

## OVERVIEW OF CANADIAN AGRICULTURAL POLICY SYSTEMS

*Richard R. Barichello*

### INTRODUCTION

The purpose of this paper is to give an overview of Canadian agricultural policies and to provide background information on our current trade issues and disputes. To make this task more manageable, discussion will focus only on the major policy instruments. For these we will examine their design and provide some quantitative evidence of the transfers they generate to farmers, in order to provide some background to the larger border issues that exist.

There are many ways to look at the country's agricultural policies. For example, we could review policies on an instrument by instrument basis, or review each of the major commodities and discuss the instruments that are involved. Instruments will be discussed first since it is the instrumentation that often generates the trade dispute. Second, the set of policies in place for each commodity subsector are reviewed and some quantitative estimates of their effects are provided.

An attraction of reviewing policy instruments is that it should allow a comparative analysis of policies in the two countries. What makes a Canada-United States comparison interesting is that there is so much similarity in the agricultural and economic environments, in the trends in important economic variables, and in the problems and issues facing policy makers in both countries. Yet the policy responses have been, and continue to be, quite different.

The policy groups that are examined include safety nets or stabilization programs, direct output and input subsidies, market regulations and institutions, which include important elements of trade policy, and the diverse collection of remaining policies that are of secondary importance from an aggregate perspective but may be of primary importance in a particular industry. These include trade policies, research, extension and inspection services, and the variety of smaller financial transfers that go to various agricultural sectors from the federal and provincial governments.

Four commodity groupings will be discussed which cover most of Canadian agriculture: the red meats sector, grains and oilseeds, the supply-managed sector that includes dairy, poultry and eggs, and the horticultural sector. These four groups account

for 205,000 farms out of a total of 230,000 farms with sales in excess of \$10,000, or about 88 percent of all farms. In terms of gross cash receipts, these four groups account for \$23.7 billion out of \$26.4 billion (90 percent of total gross farm sales).

Some summary statistics for 1993 give an overview of the Canadian agricultural sector. First, the industry's farm cash receipts from market sources were \$21.5 billion, and this primary part of the food sector accounted for about 2 percent of GDP. In nominal terms, the trend in market returns over the five years from 1988 to 1992 was +6 percent, but this is equivalent to a small decline in real terms. Net cash income and realized net income are also falling on trend in real terms. (AAFC, 1995). Similarly the proportion of GDP from primary agriculture has been falling, from about 3 percent in the early 1980s, as is found in all growing countries. The food processing sector is roughly double the size of the farm sector in sales (\$40 billion) and also contributes 5 percent to GDP. The agri-food industry as a whole accounts for 8 percent of GDP and 15 percent of total jobs.

With technical change in farm production continuing unabated, real commodity prices are declining on trend in most farm commodities. There is also a trend to larger farms, as is observed in the United States, although with a lag—the current average farm size is smaller in Canada than in the United States. The result is a steady but attenuating decline in the number of farmers as a combination of new technologies and particularly higher wage rates make larger farms more economical. The exit of farmers from agriculture is occurring at the rate of one in three operators every five years. The number of new entrants replacing those leaving is smaller, but the difference between the two groups is diminishing. All of this is very similar to the situation in the United States (Statistics Canada, *Farming Facts*, 1993).

In trade, Canada exports about one-third of domestic production, and when primary commodities are combined with processed exports, the total export value is \$13 billion in 1992 and 1993. Canada has a positive trade balance in primary products (\$6 vs. \$3 billion) and a negative trade balance for processed products (\$6.9 vs. 7.3 billion). However, like the United States, Australia and New Zealand, Canada's share of the total global market for agri-food exports has declined since the 1961-65 period. (AAFC, September 1994).

Government financial support has been declining from the record high levels of the late 1980s and early 1990s. Since 1980 the real path of federal government expenditure rose gradually from 1980 to 1985, rose dramatically for the next two years, declined for three years to 1990 and jumped to an all-time high in 1991. These very high expenditures in the 1986-91 period were primarily due to special ad hoc farm income support payments to assist the grains and oilseeds sector to maintain income levels in the face of lower world market prices during the grain trade "war" of that period. Since then, expenditures have declined, but 1994/95 levels in real terms are still higher than those in the early 1980s. A feature of government expenditures in agriculture in Canada is that the provinces are also heavily involved, particularly in the areas of income support and rural development, extension, education, and environment.

## AGRICULTURAL POLICY LANDSCAPE

### Goals

Review of the agricultural policy landscape in Canada, should start with the general goals motivating the policies. The following five goals are identified for agriculture by the current government, with the first two emphasizing growth and the second three emphasizing security:

- achieving sustainable agriculture and agri-food growth
- fostering rural opportunities
- realizing long-term financial security
- attaining resource and environmental sustainability
- maintaining a safe, high quality food supply.

From such a list of current policy goals some changes are evident from the situation in the 1970s and early to mid-1980s. In the early 1980s a listing of goals on the consumer side would include reasonable and stable food prices, and adequate, safe, nutritious and dependable food supplies. On the producer side, the list would include a fair level and stability of producer returns, reduced economic disparities within agriculture, increased production efficiency, expanded production, the promotion of exports, and the preservation of the family farm. In the reality of programs and regulations, the number of underlying objectives could be thinned to two, *increased stability and increased farm incomes*. The other objectives have existed but in practice they played a secondary role. To view this issue (policy objectives) differently, Warley (1985) organized agricultural policy objectives into two groups, "development-oriented, productivity enhancing, and competitiveness-promoting" and "protectionist, preservationist and adjustment-ameliorating". The period from 1970 to the mid-1980s witnessed the ascendancy of the latter group of objectives, with increased intervention. More recently, language, such as that noted above, reflects a greater concern with developmental objectives.

One common element between the goals of the 1970s and the current listing is the attention given in both cases to *stabilization*. This reveals what may be a unique element of Canadian agricultural policy, the sustained priority given to this goal. The public rhetoric of agricultural policy in most developed countries also puts great emphasis on the goal of stabilizing markets, prices and incomes. But most of the resulting policies have little to do with stabilization and a great deal to do with increasing levels of farm prices and incomes. Canadian agricultural policy appears somewhat different in this regard. As noted above, stability is consistently stated as a policy objective and receives even greater emphasis in policy rhetoric than in other countries. More important, a number of agricultural policies, usually at the federal and federal-provincial levels, actually seem designed to increase stability and reduce market risks. The historical reason for this attention could be due to Canada's climate and inherently large weather risks, its dependence on world markets for many years, or a thinness of markets resulting in fewer insurance options. This is not to say that farm income or price levels are unimportant in Canadian policy but that stabilization goals are taken seriously and instruments are

designed and used largely to meet such an objective.<sup>1</sup> This will become more evident later in this paper.

