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W.H. Furtan, Professor of Agricultural Economics
The University of Saskatchewan, Saskatoon, Saskatchewan

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Professor of Agricultural Economics

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Agriculture in a Restructured Canada

A number of important issues arise for the agriculture sector when discussing the possibility of Quebec seceding from Canada. First, a number of agreements between the provinces and the federal government would need to be re-examined and re-negotiated. These include issues such as supply management, federal transfer payments to the agricultural sector, and federal investments in research stations, farm land, railways and waterways. Second, there are a number of institutions in Canada that are involved in trading agricultural products that may be affected by Quebec seceding, such as the Canadian Dairy Commission, Canadian Livestock Feed Board, Canadian Wheat Board and the Canadian Grain Commission. Finally, the direction that the agriculture sector takes, in terms of trade and development, may be affected should Quebec leave Canada. Each of these topics will be discussed in the paper.

Supply Management

A number of agricultural products are produced under quota in Canada. These products include milk, poultry, turkey, eggs, and tobacco. Dairy products are under the following federal statutes:

The Agricultural Products Marketing Act;

The Agricultural Stabilization Act;

The Canadian Dairy Commission Act;

The Export and Import Permits Act.

The production of supply managed commodities is distributed among provinces with a national quota, which is allocated to the provinces (for more detail see J.D. Forbes, R.D. Hughes and T.K. Warley, 1982). Within the provinces the quota is distributed to farmers by provincial commodity groups and this requires provincial legislation that matches the federal legislation. An internal price is set in each province by farmers and processors. The Canadian border is controlled by the Export and Import Permits Act, i.e., imports are restricted. Basically then, the Canadian market is divided up on a provincial basis with little thought given to comparative advantage, and with consumers paying above border prices for the commodities.

The restriction in production and imports result in a quota value accruing to the producers (J.D. Forbes, R.D. Hughes and T.K. Warley, 1982). The annual rent accruing to the holders of quota are significant in Ontario and Quebec with each province receiving about 500 million dollars of rent (Table 1).[1] The bulk of these quota rents are in Ontario and Quebec, the two most populous provinces of Canada.[2]

A second milk subsidy exists in the form of the industrial milk quota, that is milk used for processing into cheese, yogurt and ice cream. The federal government supports the industrial milk price through a direct subsidy to milk producers, and this subsidy is costing the federal government approximately 270 million dollars annually. Quebec receives about 45% of this transfer payment, because it has the bulk of the industrial milk quota. Currently, Quebec exports industrial milk products into the rest of Canada because of this arrangment. The dairy sector is extremely important to Quebec agriculture, accounting for between 35-40% of total farm cash receipts.

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[1]In Forbes et. al. they report an annual quota benefit for all of Canada in 1980. For the products of dairy, eggs and broilers the annual rent was $785 million. This is close to the number reported in Table 1.

[2]The annual flow is the difference between the border price and the domestic price multiplied by the level of domestic production.

Should Quebec secede from Canada all marketing arrangements between it and the rest of Canada should be re-negotiated. The remaining part of Canada could either produce its own supply managed products or import them much cheaper from the US and New Zealand. Already some Quebec farm organizations have suggested that existing supply management arrangements remain. The argument here appears to center on an interpretation of the GATT. Quebec currently exports dairy products into the rest of Canada which would make them eligible for a "historic market" share. This argument is tenuous at best and says nothing about how the commodities would be priced (i.e., would they receive the world price or the current price?).

Federal Investment in Agriculture Infrastructure

The federal government has made a number of investments in infrastructure in the agriculture sector. Some of these include transportation facilities, waterways, agricultural research stations, and farm lands. In some cases these investments are large and only partially used by the agriculture sector, i.e., CN rail and the St. Lawrence Seaway, while in other cases the investments are small and totally used by the agriculture sector, i.e., community pastures in the prairies under PFRA (Prairie Farm Rehabilitation Act).

Transportation infrastructure is of paramount importance to farmers in western Canada because they are a long way from tide water. In the past the federal government has made large investments in railways, harbors and waterways. What would happen to these investments and how would Quebec's leaving affect the transportatioin of agriculture products particularly from the prairies and Ontario?

The transportation facilities on the west coast (Vancouver and Prince Rupert) are large enough to handle two-thirds of all grain exports originating in the prairies. The cost of handling grain may, in fact, go down from its current level because of the high cost of moving it through east coast ports. The remaining exports may use the St. Lawrence, or it may be more economical to use Mississippi or Pacific Northwest ports in the US. Rail facilities would not be affected by Quebec separation.

