

**Beyond the Easter Report:
Framing a Comprehensive Canadian Agri-food Policy**

SPECIAL REPORT

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February 2006

1.0 Introduction

The George Morris Centre is undertaking a project, the intent of which is to develop a comprehensive public policy for the commercial agri-food sector. In doing so, our first step is to conduct an external scan, i.e. the “opportunities and threats” part of a SWOT analysis. This entails examining the domestic and export opportunities for the sector, determining who our major competitors in the future will likely be, and analyzing the potential policy environment. As a component of that analysis, we had a close look at the Hon. Wayne Easter's report entitled *Empowering Canadian Farmers in the Market Place*.

Mr. Easter purports to have undertaken a comprehensive consultation process with farmers throughout the country, as well as a comprehensive review of literature on various subjects.

Mr. Easter's report contains a number of good ideas. However, it also has several serious shortcomings:

- It is not well-integrated in the sense of moving us toward a well-articulated vision of the Canadian agri-food sector of the future.
- It is relatively unbalanced, in that arguments are one-sided, reflecting a limited view of overall drivers and issues. The cited literature supports this narrow perspective, and literature that makes alternative arguments was omitted.
- It presents data that imply conclusions different than those drawn.
- It emphasizes continued conflict in the sector instead of looking for ways to enhance collaboration.
- It leaves unanswered very specific questions about the ways in which a number of difficult things are to be done.

Fundamentally, the report is unsatisfying and, in a major sense, continues to treat farmers as victims who can only achieve prosperity through government action. It offers little hope that the market place will ever reward them. If this view of the future is correct, then there is little reason to pursue a policy that is aimed at a commercial sector. We do not, however, believe this view is correct.

In this report, we review Mr. Easter's report in the context of the external environment that we see evolving for Canada's agri-food sector. The purpose of this report is to contrast Mr. Easter's view of the future against ours as part of the background information that establishes a need for a comprehensive commercial policy. For Canada's agri-food sector to be all it can be, it is vitally important that a majority of those in the sector begin with a shared vision of the future. If this is not possible, then there will be no way to achieve a policy framework that can help the sector achieve success.

This report begins with a summary of the Centre's perceptions about the major external factors that will affect the agri-food sector in the future. This is what is regarded generally as an assessment of the sector's opportunities and threats. Once the opportunities and threats have been identified, a number of points from Mr. Easter's report will be discussed. Finally, alternative views about those points will be presented.

2.0 External Scan

While the external scan for the policy project that we are undertaking with agri-food industry stakeholders will go into further detail, several major elements are apparent:

- Growth in aggregate food demand by Canadians will be limited mainly by population growth; overall food supply already outweighs demand. Canadians are becoming older, are relatively affluent, and are struggling with obesity or excess body weight. Therefore, we expect to see more emphasis on reducing food consumption, especially fat consumption, over the next few years. Any growth will come from a combination of birth rate, death rate, and net immigration rate.
- The domestic and US markets will become increasingly segmented. This means that demand will grow for products with specific attributes, intended for specific target markets. It also means that demand will likely decline for bulk or generic products. Many segments will arise, as will the number of channels for reaching consumers. This means that the sector will have opportunities to profit if production responds to increasingly specific target markets. The range of product and service attributes sought by consumers will be large:
 - Some consumers will look for stories that confer quality attributes. Therefore, the continued success of programs such as regional Vintners Quality Alliance (VQA) designations (e.g. Lake Erie North Shore) will grow.
 - Some consumers will want to buy local, and/or buy products that fit with the "slow food movement".
 - Some consumers will want to buy organic, some won't care.
 - Some consumers will want to avoid what they perceive to be genetically modified organisms (GMOs), others won't care, and others will only want to buy them if they are considered proven in conferring specific health benefits.
 - The link between specific foods and health will become increasingly important, providing opportunities for producers.
 - Some consumers will care about the effects that production processes for the products they buy have on the natural environment, i.e. organic or ethical factors relating to the overall production process.
 - Some consumers will care about whether their food was raised on small farms, processed in small plants, and/or sold by small retailers.
 - Some consumers will want products that offer convenience with regard to preparation, packaging type or size, and delivery or pickup.
 - In most every segment, consistency of attributes will be desired.
 - Price, in large part, will become less of an issue for an increasingly large segment of the population, particularly for products featuring specific attributes.