There are other differences in the goals now mentioned in comparison with the situation in the early 1980s. First, there is an increased importance of competitiveness, at least as an important criterion for policy adoption. This is reflected in the desire to increase exports, the statement that financial security in the industry must come increasingly from the market place, not governments, and that policies should be non-distorting so that farmers will adjust to market signals. There is an explicit desire for agricultural policies to foster economic growth in the agricultural sector instead of providing passive income support.

Sustainability in agricultural production has now become a stated goal that was not often mentioned a decade ago, indicating the increased importance of environmental issues. For example, there has been greater attention given to production externalities where agricultural activities (e.g., waste disposal) damage water quality and other resources, and a desire to limit agricultural activities in order to preserve certain "public goods" (such as biodiversity or waterfowl habitat) that are judged to be socially valuable. Risk management by farmers through market mechanisms has begun to replace reliance upon government programs to reduce risk. Clearly, there is a smaller role for government expenditure in current policy goals, and greater emphasis on the market place as well as on the farmer becoming more self-reliant and more responsible for managing his/her own situation.

### **Type of Policies in Place**

On a quick review, the policy landscape in Canada today appears to be quite similar to the situation of 10-15 years ago. At that time, the dominant features of agricultural policy in Canada were the supply management regime covering dairy and poultry products, a number of stabilization programs that were evolving into the National Tripartite Stabilization Program, and a grains policy that featured a one-desk selling marketing board along with a significant transportation subsidy. The important secondary element was the large and increasing role of provincial government support programs, which were often direct financial transfers in the form of an output or input subsidy. To a certain extent, this is still the case today. The major program initiatives remain the same, albeit with some important changes in their details, and no new initiatives have been begun that cannot be seen in some form in 1986. For details and an overview of programs in effect earlier in the 1980s, see Arcus Consulting Limited (1985), and Barichello (1986).

However, there has been more change in the policy framework than initially meets the eye. Driving these changes are a set of underlying fundamentals, the two most important of which are (i) a tighter government budget constraint and (ii) a more open and informed international trading environment that constrains trade policies to be less

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<sup>1</sup> Editors Note: One reviewer observed that there has been no stabilization program in Canada that has not also had a significant income enhancement effect.

protective and less damaging to trading partners and international markets. These pressures have become particularly concentrated in the last year, with agreement on the Uruguay GATT Round and with the current federal and provincial governments' special attention to its deficit. The need to focus government resources more carefully and the increased offshore competition has led to a greater concern with the international competitiveness of our agricultural subsectors.

The importance of smaller budgets and more open trading rules is provoking a sometimes rapid and substantial change in policies in Canada. Most of the major budget items in the programs discussed below are either disappearing or being reformed. Even in the supply management areas, although prohibitive tariffs have replaced restrictive Non-Tariff Barriers (NTBs), the mechanism for changing support levels is fundamentally altered, and it is only a matter of time until these changes will affect producers directly by lowering prices. Depending upon the outcome of certain legal and international decisions, the very high tariffs on trade within North America may be reduced rather quickly after the year 2001. All of this is occurring as the agricultural sector itself is continuing to undergo substantial changes due to the increased importance of new information in production and marketing, the rapid transmission of this knowledge among trading partners and competitors, and the resulting increased international competition.

The result is that the policy framework and industry structure in Canada are changing relatively rapidly and in a quite different direction than was the case a decade ago. This change—in the direction of less regulation, less government financial support and greater reliance on markets—may now be occurring more rapidly in Canada than in the United States. It also may be the case that certain parts of Canadian agricultural policy had further to go in this direction.

## **REVIEW OF POLICY INSTRUMENTS**

### **Safety Net Programs and Stabilization Policy**

There is a long history of stabilization or farm safety net programs, beginning in 1958 with the Agricultural Stabilization Act. From that program which guaranteed 80 percent of the previous ten years' price, a series of changes were made, to deal with inflation, gross revenues and gross margins instead of only market price, and incorporate shorter base periods. Payments were still made like deficiency payments but the funding source was broadened to include both federal and provincial governments, and producers. In 1991, an umbrella statute (Farm Income Protection Act, FIPA) provided a general framework for stabilization programs that was to integrate the safety nets for virtually all commodities. All programs under this framework were guided by five principles:

- i) market neutrality;
- ii) equity among commodities and recognition of regional diversity;
- iii) long-term social and economic sustainability of farm families;
- iv) consistency with international obligations; and
- v) long-term economic and environmental sustainability.

Four safety net programs have been developed under this legislation to cover the different needs of different products. They are a revenue insurance program (National Tripartite Stabilization Program, NTSP), a gross revenue insurance program (GRIP), a net income stabilization account program (NISA), and a crop insurance program. All share the following common characteristics; they:

- stabilize farmer incomes through market risk or yield protection;
- are tripartite among federal and provincial governments and producers, and the costs of the program plus its management and program development are shared among the three parties to the agreement;
- are national, not regional, in scope;
- are voluntary with farmers who may sign up for any, all, or a combination of the programs;
- are established through federal-provincial agreements;
- are administered and funded through Agriculture and Agri-Food Canada, and other government departments;
- promote equity among regions and producers; and
- address short term production and market risks while permitting farmers to adjust to long-term price and market trends.

This family of safety net programs is important in Canadian agricultural policy, although the first two programs, respectively, are no longer in effect or are unlikely to be continued. To illustrate the evolution and nature of safety net policy, the four programs are summarized below.

***National Tripartite Stabilization Program (NTSP)*** The objective of the NTSP is to reduce losses to producers due to adverse changes in market prices or costs. It is applied to hogs, cattle, lambs, some fruits and vegetables (apples, beans and onions), and honey. The premia are shared equally (one-third each) by the two levels of government (federal and provincial), and producers. After being in place for about a decade, this program is now winding down. Most commodity NTSP schemes are ended, or in the process of being ended.

The details of this program reveal some of the thinking that underlies its operation. For hogs, slaughter and feeder cattle, the program guarantees a specified percentage of the average gross margin over the last five years. The support level is equal to estimated national current cash costs in that quarter, plus a percentage of the difference between these cash costs and the national average market price for the preceding five years (i.e., the average gross margin). The program for cattle terminated at the end of 1993 and the hog program ended in July 1994. To give an idea of the degree of financial support this program offered, the hog program paid an average of \$120 million per year, and payments in excess of \$10 million were made in four of the seven years from 1988 to 1994. The average payment for slaughter cattle in total was \$51 million per year, and the average payment to feeder calves was \$2 million per year. Finally, the cow-calf program was set up a little differently, focusing on market price alone instead of a gross margin. Support levels were set as a given percentage of an indexed (for inflation) moving average price of calves over the last 10 years (i.e., the ten year average real price of calves). From 1988 to 1993, no payments were made on this part of the NTSP.

