report that says that grain producers in Ontario are enjoying "increasing flexibility" in the marketing of their wheat and barley, criticizing the 300,000 metric ton marketing exemption available to Ontario wheat producers. Ritter said that the Ontario milling industry finds the marketing system in Ontario so dysfunctional that it has asked for the complete removal of the marketing powers of the Ontario Wheat Producers' Marketing Board (OWPMB). The millers have not asked for the direct marketing exemption to be abolished, but rather the abolishment of its marketing ability.

Whether or not the recommendation for a free market for wheat and barley comes is adopted by the Canadian federal government remains to be seen. However, in the meantime, the resolution will clearly be opposed by the CWB. While the Grain Growers of Canada supports the Committee's free market experiment, the fate of the deregulation recommendation lies in the hands of the CWB. "They hold the cards," said president Brian Kriz, in a June 13 *Globe and Mail* article.

If the CWB really is the best marketing agent for Canadian wheat and barley, the Board should have nothing to worry about. But given that the wording of the CWB's press release expresses "surprise as well as shock and dismay" at the far-reaching consequences of this recommendation, it gives the impression that the CWB truly is worried.

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