Ontario does export some corn into the Quebec market, though this has been decreasing as Quebec expands its feed grains industry. Exports of corn and soybeans from Ontario would either enter the US market or use the current transportation system through Quebec.

Agriculture Canada has a number of research stations in each province. This is Canada's major research expenditure in the agricultural sector and has played an important role in the development of Canadian agriculture. The largest research station in terms of number of scientists is the central research station in Ottawa. Quebec has a number of research stations (four plus some smaller sub-stations) which include a modern food research facilility at St. Hyacinthe. Here again, this capital could be left in each province because the stations are currently allocated more or less on the importance of agriculture to each region (see Agriculture Canada: Research Branch Report, 1989-90).

An important component of Canadian agriculture, and in part the reason for its success to-date, has been the institutions developed to facilitate the operation of the industry. For example, the Canadian Dairy Commission promotes Canadian dairy products and aids in the exports of these products. The Canadian Livestock Feed Board has been active in supporting the non-prairie livestock sector and in promoting the use of prairie feed grains in eastern Quebec and the

Maritime provinces. These two organizations would be effected by the separation of Quebec and how the human capital in these organizations would be split up is not clear. Other organizations like the Canadian Wheat Board, Winnipeg Commodity Exchange and the Canadian Grain Commission largely serve western farmers and would not be greatly affected.

Federal transfer payments to agriculture

The 1980s have seen an unprecedented growth in federal transfer payments to the agriculture sector. Prior to 1980 transfers were low and consisted of transportation subsidies, crop insurance premiums, and some payments from the western grains stabilization program. The amounts of money spent are summarized in a report by Fulton, Rosaasen and Schmitz, 1989. By 1988/89 farmers in Saskatchewan were receiving an average of $20,784 (see Table 2) annually per farm from the federal government. These are indeed substantial transfer payments.

The crisis in the farm sector is due to record low cereal grain and oilseed prices. This has led the federal government to (i) off-load some of the expenditures on to the provinces, and (ii) to find a more systematic mechanism to deal with on-going price and income supports in the grain sector. In the past two years the federal and provincial governments along with farm organizations have developed and enacted Bill C-98, a new set of safety net programs called the Gross Revenue Insurance Plan (GRIP) and the Net Income Stabilization Account (NISA).

The importance of Bill C-98 to this paper is that it attempts to create a national program for the grains and oilseed sector. Each province will pass legislation that facilitates this joint federal-provincial program. Obviously, if Quebec were to secede from Canada this program would no longer exist for Quebec farmers.

It is important to note that grain yields, and in particular wheat yields, have not increased on the prairies in the past two decades as much as in the US, and nowhere near the rate of increase occurring in the EC (Furtan et al.). While grain prices are below a free market equilibrium because of dumping by the EC and US, Canadian farmers have not improved their yields of wheat. Part of the income problmem in Canada is a lack of improved productivity.

Exports and farm structure

The importance of agriculture differs significantly among the provincial economies measured as a percentage of farm income (see Table 3) in Gross Domestic Product (GDP). The prairie provinces are more dependent upon the farming sector than are Quebec, Ontario and British Columbia. If Quebec were to leave the remainder of Canada would become more dependent upon agriculture. If Ontario were not to be part of the "new Canada" and only the four western provinces formed a union, agriculture would be about 8-10% of GDP and 10-15% of the labour force. These are indeed very large numbers for an industrialized country.

This is important for at least two reasons. First, because agriculture would become a larger part of the remaining economy and transfer payments that are being made to the sector may become burdensome. Second, if Canada were to pursue a freer trade regime then agriculture would have to give up some of the current protection and adjust to lower market prices. Finally, it can be asked how the farm lobby would line up on the issue of freer trade. Currently there are very clear lines between farm groups in Canada that favour and those that oppose freer trade.

One of the most powerful farm groups in Canada is the UPA, based solely in Quebec. They have promoted a protectionist trade policy particularly with respect to Article XI of the GATT which deals with supply management. Once this group has been removed from the Canadian agricultural policy scene it is difficult to know which groups would support protection. Certainly, the remaining supply managed groups would continue to lobby for a closed market, but without Qubec their power would be greatly diminished. It is quite possible that those groups which favour freer trade would gain the upper hand in influencing governments.

The more important issue is whether Canada would pursue a general policy of freer trade. If it did not, then government transfer payments plus import controls would likely remain. The level of support would depend upon the effectiveness of the farm lobby in convincing politicians to transfer tax dollars their way.