It should be noted that these numbers are the payments actually made to producers, *ex post*, net of the premium contributions made by producers, averaged in nominal terms over the 1988-1994 period. Therefore, they are not directly comparable with the financial transfers presented in the Commodity-by-Commodity Review section at the end of this paper. Those financial transfers were calculated as the sum of federal and provincial plans self-financing (completely financed from premium contributions alone). The financial transfer data are also for the 1992 year only.

**Gross Revenue Insurance Plan (GRIP)** This program was the successor to the Western Grain Stabilization Act and was introduced in 1991. It was offered to grain, oilseed and specialty crop growers. It was designed to be complementary to Crop Insurance, with the two programs providing comprehensive revenue protection. With crop insurance giving yield protection, based upon historical production, GRIP adds revenue protection based on prices, with reference to a fifteen year indexed moving average price. Target revenues per acre were calculated using probable yields (farmers' past historical production) and average real price. Payments to producers are triggered when market revenue falls short of target revenue. Premia are calculated each year, designed to make the plan self-sustaining. These premia are shared by the three participants, with 33 1/3 percent paid by producers, 41 2/3 percent paid for by the federal government, and 25 percent paid by provincial governments. Participation is voluntary—in 1994, 70 percent of eligible producers were enrolled (covering 73 percent of acreage).

However, participation is declining and farmers are choosing reduced coverage. The federal government is reconsidering its participation, partly for trade reasons and because Alberta and Saskatchewan, the largest two participating provinces, are terminating their involvement. To give some idea of the financial commitment represented by GRIP, the federal government contribution is about \$500 million annually and the total government transfer, federal and provincial including specialty crops as well as grains and oilseeds, was \$936 million in 1992, excluding federal government contributions to the plan's administration.

**Crop Insurance** This program provides specified protection against production risks, including such hazards as drought, flood, hail, frost, excessive moisture and insects. It is offered in conjunction with GRIP or as a stand-alone program. Payouts are triggered when a farmer's yield falls below 70-80 percent of that farm's average historical yield, due to any of the hazards listed, with the details depending upon the province. Premiums are calculated in an actuarially sound manner so the scheme is intended to be financially self-sustaining. Costs are shared by the three participant groups with the shares being 25 percent for each of the federal and provincial governments and 50 percent for the producer. Participation is at 55-60 percent of the eligible acreage and number of producers. The federal cost of premiums has averaged about \$160 million over the last 6 years. In 1992, the combined federal and provincial transfer (via premium contributions) across all commodities was \$258 million.

**Net Income Stabilization Account (NISA)** This program is probably the most unique of the four stabilization programs and has the potential of becoming the most important, given the expectation that it will be classified as a "GATT-green" program. It is designed

to give farmers another tool in financial management, like a special "rainy day" savings account where you set aside funds in good years for use in poor years. A participant farmer can deposit up to 2 percent of eligible net sales, to a maximum sales level of \$250,000. This amount will be matched by 1 percent contributions by both federal and provincial governments. Producers can contribute up to 20 percent on additional sales but such contributions attract no matching government contributions. Interest is earned on these individual accounts at competitive interest rates, plus 3 percent provided by government. Withdrawals can be made when the gross margin for the entire farm is less than the 5 year historical average, or when the income level from all sources is below some minimal level.

This program takes a whole farm approach; it was not intended to be commodity specific. Overall farm income from included commodities is used for calculations and these are done on an individual farm basis. At present, farms in grains, oilseeds, special crops, horticulture and honey are eligible, as determined by each province. So far the contribution levels are relatively small. The federal cost in 1992 and 1993 was in the \$65-\$75 million range. Across all commodities and including both governments, the transfer for 1992 was \$110 million. In line with the ongoing evolution of this program, steps are now being taken to simplify its procedures and administration.

### **Future of Safety Net Policy**

Safety net policy is to be a primary vehicle of overall agricultural policy in Canada. As such it must contribute to a set of larger policy objectives for Canadian agriculture, including promoting long run viability and competitiveness of the sector, and helping farmers to adjust to market signals and manage risks in a non-distorting fashion. It is intended to involve whole-farm income stabilization rather than historical commodity income support. The family of safety net programs is to include three specific programs: crop insurance, a whole farm income program like NISA, and more specific companion programs that would deal with disasters, other regional needs, farm adjustment and adaptation measures, and risk management. The current programs are being actively reformed to ensure that, among other objectives, they are compatible with trade agreements, do not alter production decisions toward certain outputs, inputs or technologies or market allocations (compared to the absence of the program), are self-financing and affordable. The government financing component will involve 60 percent federal funding and 40 percent provincial. Policy design issues that remain to be determined include whether producer deposits should be based on sales or value-added, whether funding should be increased and the interest bonus reduced, and if there should be contribution limits or caps on fund balances.

Given the importance of this class of programs, what can we say about their overall economic effects, at least in qualitative terms? First, the programs are basically risk reduction programs. At present this involves changing the price distribution faced by farmers by increasing prices at the low end, thereby raising the effective average prices received. This likely generates some increased production, although with the scale of subsidy relative to market returns, the actual increase is not likely to be large except for GRIP, which involved financial transfers of almost one billion dollars in 1992. By



conscious design, the reformed safety net policy will be less subsidized, hence less distorting, and with less of a commodity market effect by focusing on whole farm incomes, not commodity-specific prices or revenues. It would appear that the distortions will be quite small, and that, in turn, these reformed safety nets programs will cause few trade difficulties. Of course, the details of these programs are everything in analyzing them; more substantial comments must await information on the actual program details including the size of the subsidy and the relation between price movements and payments to farmers to determine the farm-level incentives they give to individual commodity producers.