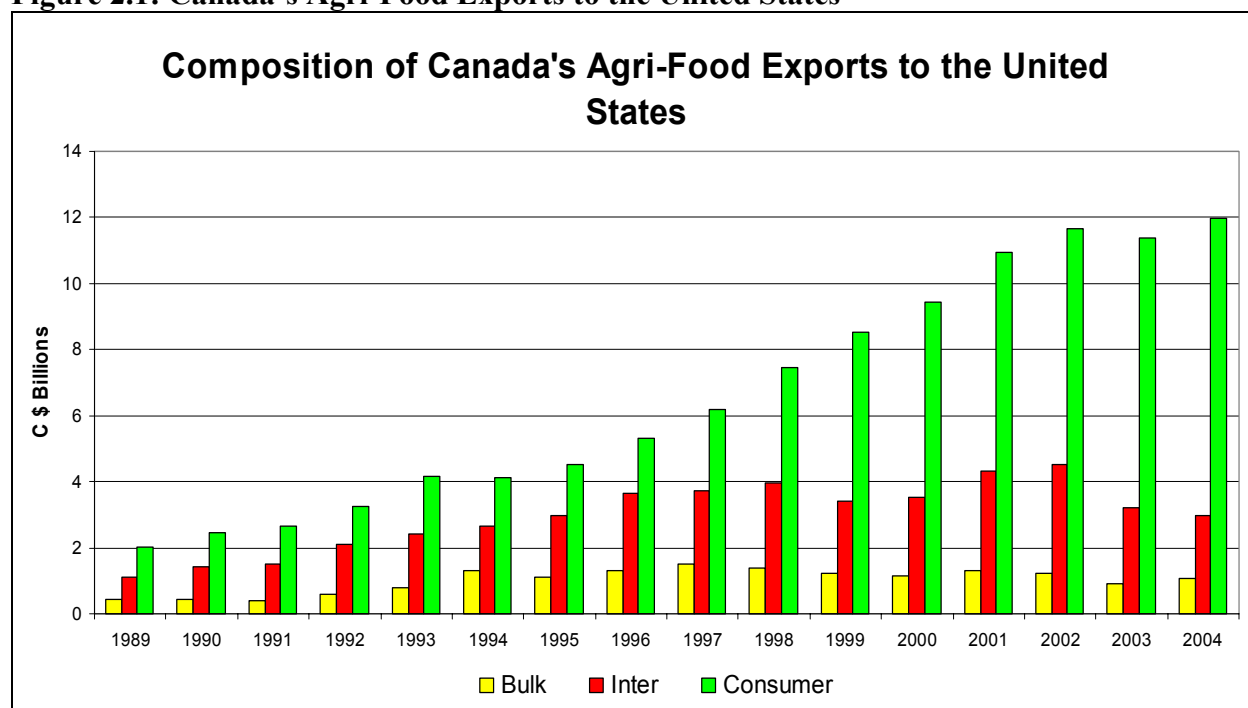
Responding to the opportunities presented by consumer segmentation requires superior marketing skills by the food supply chain, and improved coordination of the chain in order to ensure that the appropriate attributes are provided and preserved (see Randall Westgren's discussion of attributes, 2005). Coordination includes improving

- the ways prices are discovered at the farm level; prices should reflect the contribution the farm makes to final consumer value.
- Demand for protein, fats and oils, service, and preparation will grow rapidly in developing countries. This is already occurring: a 2004 paper by Morgan showed that total world meat consumption doubled between the 1970s and the 1990s, but the share of consumption by developing countries increased from 35% to 50% of total consumption. This growth is spurred by a combination of higher population growth, relatively high income growth in developing countries, falling real prices of meat, and a higher propensity to consume quality food products when incomes are relatively low and rising. Given that the human population inhabiting the developing world is far larger than that which inhabits the developed, the growth potential for the future is apparent. As consumer incomes rise in these countries, the same dynamic toward segmentation will occur as in the North American market: the attributes demanded by consumers may be different, but the move toward segmentation will be very similar.
 - Proof of this is already apparent. The increasingly affluent consumer-driven markets of China's developing regions are showing themselves to be more complex and demanding than those of many western nations. Opportunities for western companies to supply these markets are immense, as are the challenges.
 - The WTO negotiations, currently under way, may result in considerable gains in market access to many countries for a number of products. This will occur through a combination of lower tariffs, lower domestic farm subsidies, and a complete phasing out of export subsidies. The Centre has forecast for some time that we believe an agreement will be reached to reduce tariffs by an average of 50% to 60% over the next 6 to 10 years. The Food and Agricultural Organization of the United Nations (FAO) recently compiled a list of tariffs for meat and dairy products in over 140 countries. Most bound tariffs are in the range of 30% to 300% for these products in most countries. A reduction of even 50% would clearly have a substantial impact on market access for many countries. This is extremely important for Canada for the following reasons:
 - Canada has the highest ratio of arable land to human population among developed countries. With the limitations of our population, the major opportunity for growth for many regions and products is exports.
 - Tariffs tend to be highest on the highest value products and the WTO is focusing on reducing them the most. This gives opportunity for both primary agriculture and the food industry.
 - Canada has shown in the past that we can take advantage of these kinds of opportunities when they are available. Figures 2.1 and 2.2 show Canada's exports of bulk, intermediate, and consumer-ready agri-food products since 1989, to the US and the rest of the world. 1989 marked the beginning of the Canada US Trade Agreement (CUSTA) and 1995 began the phase-in of the WTO's Uruguay Round agreement. CUSTA removed tariffs on a wide range

