Montreal Economic Institute
Ideas for a More Prosperous Nation

ViewPoint

on the shortcomings of agricultural policies

by Mario Dumais | December 2010

During their annual meeting at the beginning of this month, representatives of the Union des producteurs agricoles (UPA) decided to suspend the tourist season for snowmobilers in order to protest the government's plan to reduce the costs of La Financière agricole. The dispute pertains to the exclusion of the costs of the least competitive farms when calculating the compensation to be paid out to farmers. Since Quebec's Department of Agriculture is contemplating a new agricultural policy and Agriculture and Agri-Food Canada must renew its five-year plans next year, now is a good time to scrutinize current policies like supply management, marketing boards and Farm Income Stabilization Insurance, and to think about the direction we should take in the future.

THE FAILURE OF TRADITIONAL AGRICULTURAL POLICIES

The agriculture and agri-food industry received $7.9 billion in government aid in Canada for the 2008-2009 fiscal year, which is nearly 31% of the sector's GDP.[1] Current government measures essentially aim to increase or maintain farmers' incomes through subsidies, price guarantees, customs duties, the granting of monopoly powers, input subsidies, tax breaks, etc. These policies have not achieved their goal,[2] but that does not mean that farmers are poor. On the contrary, the average net value of a farm in Canada is $1,281,098,[3] a 74% increase in real terms over the past 15 years. Furthermore, the Farm Financial Survey shows that farm families incomes are 15% higher than average.[4] It is therefore hard to justify the transfer of resources from society to the agricultural sector in order to increase its revenue through subsidies. Unfortunately, in addition to being ineffective in achieving their main goal, the measures put in place to increase farmers' incomes also generate significant collateral damages.

SUPPLY MANAGEMENT

The supply management system, which limits the quantity of milk, eggs and poultry produced in and imported into Quebec, makes producer prices in the affected sectors among the highest in the world. (For example, the 2009 average producer milk price in Canada was the third highest among developed nations, behind only Japan and Norway.[5]) Obviously, producer prices have an effect on the retail prices of farm products.

High prices and scarcity increase the value of quotas (production permits) that an entrepreneur must acquire, which limits the funds available for making productive investments (buying land, machinery and animals; erecting buildings; etc.). The total value of agricultural quotas reached $30 billion in Canada and $9.9 billion in Quebec in 2009.[6] A quota for a single milk cow is worth approximately $25,000.[7] For an average dairy farm (around 55 cows),[8] the value of quotas is therefore nearly $1.4 million.

To maintain this system, customs duties must be put in place. Those adopted when the Uruguay Accord (1995) came into effect are still at a very high level today—up to 298.5% for butter, for example.[9]

The support for this system in trade negotiations undermines Canada's credibility in international negotiations related to agricultural matters. In effect, Canada insists that its trading partners accept Canadian products, but refuses to open its own borders to certain agricultural commodities from foreign countries. Yet the economies of Canada and Quebec are among the most open to world markets, a fact which should lead our governments to advocate a policy of trade liberalization in agriculture as well.

COLLECTIVE MARKETING

The collective marketing system (managed by marketing boards) in effect in Canada and Quebec is a legal monopoly given to producers' federations on the farm-gate sale of agricultural products. Like all monopolies, it leads to abuses that harm consumers (notably through higher prices and reduced choice) and, in the long term, producers themselves.

1. Agriculture and Agri-Food Canada, *Overview of the Canadian Agriculture and Agri-Food System 2009*, August 2009, p. 134-135.
2. "OECD findings show that, over the last two decades, the majority of government agricultural policies and programs in OECD countries have been highly ineffective in translating support into additional income for farm households." See: Agriculture and Agri-Food Canada, *Next Generation of Agriculture and Agri-Food Policy – Economic Backgrounder: OECD findings on policy performance and design*, November 2006, p. 3.
3. Statistics Canada, *Farm Financial Survey 2008*, No. 21F0008X, March 2010, p. 29.
4. Statistics Canada, CANSIM Tables 002-0027 (the amount used is the total income adjusted for the depreciation deduction for the latest year available, namely 2007) and 202-0403.
5. International Dairy Federation, *World Dairy Situation 2010*, Bulletin No. 446, 2010, p. 198.
6. Statistics Canada, *Balance Sheet of the Agricultural Sector - Agriculture Economic Statistics*, No. 21-016-X, July 2010, p. 37.
7. Commission sur l'avenir de l'agriculture et de l'agroalimentaire québécois, *Études complémentaires*, 2008, p. 1-23.
8. AGÉCO Group, *Overview of the Dairy Industry in Quebec*, 2009, p. 32.
9. Canada Border Services Agency, *Customs Tariff – Departmental Consolidation 2011*, 2010, p. 04-5.