## **DIRECT SUBSIDY PROGRAMS**

### **Output Subsidies**

In contrast to U.S. farm programs, Canadian agricultural policy does not often use this policy instrument. Safety net programs until now have included only conditional deficiency payments working on the lower end of the price distribution, and even these payments will be ended with the current safety net policy reform. The two exceptions to this generalization arise in dairy policy. First, there is an offer-to-purchase program that operates on butter and skim milk powder to underwrite the prices for these commodities, and in so doing put a floor on industrial milk prices in general. There is also a deficiency payment used in dairy policy to provide a direct subsidy on industrial milk. It was at a level of \$6/hectolitre through 1992/93 (one-sixth to one-seventh of the industrial milk price), and has since declined to \$5.40/hl in 1994/95. This subsidy is not open-ended; it is paid only on the base of industrial milk quotas. It is an important part of dairy policy but is being re-examined as part of redesigning Canada's post-Uruguay Round "orderly marketing system". In fact, in the February 28, 1995 budget, this subsidy will be reduced by 30 percent over the next two years.

Another area where output subsidies have been used is as part of provincial agricultural policy in some provinces such as Quebec and British Columbia. However, the situation now is substantially changed compared to that of the mid-1970s, when these provincial price supports (via deficiency payments) were widespread and large, incurring countervail trade actions and creating more inequity in support between provinces. Now, most such programs are being terminated or adjusted to comply with trade agreements.

## Input Subsidies

These instruments have been used quite commonly in Canadian agricultural policy. The most important input subsidy has been that on transporting Western grain exports to export port, known more recently as the Western Grain Transportation Act (WGTA).<sup>2</sup>

**Western Grain Transportation Act** This subsidy has its origins in 1897 legislation fixing the freight rate on moving grain to export position at the so-called Crow Rate. This fixed nominal freight charge became an increasingly significant benefit to Prairie grain farmers as inflation occurred and underlying freight costs increased. It was reformed and capped in the mid-1980s with the enactment of the Western Grain Transportation Act whereby the federal government assumed the costs of the fixed rate at a level equivalent to the 1981 value of the subsidy benefit, about \$700 million, paid annually to the railways. This method of payment, however, also meant that grains in the Prairies were priced artificially high (as the export price f.o.b. Vancouver or Thunder Bay less the artificially low cost of freight). The result was that the WGTA taxed livestock production, especially feedlot operations on the Prairies, and it discouraged increased value-added or further processing of grain because processed grain products did not receive the freight subsidy. In addition, the subsidy was an export subsidy and hence contrary to Canada's GATT obligations.

The size of this subsidy is among the largest of any single program in Canadian agriculture. From 1989 to 1992 the cost to the federal government was about \$725 million per year, equivalent to about \$20 per tonne of grain in freight costs. Given the distortions and inequities this subsidy causes within the agricultural sector, its incompatibility with basic GATT articles and its large budget commitments, it has been a candidate for reform or elimination ever since the WGTA was announced. In the February 28, 1995 Budget, the program was eliminated. It will be replaced by a one-time payment to Prairie grain land owners of \$1.6 billion to offset partially the drop in land values expected from termination of such a long-standing benefit. As this payment will be tax-free, its value to farmers is claimed to be about \$2.2 billion, while termination will generate for the Government of Canada annual savings of \$560 million beginning August 1995.

**Feed Freight Assistance** Although it is relatively minor in terms of outlay, the Feed Freight Assistance Program (FFA) is another freight subsidy program. In contrast to WGTA which assists cereal growers at the expense of grain users in the grain exporting regions, FFA assists livestock producers in the feed grain deficit areas. It does this by paying a portion of the transport costs of shipping feed grains to the feed importing areas of Atlantic Canada, B.C., and peripheral regions of Ontario and Quebec. It has had the effect of making livestock feed cheaper and livestock production more profitable in these areas, reducing the comparative advantage of livestock production in the Prairies. The average subsidy was equivalent to \$11-13 per tonne and cost the federal government \$17-

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<sup>2</sup> This subsidy reduces net freight charges to the farmer, hence is included among input subsidies. But because it operates beyond the farm gate and raises effective farm gate prices, from a farm perspective it appears as an output subsidy. Its allocation to the Input Subsidy category is somewhat arbitrary—it could just as well be included under the section above on Output Subsidies.

18 million over the 1990-93 period. However, this program was also ended in the February 28 budget with a phase-out over ten years.

**Credit Subsidies** The last input subsidy to be discussed concerns credit. There are a great variety of programs, mostly provincial, which provide some form of subsidy to credit for farmers. Typically these programs are focused on a particular type of credit (e.g., long term borrowing), or for a specific use of funds (e.g., land development). There are also credit components to other programs (e.g., for replanting fruit trees) that are harder to identify as credit. The extent of these programs and the subsidy element have been reduced within the last decade. The actual financial transfer in each program is usually small, but the total amount transferred in the form of credit assistance becomes reasonably significant due to the large number of such programs. Federal credit programs accounted for a transfer of \$7 million in 1992, while provincial and federal-provincial programs labelled as "credit" assistance amounted to some \$75 million, not including debt restructuring programs. There are also credit programs for marketing (e.g., export credit in the form of loan guarantees) and processing plant assistance, where the immediate beneficiary may be firms in the post-farm gate sector of the food system.

## MARKET REGULATIONS

One of the distinguishing features of Canadian agricultural policy is the development of marketing boards, beginning as early as the 1920s and 1930s. The purpose of these boards has been loosely defined as the "orderly marketing" of the agricultural commodities concerned. As in the United States, this expression usually translates as the desire to stabilize agricultural markets and to improve producer prices, particularly the latter. As they have evolved in Canada, these marketing boards have had the potential for greater market power and intervention than in the case of the closest U.S. marketing institution counterpart, marketing orders. These boards are very heterogeneous in terms of their powers and economic effects, making it necessary in analyzing them to know a considerable amount of detail about their rules and procedures. This heterogeneity also makes it difficult to generalize about marketing boards.

There was a major development in the evolution of these boards during the late 1960s and early 1970s when some of them gained powers to restrict domestic supply. At the same time, some received import protection. This occurred in the dairy, poultry and egg boards and these commodity groups are the focus of the following discussion on supply management marketing boards. The powers these boards have acquired made them one of the most significant set of marketing interventions in Canadian agricultural policy. They are also one of the most contentious policies within the country and with Canada's trading partners.

The discussion below will also include a marketing board that does not have powers of supply control, but has other powers in the grains and oilseeds sector that have made it the largest marketing board in the country—the Canadian Wheat Board (CWB).

## Supply Management

Although the details of operation differ among the dairy, poultry and egg boards, their basics are similar. They enjoy three important powers, two of which are independent. First, they have been provided protection from imports through import quotas.<sup>3</sup> In practice imports have been held to very low levels, between zero and ten percent of domestic consumption. The use of these quotas was applied under the GATT due to a subsection of Article 11 that permitted the use of such import restrictions under the condition that domestic production was also restricted. The second power follows to meet that condition, a domestic quota system to restrict domestic producers to market less than they would prefer at the price levels established. The third power is the mechanism to set domestic prices, where it is based on a cost-of-production formula, or other procedures (e.g., public utility-type hearings) that give significant weight to changes in farm costs. Typically these formulae do not reflect much technical change, with the result that whatever profits were initially protected by the pricing formula, have grown over time with the ongoing increases in farm productivity.