of products, particularly high value products. WTO resulted in *reductions (as opposed to removal)* of tariffs, especially on some higher value products in Asia. The two figures show that Canada's exports grew markedly in intermediate and consumer ready products to the US, and that they are the only sources of growth to the rest of the world. This occurred with much more modest and less widespread reductions in tariffs than are being discussed in the Doha Round. The Doha proposals would likely give Canadians opportunities to make better use of our resources.

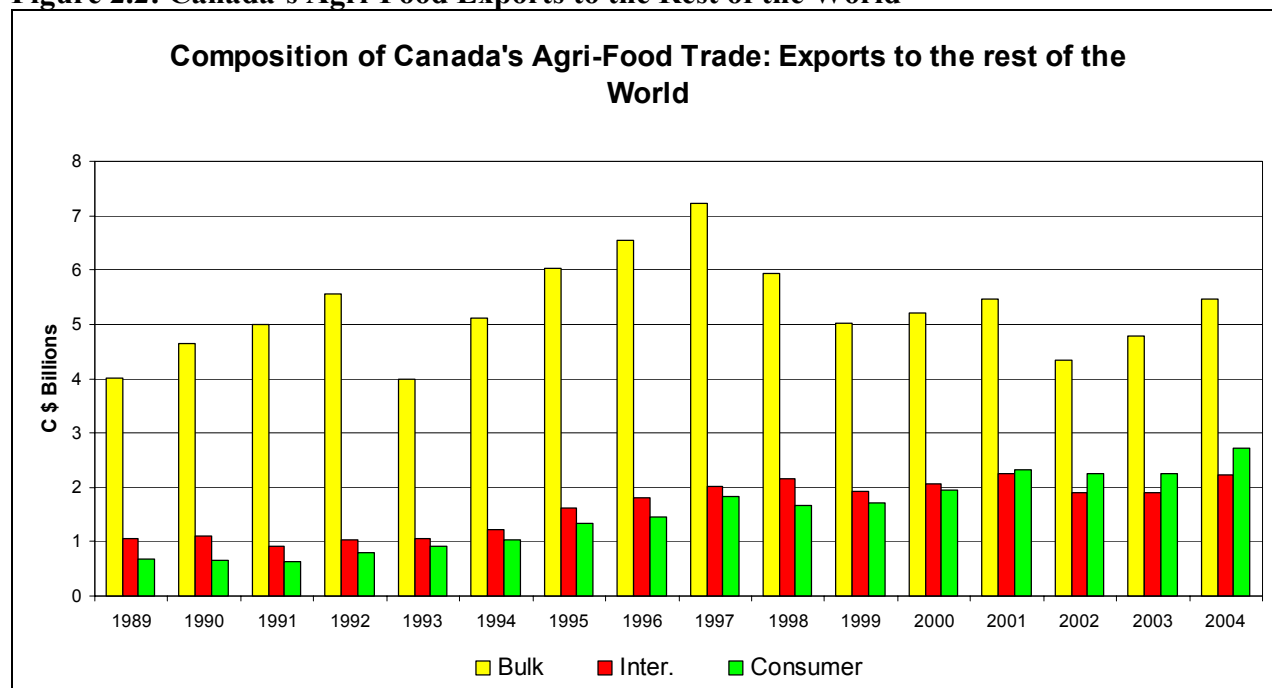
- At the same time, the market access component of the WTO negotiations presents risks to Canada's supply management system, while the component on subsidies may offer it more protection through higher world prices. As with every other country that has both protected industries that are net importers, and others that are export oriented, Canada faces the dilemma of finding the optimum position, balancing the benefits of market access addressed above and the benefits of protecting importing industries.

Figure 2.1: Canada's Agri-Food Exports to the United States



(Source: Agriculture and Agri-food Canada, 2005)

Figure 2.2: Canada's Agri-Food Exports to the Rest of the World



(Source: Agriculture and Agri-food Canada, 2005)