If Canada were to pursue a policy of freer trade in agricultural products then a number of changes would occur in the sector. It is most likely that western Canada would lose a large number of farm communities and farm operations. While this is occurring even under the present policy regime, it would most certainly increase under freer trade and lower subsidy levels. What would the agriculture and rural sector look like in such a case? One would expect much bigger farm operations and fewer farm/rural towns. It is not difficult to imagine, for example, that the current number of farms would fall by one-half. The supply managed commodities would become more concentrated and production would take place under contract with vertical integration. Once the structural change/adjustment occurred, the sector would be export oriented and profitable.

There would be fewer farmers and those remaining would have much larger operations.

Conclusions

If Quebec does decide to leave Canada a number of changes are probable in the agricultural sector. First, the rest of Canada would re-negotiate the supply managed system, in fact, the whole supply managed system may disappear. Second, the level of support to the grain, oilseed and livestock sector would likely be reduced from current levels. Finally, the structure of agriculture and rural areas would change with fewer communities and fewer remaining farmers.

Table 1: Annual flow of quota rents to supply managed production 1975-89.

Year	Quebec	Ontario	Manitoba	Sask.	Alberta	B.C.
			(million of dollars)			
1975	237	203	23	15	47	55
1976	238	195	25	14	47	65
1977	184	193	21	15	41	62
1978	124	122	13	8	22	49
1979	72	132	5	10	23	60
1980	176	157	28	17	52	78
1981	252	264	40	23	57	98
1982	301	310	39	26	65	110
1983	187	182	24	22	43	73
1984	313	366	37	31	68	98
1985	360	375	47	35	79	106
1986	333	330	39	33	54	94
1987	462	465	58	45	83	124
1988	646	647	96	57	130	164
1989	569	583	87	56	121	158

Source:calculations done by the author.

Table 2: Federal Government Agriculture Expenditures on a Per Capita and Per Farm Basis for the Province and Canada for the Fiscal Years (April 1 to March 31) 1984/85 to 1988/89

	1984/85		1985/86		1986/87		1987/88		1988/89	
	Per Cap	Per Farm	Per Cap	Per Farm	Per Cap	Per Farm	Per Cap	Per Farm	Per Cap	Per Farm
	(dollars)									
Newfoundland	16	13,575	12	10,502	13	11,367	25	21,860	22	19,874.
P.E.I.	256	10,840	320	13,945	273	12,213	379	17,407	313	14,824
Nova Scotia	36	6,693	32	6.313	30	6,164	41	8,811	39	8,570
New Brunswick	54	10,085	52	10,038	52	10,438	79	16,280	86	18,328
Quebec	53	7,855	38	5,848	40	6,324	51	8,405	46	7,949
Ontario	32	3,692	24	2,848	34	4,258	50	6,565	56	7,637
Manitoba	363	13,585	325	12,454	480	18,806	723	28,976	550	22,510
Saskatchewan	733	11,287	824	12,940	1,255	19,985	2,128	34,446	1,270	20,784
Alberta	186	7,532	227	9,235	337	13,854	547	22,556	411	17,065
B.C.	33	4,870	34	5,126	34	5,104	34	5,277	38	6,000
CANADA	129	10,598	126	10,631	176	15,189	237	21,122	184	16,868

Source: Saskatchewan Agriculture and Food, 1991.

Table 3: Farm income as a percentage of GDP by province:1970 to 1989.

Year	Quebec	Ontario	Man	Sask	Alberta	BC
1970	2.97	3.80	9.25	23.76	10.15	2.34
1971	2.84	3.55	9.40	26.03	10.21	2.15
1972	2.94	3.61	11.34	33.51	10.77	2.11
1973	3.16	3.95	12.22	32.56	11.05	2.37
1974	3.24	4.02	13.56	34.45	11.08	2.35
1975	3.38	3.94	13.64	36.37	10.21	2.17
1976	2.60	3.57	11.35	29.41	8.96	2.07
1977	2.78	3.40	10.76	26.57	8.02	1.99
1978	2.92	3.70	12.38	27.04	7.89	2.02
1979	3.06	3.87	12.86	28.87	7.97	2.01
1980	3.16	3.82	13.24	26.64	7.28	2.01
1981	3.31	3.71	12.60	27.96	7.79	2.00
1982	3.25	3.54	12.16	27.29	7.23	2.05
1983	2.97	3.30	11.87	26.01	6.73	1.88
1984	3.03	3.11	11.82	26.53	6.72	1.92
1985	2.88	2.80	11.31	23.49	5.89	1.88
1986	2.78	2.68	11.25	24.17	6.46	1.87
1987	2.51	2.44	10.72	25.45	6.76	1.74
1988	2.42	2.28	9.61	23.76	6.94	1.67
1989	2.37	2.10	9.13	22.34	6.68	1.55

Source:calculations done by author.

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