The outcome of this situation is relatively high product prices and at the farm level, either large rents or inefficiency due to high cost of production. The powers these boards have been given have made them into, effectively, a domestic cartel. As is the case for cartels, a large part of keeping the supply management regime operating is enforcement of the quota restrictions. In addition to an array of penalties and levies for producing in excess of quota, many of the regimes have allowed the flexibility of individual producers being able to trade the quota rights.

With the quota giving access to above-average profitability, the quotas have taken on values through capitalization of program benefits. With the high product prices that occur in most cases, this has led to quota prices that are also high by most regulatory standards. For example, one can find milk quota prices at a level where the cost of quota needed per cow is roughly ten times the cost of the cow itself. One result is that the considerable benefits of this regime accrue to the initial holders of the quota. New entrants must pay for the benefits they will enjoy through the costly purchase of the necessary quota, leaving them with no above average profits if they pay the market price for the quota. Unlike the case for new farmers obtaining land for any farming enterprise, typically there is no option for entrants (or anyone else) to rent the quota. This contrasts the ability of farmers able to acquire land for a farming enterprise through rental; quota is not allowed to be rented and not much of a rental market exists.

Another result of the high prices in these commodities is that the enforcement problem gets tougher, and this leads to more restrictions, and in some cases legal challenges to the managers of the regime. Most of these complications arise in the area of quota allocation and transfer procedures, not in the area of marketing the product. So the costs of dealing with the extra restrictions and legal costs are at the expense of attention and innovation a variety of other areas of concern to participants in the industry

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<sup>3</sup> In fact, the boards do not themselves control imports of the supply-managed commodities. Rather, the federal government does so through the Department of External Affairs using the Export Import Permits Act and the Import Control List.

(including marketing), and they reduce the benefits that producers would otherwise receive from the marketing board regime.

In sum, these supply management marketing board regimes are characterized by:

- i) high and relatively stable commodity prices;
- ii) high prices for the farmers' domestic marketing quota;
- iii) a complex system of regulations and restrictions; and
- iv) a regime that is not easy to operate due to enforcement problems and legal challenges.

These regulations, restrictions, enforcement problems and legal challenges, plus the need to dispose of surpluses, eat away at some of the initial rents to farmers. Still, the remaining rents have been large enough to keep the system intact, even if its management is rocky and many inefficiencies creep in.<sup>4</sup>

Other difficulties faced by the supply management regimes come from our trading partners, and the most substantial challenge has arisen through the recent Uruguay Round and perhaps the NAFTA. Even if this regime does not result in significant dumping of surplus product on world markets, it does limit market access by would-be exporters. Therefore, there is a common conclusion from our trading partners that if the regime were not in place, there would be large scale importation of the product in question. This is almost certainly a misconception. High domestic prices and import restrictions do not necessarily mean high domestic supply prices. The domestic quotas conceal the true supply price which may be as low as the U.S. supply price, a conclusion that arises when we share common technologies and know-how, and most of our factor inputs are available with small or no trade barriers. It would not be outrageous to claim that some supply management regimes in particular regions may actually restrict exports to the United States compared to a lifting of supply management.

The GATT Uruguay Round (UR) changes the underlying economics of supply management significantly. The import quota has been replaced with tariffication, and initial over-quota tariffs range from about 150 to 350 percent. These tariffs are obviously prohibitive, but they are vulnerable to reductions, either through future GATT Rounds or through the application of NAFTA tariff reduction provisions. Also, the pricing mechanism will change as tariffs fall in the future. Once tariff levels become less than prohibitive, and that is only a matter of time, it will be the external tariff on a world trade price that will determine prices. However, for the next six years, the only change due to the Uruguay Round will be a small expansion in certain import quotas.

The issue of whether NAFTA tariff reduction rules will apply to tariffs newly created by the UR remains unresolved, and it applies to a range of commodities, including the supply management commodities in Canada and sugar and peanuts in the United States. If the NAFTA rules do apply, then following UR tariff reductions (i.e., year 2001), the Canada-U.S. tariff rates will decline to zero by 2011. If so, the Canadian supply management sector will have a significant adjustment to deal with. In practical terms, farmers may have to face a decline in industrial milk prices of some 20 to 30

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<sup>4</sup> Editors Note: A reviewer observes that interprovincial disagreements have begun to erode some of the rent seeking capability of this cartel arrangement.

percent as Canadian prices adjust. There may also be adjustments in the rest of the industry in terms of competition with U.S. processors and marketing strategies more generally, in addition to the farm price decline noted. It is also likely that ice cream and yogurt prices may decline to U.S. levels more quickly, following resolution of the outstanding GATT Panel on Canada-United States trade in these commodities. These kinds of changes will be difficult enough for the industries affected with a lead time of ten years, but they will become more and more difficult by year if they are not anticipated or planned for by the affected industry groups.

### **Canadian Wheat Board (CWB)**

Of all marketing boards in Canada, the CWB is the largest and most important. It was formed in 1935 and is essentially a centralized state trading agency selling all wheat and barley<sup>5</sup> grown in its designated area of western Canada. Its four major objectives, as set out in legislation (Loynes and Carter, 1984) are:

- i) to maximize producer returns from the marketing of CWB-area wheat and barley,
- ii) to provide producers with federal government-guaranteed initial payments,
- iii) to equalize prices for the same grain across all producers and within a crop year by pooling, and
- iv) to equalize access to the grain delivery system, hence the available markets, by the use of delivery quotas.

To meet these objectives, the CWB has very wide powers, basically monopoly rights over the acquisition, storage, movement and sale of all wheat and barley grown in the CWB designated area, whether for export or domestic food grain markets, and the power to limit access to the grain handling and transportation system. It has the obligations to accept all grain delivered, make initial payments and give producers their rights to share in pool proceeds. To do this it is given the monopoly powers mentioned—the sole exporter and importer of wheat and barley, the sole transporter, and the sole buyer and seller of grain for both export and domestic purposes.