- A number of countries in South America and Asia have gained cost competitiveness in the production of commodities by opening up new land, adopting technology, improving their management capabilities, strengthening their supply chains, and improving their infrastructures. In some cases these countries have capabilities such as double cropping that give them substantial production cost advantages. At the same time, lack of infrastructure, poorly defined property rights, and unstable institutions sometimes give them relatively high costs of capital that offset some of their production advantages. Some also have fast growing and relatively young populations and most have growing incomes. This set of factors combines to simultaneously make them potential competitors, customers, or collaborators under alternate circumstances. These choices and how to optimize them provide considerable requirement for strategic thinking.
- Food manufacturing industries in Canada tend to have a widening gap between their labour productivity and that of their competitors, at least in the US (Stiefelmeyer, 2005). Simultaneously, we face a growing shortage of skilled labour. It is less clear whether the same applies in primary production, but there is evidence to suggest it does. Fundamentally, if nothing changes it means that these industries will have increasing difficulties competing for skilled labour, and/or Canadians will face further declines in our relative standard of living. This has elements of both threat and opportunity. The threats are as above, while the opportunities lie in adopting, adapting, innovating, and investing in capital and appropriate skills-training that will improve productivity and profitability so that Canadian operations can compete globally, and with other segments of the Canadian economy.

- Regulatory systems in Canada impede innovation and competitiveness. Two recent studies by the George Morris Centre (Brethour et al 2004 and Brethour et al 2006) on the Veterinary Disease Directorate (VDD) and the Pest Management Regulatory Agency (PMRA) illustrate some of the issues. These two agencies are responsible for approving products, and their labels, to prevent animal disease and plant infestations. Their mandates are to protect human and animal health, to protect the environment and, at least in one case, to do so in ways that do not disadvantage the Canadian industry. In both cases, the affected industries feel that they are disadvantaged. Their issues are that the Canadian registration process is much slower than in other countries, that the requirements for registration are arbitrary, unpredictable and costly, and that Canada is not in synch with international developments. The perceived results are that registration is much more costly here than in other jurisdictions, that products which are actually superior from the perspective of efficacy, safety, and environmental degradation are unavailable in Canada, and that market opportunities are being lost because materials that could be used to produce superior and differentiated products are not available in Canada. Our work shows these concerns to be valid. It also shows that no one in the Canadian industries wants to use or over use inferior, unsafe products. Therefore, Canadian producers are not afraid of tough regulations. What they are opposed to is non-rigorous processes that are slow and inconsistent.

Two additional aspects of the regulatory system are important. The first is that the aforementioned is not new: the producing industries, those who are regulated, and a number of studies have documented the problems for years. Furthermore, a number of potential solutions are apparent. However, despite positive words and massive undertakings such as “Smart Regulation”, nothing much changes. And Canadian Agri-Food falls further behind. Therefore, regulators are protected as there seems to be no real political will to change.

The second issue is that hamstringing of innovation by regulations is not restricted to those pertaining to farm inputs. While the Centre has not studied approval and labeling of food products recently, some of our members in the food products industry say their area is fraught with all the same difficulties we have described for input supply. Moreover, the issues about the stifling of innovation by inter provincial regulations, marketing boards, and tax policies that punish entrepreneurship are legion in Canada. The nation has trended toward a regulatory system that restricts behaviour, both appropriate and inappropriate, rather than one that rewards appropriate behaviour. In an evolving world that wants, and will pay for, variety, choice, novelty, functionality, and consistency, regulations that stop innovation and experimentation and force sameness constitute a formula for failure.

3.0 Responding to the External Factors

The set of factors discussed here illustrates that Canada's agri-food sector faces a complex set of forces. If we are going to be all we can be, we need a common vision of the future, and we need to rely on that vision to help identify what actions should be taken to manifest it. Actions include those by government to establish the public policy which, in turn, sets the business environment that seeks to consciously create a desired market structure and conduct. In the initial phase of the George Morris Centre project, the people with whom we have interacted have developed a preliminary statement of vision. It is preliminary in the sense that we expect it to grow, deepen, and sharpen as the process continues.

Our vision:

***Canada leads in food and bio-product production and prospers
through innovation within a progressive, sustainable
business environment in a global market.***

This statement is ripe with meaning:

- “Leads” means we are, and are seen to be, leaders, the best, and the first.
- “Food and bio-products” means the entire chain, not just agriculture, not just food, not just food processing, not just logistics and retailing. And the future clearly bodes of a business environment with chain versus chain, not company versus company.
- “Prosper” means we are past the stage of concern about survival. We are a source of wealth for Canada. All components of the sector have the opportunity to prosper.
- “Innovation” is tied to “leads” and “prosper”, i.e. we lead and prosper through innovation. The term is not constrained, i.e. it does not say innovation through technology, so it is wide open to include inventing, adapting, and/or adopting technology. Again, all elements of the supply chain are included, as are listening and responding to customers, product development, logistics, packaging, improved processes, and overall business operations. In short, the term “innovation” is not limiting, rather it is enabling.
- “Progressive, sustainable business environment” means that we, as a nation, also lead in determining how to nurture our industries. This includes taxation policy, research and development policy, environmental policy, regulatory policy: We establish a means to protect what needs to be protected in a way that encourages business growth.
- “Global market” recognizes that borders are historical human constructs that may or may not have much to do with markets and competitive advantage, and that Canada is resource-rich. So, we will not be limited by the markets we serve.