This system introduces an intermediary between buyers and sellers such that a co-op member's agricultural product is not necessarily delivered to its co-op, or that a hog farmer who owns a slaughterhouse must fight tooth and nail, with no guarantee of success, for his hogs to be delivered to his slaughterhouse. This intermediary also introduces an additional production cost, namely the contributions required to finance the costs of running the collective marketing system.

Farmers succeeded in convincing governments to grant them these monopolistic powers by invoking their weakness compared to buyers of their products. Today, however, farmers can participate in the commercialization and transformation of their products through cooperatives or other kinds of businesses, and they often do. The monopolistic structures in place no longer have any reason to exist and they undermine the sector's competitiveness.

FARM INCOME STABILIZATION INSURANCE (ASRA)

This program managed by La Financière agricole du Québec aims to insure the net income of producers by guaranteeing them a minimum price for their production. If the price received by producers is below the guaranteed price, they are compensated for the difference by the Stabilization Insurance program. The guaranteed price level is set by calculating what the system calls the costs of production. This gives rise to endless debates about how the calculation should be carried out, with agricultural organizations searching for a method that will set the guaranteed price as high as possible. The government provides two thirds of the program's funding, with the remaining third provided by producers.

Since this program does not apply to all products, it favours certain products to the detriment of others. It therefore penalizes new products that, when they emerge, do not enjoy the program's benefits. Moreover, it isolates producers, to varying degrees, from market signals and encourages them to maintain products that are not actually economically viable. For certain products, some 50% of the gross revenue of businesses in the sector comes from compensation received from the ASRA.[10]

The cost of this program has risen uninterruptedly since its inception.[11] La Financière agricole currently absorbs 62% of the expenses of Quebec's Department of Agriculture.[12] Consequently, in order for agricultural businesses to become sensitive to market requirements, they should liberate themselves from the ASRA program, after a period of transition.[13]

ALTERNATIVE SOLUTIONS

Other aspects of agricultural policies in Quebec and Canada deserve to be analyzed in depth. It is nonetheless possible to conclude that the programs in effect, of which the main ones were briefly examined above, aim at the wrong targets and do not even succeed in hitting them. There is therefore good reason to advocate agricultural policies whose goal is not to subsidize the sector's income, but to support agricultural entrepreneurship in order to help farmers become more competitive and allow them to earn their income on the market. Such an evolution is difficult to envision, however, as long as agricultural policies are the result of exclusive negotiations between governments and the agricultural lobby. This is why a public debate on this subject is so crucial.

10. See: Jean-Pierre Lachapelle, *Rapport sur les assurances agricoles au Québec*, presented at the Commission sur l'avenir de l'agriculture et de l'agroalimentaire québécois, September 2007.
11. Commission sur l'avenir de l'agriculture et de l'agroalimentaire québécois, *Agriculture and Agrifood: Securing and Building the Future*, Report, January 2008, p. 62.
12. Ministère de l'Agriculture, des Pêcheries et de l'Alimentation, *Rapport annuel de gestion 2009-2010*, September 2010, p. 21.
13. See: Michel R. Saint-Pierre, *Une nouvelle génération de programmes de soutien financier à l'agriculture*, Government of Quebec, February 2009.

MARIO DUMAIS holds a master's degree in economics from the Université de Montréal. He has worked as an economist and as publications director for the Union des producteurs agricoles, as general secretary for the Coopérative fédérée de Québec and in Costa Rica as director of the Center for Integration and Agribusiness Development at the Inter-American Institute for Cooperation on Agriculture. He was a member of the Commission sur l'avenir de l'agriculture et de l'agroalimentaire québécois ("Pronovost Commission"), and took part in the Commission sur le développement durable de la production porcine au Québec as a member of the Bureau d'audiences publiques sur l'environnement. Among the defining experiences of his career, he was by turns a member and co-president of the Canadian government's Sectoral Advisory Group on International Trade (SAGIT) for agricultural products, foods and beverages, and he participated, as president of the International Cooperative Agricultural Organization, in the FAO's World Food Summit in Rome in 1996.

The **Montreal Economic Institute** is an independent, non-partisan, not-for-profit research and educational organization. Through its publications, media appearances and conferences, the MEI stimulates debate on public policies in Quebec and across Canada by proposing wealth-creating reforms based on market mechanisms. It does not accept any government funding. | www.iedm.org