The rationale for these powers is, in part, to gain marketing advantages, to offset perceived monopsony powers in the international grain trade, to achieve potential economies of scale in transportation and marketing and to gain higher prices in certain markets when it has the market power to do so (i.e., practice price discrimination). Whether it has such market power is a matter of some debate. It is a sizeable player in the international wheat trade, but it works among another half dozen or so large sellers that constitute its main competition. The result is that it has little overall market power to affect prices, although in specific country markets in specific periods and for certain grades it may have a limited degree of influence over the prices it receives if most of the other sellers are not active in that market.

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<sup>5</sup> The use of the term "grain" in the discussion of the CWB is meant to include wheat and barley. However, the Government of Canada can add or delete grains from the CWB's authority, as it did by deleting oats in 1989.

Another important element of the CWB's mandate is the pooling of returns. All revenues from sales are placed in a pool for each grain quality designated, against which grain selling costs are subtracted (transportation costs are not pooled, so the net price received by a producer is the pool unit revenue less the cost of transportation and handling at a particular delivery point). The pool is debited for the cost of the initial payment, and after all other revenues and costs for that grain year are tallied, the remaining revenues are divided among pool participants per unit of grain contributed. The objective of pooling is to achieve equity among producers. Pooling is designed for all producers to share within a given crop year in the timing of sales, different sales opportunities, infrastructural constraints, and CWB costs. It is not intended that revenues from different grain qualities are pooled, nor is it intended to pool revenues from different locations of production (i.e., transport costs are not pooled).

To understand the effects of this agency it is also important to know what the CWB does **not** do. It has no taxing power or revenue source other than the revenues it receives from its sales. In the literature on state-owned enterprises, the CWB would be described as facing a "hard" budget constraint. As a result, it cannot subsidize grain prices. And despite its pooling obligations and powers, it cannot stabilize prices between years. The "initial payments" made for wheat are administered by the Board, but their level is set and guaranteed by the federal government. If the initial payment is higher than the price obtained on the market, the federal government will underwrite that payment, paying the CWB for any losses incurred. This has occurred in the past decade or two, but rarely. All it can do to raise producer prices is to sell more effectively, using its single desk selling advantages and its small amount of market power in certain markets.

It is beyond the terms of this paper to evaluate this complex institution, but we can note several issues of contention surrounding the CWB and the grain sector in general. Most of these issues relate to the monopoly powers and regulations applied, and include grain marketing, transportation and handling. First, the effectiveness of CWB marketing has been debated, most recently surrounding the question of whether the barley market should be opened up, instead of remaining under Board control. Second, the transport costs associated with the WGTA have been contentious for reasons of local market distortions (as a tax on users (further processors) of grain), budgetary costs and trade policy obligations. Thirdly, the control and regulation of elevator and handling charges have been raised more recently, particularly with how the higher charges faced by Canadian grain growers compared to those in the United States will affect the Canadian industry's competitiveness when there has been a substantial increase in cross-border grain flows since, but not necessarily caused by, the Canada-United States Trade Agreement (CUSTA).

## **OTHER POLICY INSTRUMENTS**

There are a variety of other policy instruments that are less important than those already discussed but that are very relevant for particular commodities and in certain

regions. We will only deal with three: tariffs and trade policy, research and extension, and sustainable agriculture.

### **Tariffs and Trade Policy**

This general policy instrument is highly important within Canadian agriculture, given the generally open trading environment found in most of the agricultural sector (e.g., grains and oilseeds, and red meats). For these sectors, the most important aspect of trade policy is the access to foreign markets, given that these commodities are export competitive and their sales revenues are heavily dependent on export markets. Trade policy from a domestic perspective is particularly important within the supply management sector because its main element of protection has been a set of restrictive import quotas. Any changes in these restrictions could have important income implications to the sector and would be closely scrutinized by the industry. This was readily observed in the Uruguay Round negotiations. However, these issues have already been discussed under previous headings.

An area that has not been discussed is the use of tariff protection within Canadian agriculture. This is important in the horticultural industry where tariff protection has been a primary component of its protection, particularly for vegetables. It is also important in the context of recent trade agreements because all tariffs are being reduced to zero between Canada and the United States under CUSTA in a ten year process begun in 1989. One indication of the importance of this instrument to the horticultural sector is that in 1992, its value was estimated to be \$29 million, only slightly more than 10 percent of the total government program benefits the industry received that year. The other main area of tariff protection in the Canadian food sector is on certain processed foods, where the tariff is protecting food processors and, indirectly, farm producers. In the future, there will be some increase in areas with tariff protection, due to the Uruguay Round process of tariffication of existing quotas and other non-tariff protection. Within Canada, this is leading to significant tariff levels on the supply managed commodities, where new over-quota tariffs will range from 150 to 350 percent, for poultry, egg and dairy products.

An area of growing importance, involving what are in effect tariff surcharges, is the use of countervailing and anti-dumping duties. As other forms of protection are declining, claims for either of these contingent protection measure are growing, particularly between Canada and the United States. Many of these have been introduced by the United States and imposed on Canadian products. Two examples where Canada has levied such duties are the corn countervail and the anti-dumping surcharges on Red Delicious apples being imported into British Columbia.

### **Research and Extension Activities**

Agricultural research is not directly part of trade disputes, but it has been a major expenditure area for many years so it is discussed briefly. In conjunction with extension expenditures noted below, this has been the major government program area with the objective of increasing farm productivity. In 1992, federal research expenditures were



\$232 million, roughly the nominal level around which research spending has been maintained for the last decade. In addition the provinces contribute to research programs at a level of about one-third of federal government spending, roughly \$75 million in 1992, although the level varies considerably by province.

Increasingly, federal research spending has been allocated to avoid duplication with private sector research. These funds are aimed at projects that are likely to benefit the country as a whole but that the private sector, working alone, is unlikely to undertake. There are also initiatives where Agriculture Canada engages in joint projects with the food industry. The two main priorities for research funding by Agriculture Canada are projects that will improve the health and safety of the food supply, and those that will add value to Canadian agricultural production. With the goal of communicating research findings to farmers, extension activities have also received a relatively high priority in government spending, although for constitutional reasons these are the responsibility of the provincial governments. This spending has amounted to about \$130 million or just more than half of federal research spending.

The importance of spending in this category can be seen by the high rates of return to research investments, and by the difference it makes in competitiveness by increasing productivity in a sector with higher yielding fruit varieties or improved crop varieties like canola. Even if research and extension expenditures are added, the total is in the range of \$350 to \$400 million. This can be compared to total market sales of Canadian agriculture of \$21 billion, in which case all research and extension expenditure amounts to no more than two percent of market sales.