The next logical step in the process of responding would be to determine our strategic intents for policy in Canada in order to fulfill that vision in the evolving market place. We don't see that Mr. Easter's report was successful in doing so. The next several subsections of this

report address the issues with Mr. Easter's Report, and we offer some alternatives for finding policy solutions.

3.1 The Easter Report does not start from a vision of the agri-food sector, and the recommendations are not well integrated

Nowhere in the document do we see a clear articulation of the future for our sector that government policy should be trying to create. The closest it comes is to indicate that policy should try to result in higher farm incomes. Implicitly, it suggests that in the future farmers will have higher incomes by owning some or all of the processing and input industries through New Generation Cooperatives, a change in the Competition Act that would prevent non-farm members of the food supply chain from merging or acquiring each other. A number of factors will also lower their costs and contribute to higher incomes, such as making "public goods" the responsibility of government, and therefore not subject to user pay fees. Finally, exports from Canada will be the responsibility of a farmer-controlled export marketing agency.

If that is the vision, it raises a number of questions:

- Is it feasible?
- Where will the skills come from for a major structural change in Canada's agri-food sector?
- How will this address the issue of flagging relative productivity in Canada?
- How will it address the changes that are taking place in the nature of the consumer markets? (Mr. Easter's major recommendation regarding consumer communication is to educate consumers about the benefits of Canada's agriculture. There is no recognition of the need to communicate better with farmers and others in the supply chain about consumer preferences. Marketing programs that tell customers what the seller thinks are rarely successful, particularly if they do not take into account basic socio-economic determinants.
- Is this the appropriate structure to compete in those export markets with the ever improving US sector and the fast-developing competitors in Brazil, Argentina, Thailand, and China?

There appears to be little or no analysis of these strategically significant questions in the report.

3.2 The Easter Report is relatively unbalanced.

It makes one-sided arguments, omitting the opposing view. It cites selected literature and leaves out literature that makes alternative arguments. Here are three important cases.

- Mr. Easter asserts that *"The Canadian Wheat Board has also succeeded in increasing the market power and economic returns of farmers in Western Canada. A number of independent studies by agricultural economists dating back to 1997 have shown that*

farmers received a greater return per tonne marketing through the Wheat Board than they otherwise would have.” He cites studies by Gray; Kraft and Furtan; and Schmitz.

What Mr. Easter doesn't tell us is that not all the studies agree that the Canadian Wheat Board (CWB) provides increasing returns to farmers in Western Canada. Carter and Loyns (1996) have a very different result. Veeman (1998) agrees and argues that Canadian quality, and our grades and standards, are the real sources of any premiums received for Canadian wheat. Martin *et al* (2002) agree with Veeman and argue that the assertion that the CWB has market power is difficult to accept given the nature of the international grain industry. The argument is often made that the CWB is a “monopoly seller” and, therefore, can command monopoly profits. But in the world market the CWB competes with grain sales from the US, Australia, the EU, and other countries, usually from private companies. Other than the quality differences mentioned above, the logical conclusion is that since the CWB is *not* really a monopoly seller in international markets, then they could only command premiums over the true market price by colluding with other sellers, or by assuming their customers are not very discerning. We find neither of these very likely.

What *is* true is that the CWB is a monopoly seller of wheat and barley for human consumption in Western Canada. The result is that people who want to use Western Canadian wheat or barley in Western Canada have had significant price and regulatory disadvantages in trying to innovate with products and processes in that region. This is documented by Martin *et al* (2002).

Whatever the research shows, it is clear that all Western Canadian wheat and barley producers, the perceived beneficiaries of the CWB's market power, are not convinced. For example, an Ipsos-Reid poll in 2005 found that 66% of barley growers and 52% of wheat growers support either a dual, i.e. a voluntary instead of a mandatory Wheat Board, or an open market system.

The issue is not which of the foregoing is right or wrong. Rather, it is that only one side was told and is, therefore, considered irrefutable by the author. This precludes an open and transparent discussion of alternatives. And with the levels of uncertainty and change the sector faces today, the least that can be done is to present both sides of any argument. This allows people to obtain as much information as possible about each alternative, and then choose appropriately.

- A second example of one-sidedness in the Easter Report is the plea for a “balanced perspective” and one voice in the agricultural negotiations of WTO. The entire discussion in the Easter Report is about why those who want freer trade, more market access, and substantial reduction in farm subsidies should support Canada in “digging in its heels” to protect supply management and “orderly marketing”. That's fair enough. Clearly supply management has been beneficial to those who hold quota. But there is a disturbing lack of discussion about the potential benefits of more

market access and reduced subsidies in other countries for the larger number of farmers who don't own quota.

The evidence isn't hard to find. Nancy Morgan of the FAO recently compiled average tariffs for beef, pork, butter, and cheese in 106 countries. Interestingly, the average final bound rates are 73.2% for pork; 67.8% for beef; 69.2% for butter; and 68.5% for cheese. By contrast, Canada's tariffs for dairy products average around 250%, and for beef and pork, less than 10%.

The smallest proposed cuts in tariffs at the WTO would be in the order of 50% over a phase-in period of at least six years. This means that after six years, Canadian dairy tariffs would be reduced to about 125%. Average beef and pork tariffs in the rest of the world would drop to about 35%. It is argued that a decline in Canadian dairy tariffs to 125% would do substantial harm to dairy farmers' incomes because it would open our markets to imported product that would undermine Canadian prices. If this is true, then a reduction to 35% by importing countries would allow more beef and pork products into their markets. If tariffs in other countries are similar on grain, oilseed and horticultural products, then this could be a substantial benefit to Canadian farmers in those and the red meat industries. We saw in section 2.0 that Canada's exports, especially of consumer ready products, rose dramatically to the US and the rest of the world after tariff reductions in CUSTA and the Uruguay Round of the WTO. If Canadian exports rose dramatically when tariffs were reduced a small amount after the Uruguay Round, it seems logical that they would increase even more after a relatively large reduction. But Mr. Easter never addresses this and never addresses the obvious question of tradeoffs that might occur as a result of Canada's "balanced" position, and how these tradeoffs could potentially hinder trade, and the overall prosperity of agriculture.

A similar issue ignored in the Easter Report is the potential implication for Canadian agriculture of proposed reductions in domestic farm subsidies at WTO. The now-former Liberal government of Canada said on a number of occasions that much of the reason for the current slump in grain and oilseed prices in Canada was US farm subsidies. This is a conclusion with which we agree, but could never understand why the government then refused to consider a trade injury component to farm income policy. Be that as it may, the least aggressive proposal at the WTO is to reduce domestic farm subsidies by a factor of about 60%. At the same time, agreement has been reached to completely eliminate export subsidies by 2013.

What impact will a 60% reduction in farm subsidies have on US programs and what would be the subsequent impact on Canadian farmers? Some Canadian economists (Gray and Furtan, 2005; Brink, 2005) have recently argued that proposed reductions in domestic subsidies will have little impact because the cuts aren't deep enough to affect US farm policy and, therefore, will do little to assist Canadian agriculture. The arguments are complex and are explained in detail in a forthcoming report from the Centre (Martin, Mussel and Moore, forthcoming). But, fundamentally, the results of

these studies are projected based on a so-called “base-line” forecast agreed to by a group of economists. The base-line forecast, interestingly, contains steadily rising grain prices until 2015, a truly astonishing assumption since the major reason for farm subsidy programs in most countries is declining and unstable prices. So, in the time-honoured tradition of many academic economists, they analyze the problem by assuming it away. In other words, US farm programs kick in their major payouts when farm prices are low and falling. If one tries to assess the future liabilities of the programs, it should be fairly clear that liabilities will not be high if grain prices are steadily rising. However, in our own analysis we find that if we assume prices are even 15% lower than the base-line forecasts, then the current US programs would have very high liabilities that would be limited by proposals to cut farm subsidies by 60%.

The fact that none of this is considered in the Easter Report is unfortunate. This is not just because Mr. Easter gives an unbalanced view in arguing for a balanced perspective, but also because he concludes that Canada might be better off pursuing regional or bilateral trade arrangements, rather than trying to make substantial progress in the WTO’s multi-lateral negotiations. This may well be correct but many people believe that it falls into the true agenda of the US, i.e. trying to make no progress at WTO, and focusing on regional and bi-lateral arrangements. If so, then a number of strategic questions arise for Canada:

- In a regional/bi-lateral treaty world, who has the most negotiating power, the largest economy in the world or Canada? In a multi-lateral environment, a clear lesson being learned by developing countries is that by working together with small developed exporting countries they have a chance to offset the economic power of the US and the European Union. That would be much more difficult for any one of them to do in one on one negotiation.
- Similarly, is it possible that the US might be able to offer or manipulate small third countries into agreements that favour the US? It is not hard to imagine the pressures that could be placed on some small importing countries to give preferential treatment to US products.
- Following from the foregoing, are we sure that Canada, as a trading nation, will be better off in a bi-lateral treaty world than by obtaining the benefit of improved market access to 140 countries, and the *same* access as our competitors?