## **Sustainable Agriculture**

This is another policy area that is not usually considered as relevant to trade disputes, but is worth noting because of the rapid growth in attention to sustainability and environmental issues, and because the total expenditures involved are no longer small. For constitutional reasons, most of this spending has come through federal-provincial programs or directly from provincial initiatives. Expenditures usually are for a large number of small projects. Basically this category includes: irrigation (dealing with irrigation, soil loss and water quality externalities); providing public goods such as wildlife habitat; providing water infrastructure; and encouraging changes in certain farm practices. The activities financed under this heading are focused on the conservation and development of the soil and water resource base (reducing soil degradation, improving water systems); the development of better systems of farm practice; tree culture; water supply; land utilization and land settlement (such as removing marginal lands from annual crop production into permanent cover); the improvement of water habitat for wildlife; and economic diversification more generally within the regions.

The main area for such spending is the three Prairie provinces, although some of the programs are cost-shared federal-provincial programs that can be joined by other provinces. The number of programs and total resources in this area has been growing, but budget cuts will likely reduce federal spending in the coming years. For example, federal government spending in this area for the 1993-94 fiscal year was \$101 million, but the

comparable estimates for the coming year, 1995-96, are \$65 million. To see these expenditures in more perspective, federal and provincial research and extension expenditures amounted to no more than 2 percent of farm cash receipts from the marketplace, while sustainable agriculture federal expenditures at their high point in 1993/94 were only one quarter of total research and extension expenditures.

There are a host of other government programs that affect farmers, but their effects are small in relation to those already discussed. It is beyond the scope of this paper to cover more of these programs. One program area that has not been mentioned but that has grown in importance over the last decade is program assistance beyond the farm gate, in the area of assistance to processors and market development activities. Even if these expenditures go directly to other parts of the food chain, they usually benefit farmers as well. However, one policy area that has large effects and hence should at least be identified is the area of favourable tax provision available to farmers--the effects of which are termed tax expenditures. While there has been a trimming in recent years of special tax advantages for the population at large, these cuts have tended not to involve farmers. One example is the capital gains lifetime exemption of \$500,000 that was initially available generally, but is now available only to farmers and small businesses. There are few estimates of the value of these tax expenditures, but an estimate of the value of one provision, this favourable capital gains tax treatment (compared to no such lifetime exemption) is relatively large. Measured in 1981 dollars, the present value of this advantage is \$3.2 billion. On an annual basis, this one component of existing tax expenditures available to farmers would be worth at least \$320 million, comparable to the major, not the largest, farm program expenditures.

## **COMMODITY BY COMMODITY REVIEW**

In this section farm policy in Canada is discussed by each of four major commodity groups instead of by instrument as was done in the preceding section. The four commodity areas included are i) red meats, ii) grains and oilseeds, iii) supply management, which includes dairy, poultry and eggs, and iv) horticulture, including fruits and vegetables. The numbers that we will use to quantify the program benefits to farmers are what have come to be known as "net benefits" (Gellner, 1991). They are not what one would describe as the net economic benefits to farmers, but rather could be described as the program expenditures or financial transfer incurred, on the simplifying assumption that if a dollar were spent on the program, farmers benefitted by a dollar. They could also be described as supply-demand rectangles of transfers, ignoring any welfare triangle losses. In the case of market regulatory programs that raise consumer prices but do not involve taxpayer-financed transfers, the estimated program benefits are calculated with reference to border prices (e.g., the difference in price between that which was actually received and that which would have been received if the commodity were imported). The most recent period for these calculations is 1992, and unless otherwise noted, all net benefits numbers refer to that year.

## Red Meats<sup>6</sup>

This sector includes beef and hog farmers, which covers some 75,000 farmers. Its farm cash receipts over the last four years (1990-93) has ranged between \$7.9 and \$9.7 billion, or \$115,000 in cash receipts per farm. The net benefits that this sector has received from federal and provincial government program expenditures for 1992 was \$503 million or between 5 and 7 cents per dollar of cash receipts, depending upon the level of farm cash receipts used.<sup>7</sup> The main programs contributing to this level of net benefits were safety nets (specifically NTSP), industry infrastructural expenditure, local property and fuel tax relief, and miscellaneous input subsidies (credit and Feed Freight Assistance).

The NTSP program expenditure accounted for 1/4 of all net benefits (\$130 million) by itself, and industry infrastructure programs (research, extension and inspection services) accounted for \$170 million, together constituting 60 percent of all transfers. Local tax relief (\$35 million) and input subsidies (credit and Feed Freight Assistance, \$32 million) added another 15 percent. The balance of expenditures are mostly from a large number of small programs and projects, especially from the provincial governments. There is a *negative program effect* on red meats that is included, from the higher feed costs due to the Western Grain Transportation program. There was an expenditure program to offset the effects of the "Crow" in Alberta, but the net effect of both programs combined was negative, and largely offsetting the local tax relief and input subsidy programs.

The most significant recent program change in the last few years is the termination of NTSP, the largest single program support. What is now remaining is a set of small, heterogeneous programs contributing only 3 to 4 cents of support per dollar of farm revenues.

## Grains and Oilseeds

In the grains and oilseeds sector there are approximately 90,000 farms with annual farm cash receipts over the 1990-93 period in the range of \$6.5 to \$7.3 billion, or \$75,000-80,000 per farm. Total net benefits to this sector, however, were a little more than \$3 billion in 1992. This illustrates a rather striking difference in support across commodities. Compared with red meats, the grain and oilseed sector is a little smaller in farm sales and involves some twenty percent more farmers, but receives government program support, mostly expenditures, that are at least six times larger. On a dollar of cash sales, these income transfers amount to 40-45 cents.

Almost ninety percent of this government support arises from five programs. Safety nets (largely GRIP, NISA, and Crop Insurance) contribute half of this support (\$1.6 billion), the WGTA transportation subsidy counted for another quarter (\$0.8 billion),

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<sup>6</sup> The data for this section were obtained by personal correspondence from Statistics Canada and from unpublished AAFC data.

<sup>7</sup> At the actual level of farm cash receipts for 1992, \$9.150 billion, the net benefits this sector received from government programs were 5.5 cents per dollar of cash receipts.

infrastructure in the form of research, extension and inspection cost \$170 million, local tax exemptions added \$315 million, and several credit subsidies added \$36 million. This list covers 87 percent of the total net benefits, and the balance is due to a variety of small programs, from irrigation and soil conservation activities to farm debt review and credit sales on exported grain.

As in the case of red meats, recent program changes will have a significant effect on these net benefits, mostly to reduce the levels of support. Two changes alone, the removal of the WGTA grain transportation subsidy and a reduction in safety net programs including withdrawal from the GRIP program, will remove over half of this sector's net benefits. In the short run there will be a one-time offset payment, but in the medium term the cuts will be felt directly, reducing net benefits as reported.