Canadians often complain about not having a level playing field on the international scene. To unilaterally give up on the process that at least potentially offers a level playing field in favour of a process that guarantees an uneven playing field seems questionable at best, and is potentially a strategic disaster. Unfortunately, we in Canada’s agri-food sector seldom have the opportunity for open, transparent conversations on strategic questions like these, in large part because the “sides” are chosen and positions taken before the conversations start and then they are informed by unbalanced and incomplete information such as that provided by Mr. Easter.

- A third example of the lack of balance in the Easter Report has to do with his analysis of corporate concentration. Much of the report is given to this subject. It concludes that much of the reason for depressed farm incomes in Canada and other countries is that farmers lack bargaining power, and are exploited by national and international corporations who are their input suppliers and their product customers.

We agree that some companies will exploit if they are given the opportunity. But the issues are a bit more complex than they sound, particularly when we read a compendium of carefully selected references that support the conclusion. And what is certainly not proven is that Canada's competition policy and its competition watchdog are not effective.

The arguments made by Mr. Easter are interesting. He begins by citing concentration ratios, for example four firms mill most of our flour, as if this is proof that there is a problem. Most flour is a relatively homogeneous product, i.e. mine looks and tastes like yours, so most competition is on the basis of price. There are substantial economies of size in modern flour milling, i.e. costs are lower when a few companies do it in a few plants. By Mr. Easter's implication, we would be better off if there were 47 small companies, each with their own accountants, lawyers, and managers, milling flour in 47 small plants, and none with modern technology because it is only adaptable to large plants. This is, of course, nonsense and nothing in economic theory dictates that four firms will gouge their suppliers or customers, and nothing dictates that 47 inefficient small ones will give a better outcome than four efficient large ones, especially when they have international competition. So, the fact that there are a few in a relatively small country means nothing in itself.

More evidence that farmers are gouged by their customers and suppliers comes from the fact that farm to retail margins have increased over time. Again, this may contain some truth, but it is severely oversimplified for at least three reasons. First, the products we buy today are far different than they were in the past. People dine away from home more often, thereby purchasing more preparation. Similarly, walk into any grocery store and observe the number of products being sold, with varying degrees of preparation – from simply cleaned, to peeled and cut, to de-boned, to mixed (into, for example, salad green mixes or salads), to sushi, to fresh prepared sandwiches, to a wide array of frozen or vacuum packed entrees. So, of course, margins are different when people buy a different set of services. Second, the cost of regulation is a tremendous burden that affects the costs of farmers and everyone else in the supply chain. Those costs affect prices and margins. Third is the cost of labour which has increased at every level. Margins are affected by many factors. The amount by which they have risen is not a reflection of any one factor.

Another interesting example of the lack of balance in the Easter Report is the generalization about the ways transnational corporations abuse their market power, based on a quote from an organization called Action Aid. There are other opinions. For example, in a review of 100 years of agricultural marketing research on industry

concentration in meat packing, Ward (2002) failed to find clear or consistent evidence that concentration in meat packing had suppressed cattle or hog prices, or that the meat packing industry was in any sense less competitive as a result of concentration. We don't know who Action Aid is, but we know Dr. Ward and have faith in his capability and integrity. Similarly, in noting that consolidation is occurring in retailing and processing, Sparling *et al* (2005) made no assertions regarding the relationship between concentration and market power, and instead focused on how producers could strategically adapt and prosper in this environment. This is echoed by the now-famous green grocer in Nova Scotia, Pete Luckett, who asserts that every time the majors' retail chain grows, it gives him more opportunity to profit from the things the majors can't do. But by picking and choosing studies from which to quote, Mr. Easter creates an inaccurate view of professional opinion on this topic.

3.3 A Focus on Corporate Concentration Means the Easter Report Brings Unproductive Conflict Into a Sector Whose Costs are Already High Because of Mistrust and Conflict.

Our experience is that many people have a tendency to take advantage of others when they can get away with it. So, there is a degree of validity to the concern about corporate concentration. But there are countless other factors affecting the outcomes in the agri-food sector, and many of them are not dealt with by Mr. Easter. His views of corporate behaviour are implicitly rolled into his simple conclusion that corporate concentration is the major source of most farm problems. We even find some of the ways he characterizes the problems to be confused and confusing. He repeatedly points to declining farm numbers in almost every country as proof of the farm crisis, including ironically Germany and the US, where protectionism and subsidies are used liberally¹. If a declining number of producers indicate a failing industry then many are failures; the numbers of micro chip producers, computer producers, automobile producers, airplane manufacturers, etc, are all falling, as are the real prices of many of their products. So are the numbers of food retailers, food processors, and farm equipment suppliers. But Mr. Easter certainly doesn't see these as failing industries.

In most industries, declining numbers are an indication of an industry with rapidly increasing productivity, substantial rivalry, and/or stable or declining demand. In order to compete, new capital is continuously attracted that enhances the productivity of people in the industry. People with less productive capital often find more productive opportunities elsewhere. Ironically, Mr. Easter writes at some length about how much agriculture's productivity has increased, but doesn't seem to realize that declining numbers are a logical result of rapidly increasing productivity: the trend toward fewer farms is entirely in keeping with what would be expected in an industry that continuously improves itself. The best, and perhaps only, way to maintain employment when productivity is increasing rapidly is to increase the demand for the industry's products. But, as we saw in earlier sections, Mr. Easter hasn't quite come to grips with this issue yet since he does not seem to embrace the need for improving export market access for a country with an excess of resources in agriculture.

¹ Interestingly, while Mr. Easter clearly supports supply management as a model of appropriate market power for farmers, he does not report that the number of dairy farms in Canada has declined as rapidly as any other industry. We point this out to further indicate the inadequacy of this measure as an indicator of the problem.

Returning to Mr. Easter's theme of corporate concentration taking advantage of market power, the alternatives for stopping them from getting away with this are laws and legal procedures, accounting rules, regulations, contracts, transparency (information), and trust. The first five are substitutes for trust, while the presence of the sixth promotes it. Nearly all of Mr. Easter's recommendations were about either strengthening laws and rules to stop structure or conduct, or about providing tax incentives to create an advantage for farmers over non-farmers in the food system. There is nothing about building trust and collaboration. Nor would his proposal create any when he seemingly seeks to pit farmers against everyone else in the industry.

Without a positive perspective for all the elements of the sector, it would seem clear that a policy based on Mr. Easter's report would create additional costly conflict. Currently, many of our increasingly capable international competitors are strengthening their competitiveness through reduced conflict between business units operating throughout the agri-food sector. Following Mr. Easter's proposal at this point would launch a flotilla of initiatives in the opposite direction.

Most importantly, if the official stance is that agri-business and the food industry are seen as predators of farmers; that the agri-food sector merits special punitive competition rules; and that the government is prepared to provide tax breaks to create competition in a sector whose costs of regulation, as Mr. Easter has quite correctly pointed out elsewhere in his report, are already extremely high, then the question clearly becomes "Why invest in Canada?". Conflict could cost Canada dearly, particularly when trust and vision provide a greater incentive for industry stakeholders to invest and prosper than fear ever will.

4.0 Where To From Here?

We have not discussed all of the Easter Report. Some of it is very good, including the section on government regulation; although we would likely go farther than he would in this area. There is much in the report that can be further developed.

However, as this commentary suggests, much of the Easter Report's fundamental analysis is unbalanced. It draws conclusions that can't be supported by the data it uses, such as the issue of what widening margins tell us or what declining farm numbers really mean. Most importantly, it doesn't begin to identify or deal with a number of key strategic issues that need to be dealt with if Canada is to achieve its rightful place in the world of agriculture, food and bio-products.

Leadership is needed in order to present a truly balanced view of the external environment and the strategic alternatives for Canada. It is an appropriate time in our history to have open debate on an appropriate policy for the development of our commercial agri-food sector.

- Canada's current Agricultural Policy Framework (APF) needs to be renewed or replaced by the end of 2008
- The WTO will likely make decisions in 2006 or early 2007

- The EU must deal with the entry of 13 new countries into the union, several of whom are very productive agriculturally at relatively low cost compare with much of the EU. This is leading to changes in the Common Agricultural Policy
- The US is scheduled to write a new Farm Bill in 2007. A number of factors are leading to potential major changes.

The George Morris Centre wants to help facilitate the development of that commercial agri-food policy for Canada. We began to approach people in the sector to join us in financing the project just before Christmas 2005. As this report is being written, we have received pledges for \$70,000 and several are considering joining the effort. The investors in this project will act as an advisory board for the project and will help to ensure proper representation from across the country and the sector. Our next steps are as follows:

- Continue to prepare and condense background material for the participants in the project.
- Facilitate a series of seven in-depth “focus groups” across the country in the summer of 2006 which will sharpen the vision, determine the objectives of the policy, and identify the appropriate instruments to achieve those objectives.
- Integrate the findings to what we hope will be a single platform that the participants will introduce to governments as a representation of what is needed to fulfill our vision. We see it as a comprehensive replacement for the APF – the blue print for the future of Canada’s agri-food sector.

Our Canadian Agri-food Policy project is a vital and timely initiative. We have the opportunity to deal with many of the questions raised in the Easter Report; we have a history of providing an objective view of policy and industry-related issues; we will ensure the involvement of people from throughout the entire agri-food sector. These are all key in ensuring comprehensive representation. Our comment is that sometimes it is appropriate for the governed to lead.

If this piques your interest, please consider joining us. Contact Joanne Falk, Manager, External Relations, George Morris Centre at joanne@georgemorris.org, or 519-822-3929, ext 218, for further detail and a copy of the proposal.

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