### **Supply Management**

This sector covers the dairy, poultry and egg sectors, which affect 30,000 farmers. Farm cash receipts in this sector amount to \$5.8 billion, or an average \$190,000 per farm. Net benefits are \$2.4 billion in 1992, or equivalent to 41 cents on every dollar of sales. In this sector the net benefits arise primarily from market regulation (i.e., import and production quotas), making the sources of net benefits particularly concentrated compared to other sectors. In fact, the import quota and domestic supply control regulations account for \$1.9 billion in net benefits, the federal dairy subsidy (direct deficiency payment) accounts for \$225 million, and research, extension and inspection activities add \$122 million. These three program areas add up to \$2.25 billion, or 93 percent of all transfers. The remaining 7 percent arise mostly from small provincial programs.

Recent program changes in the government budget will have a small effect on the net benefits enjoyed by this sector. The dairy subsidy will be cut over two years by 1/3, but that will reduce expenditures by only \$70 million, or a reduction in net benefits of only 3 percent. The Uruguay Round will affect the net benefits from market regulation, but at this time the only effect will be via a small increase in import quotas. In the longer run, there will likely be tariff reductions and when these become binding there will be reductions in program benefits, but those effects are not likely to be seen for some years.

### **Horticulture**

This is the smallest of the sectors covered, including only 9000 farmers. Farm cash receipts have ranged between \$1.1 and \$1.3 billion over the period from 1990 to 1993, and this amounts to \$130,000 per farm. Net benefits for 1992 in this sector were \$280 million, or 23 percent of farm cash receipts.

When disaggregated, these net benefits arise from four major areas. The most important are the safety net programs, such as NTSP, NISA and Crop Insurance, which account for \$84 million or 30 percent of total net benefits. Tariff protection is valued at \$29 million (10 percent of total benefits). Research, extension and inspection services account for \$70 million (25 percent). Local tax assistance amounts to another 8 percent

of the total. The balance is due to a series of small programs, mostly grants and subsidies at the provincial level.

The recent changes are planned termination of the NTSP program, and a steady reduction in tariff levels due to the Canada-United States Trade Agreement and the Uruguay Round. However, as tariffs are already quite low, removing them will have little effect. The more significant effect will be the reduction in safety net spending and ad hoc financial programs arising from federal and provincial government budget cuts in the future.

## **SUMMARY AND CONCLUSIONS**

Agricultural policy in Canada incorporates a wide array of instruments, complexity in programs and implementation regulations, and in some cases, very large transfers to producers. This discussion has focussed on the policy instruments which account for the bulk of financial transfers. There are other programs, particularly at the provincial level, which were excluded because they are relatively small. The total value of transfers in 1992 was \$7.1 billion. Of this, \$3.7 billion were due to federal government programs, \$1.9 billion were from provincial programs, and \$1.5 billion arose from federal-provincial cost shared programs. Of this \$7.1 billion total, \$5.1 billion was from direct and indirect financial transfers while \$2 billion was the dollar equivalent benefit from market regulations but where the cost is paid for consumers instead of taxpayers.

When one looks at individual programs, there are many differences between Canadian and U.S. programs, with much greater emphasis in Canada given to safety net programs and market regulation. Import and domestic quotas are the heart of Canadian supply management regulation. There is much less use of direct subsidies, such as deficiency payments and export subsidies in Canada, than in the United States. The reasons for these different choices are beyond the scope of this paper but one can speculate that the importance in Canada of selling onto the world market, and the implications of that for price stability, is a major explanatory factor.

Whatever the reasons for the existing program mix, it is clear from events of the last year or two that the programs and instruments used in Canada are changing. There is a general movement at both federal and provincial levels to programs that will cause fewer trade actions and be designated as "green" in terms of the GATT. Similarly, there is a shift away from large programs that are costly to taxpayers, to less expensive programs that share costs with producers and give them a greater say in how those funds are to be spent. The February 28, 1995 budget gives ample and recent evidence of such a shift.

Another observation on the Canadian agricultural policy situation is how wide the differences are in public support across commodities. When calculated as a percent of farm cash receipts, government transfers to the red meat sector constitute only 5 percent, while transfers to the grains and oilseeds sector and the supply management sector (dairy, poultry and eggs) constitute 40 to 45 percent. Within the next few years, this range will

widen (perhaps temporarily) as red meats commodity support should decline by about a third. Grains and oilseeds support should fall by one-third to one-half. Supply management support may not show much decline, however given that new tariffs will be prohibitive.

Looking ahead, there are two factors that will dominate policy developments for at least the next five years. These are the two underlying reasons for the recent program changes that have been announced: the political priority being given to budget cuts at the federal and provincial levels in order to reduce government deficits, and the importance to Canada and our trading partners of new trade agreements. An immediate question is whether these changes will be superficial or temporary. Is it likely that the politics of support to Canadian agriculture has changed, or will current budget cuts and trade policy issues fade after several years, and allow the underlying political economy factors to re-emerge as they have in the past, with only some re-instrumentation.

It would seem at this point that these changes may be more permanent. What appears to have changed this time is the underlying politics. Through trade agreements, our trading partners now put limits on what Canada can do in terms of international policies, and the implementation of domestic policy. This shift in power means stronger competition for Canada's farm lobby groups. For example, it is no secret that U.S. dairy farmers believe they have a right to access Canada's domestic dairy product market, and that pressure from the United States on this matter will be in conflict with Canada's dairy lobby in Ottawa. Similarly, Canada's wheat competitors on the world market will have some influence on what is defined as an export subsidy. The WGTA constituted such a subsidy, and was removed.

In the case of the budget, there is now a new or strengthened lobby that demands budget cuts, and this runs against the interests of some farm groups. The result is a reduction in agricultural spending programs that will signal a shift in influence from certain farm groups to taxpayer interests. Although there will be some substitute programs, this is likely only to offset partly the cut in budget that is now occurring.

If these interpretations are correct, there will be more constraints placed on market regulatory policies and reduced budget expenditures on farm programs in Canada in the coming decade. These will be in the direction of smaller financial transfers or their equivalent. With these developments, programs will be less distorting to international trade and funding will be allocated in areas where there is a broader consensus of support. For example, spending will be more likely in pursuit of international competitiveness and environmental sustainability. This will produce a larger number of well focussed programs that are less costly. Demands from farm lobbies will continue, but they will be met by options within the constraints of budgets and possible trade actions.

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