Chapter 5

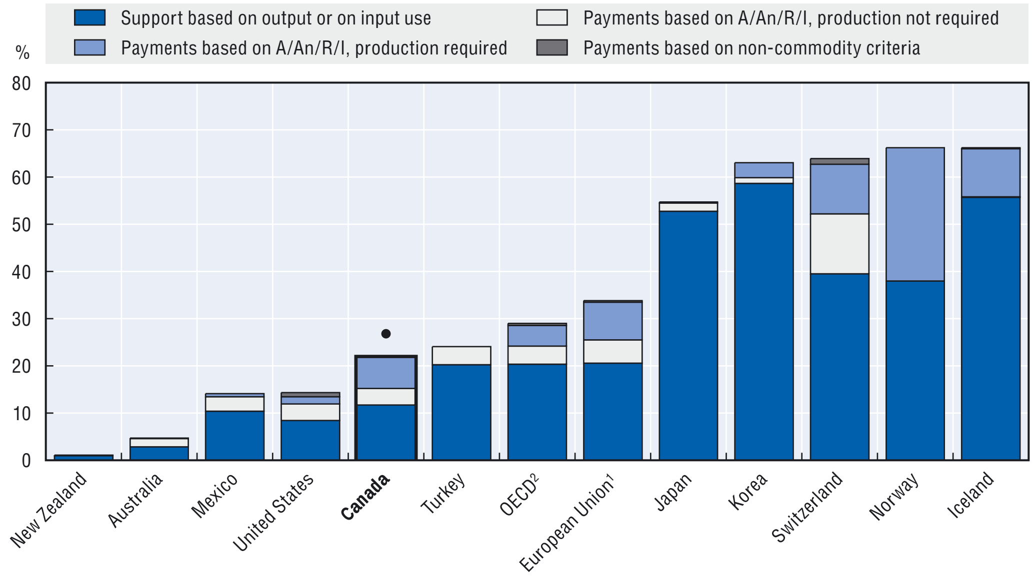
Canada

Evaluation of policy developments

- Canada has made substantial progress in policy reform, reducing the level of support since 1986-88 and shifting the policy focus from single commodities to broad commodity groups. However, the level of support has been trending upward in the most recent years.
- Support based on non-current production has increased steadily since 2000, but only one programme in this category has had a duration of longer than two years. Continued use of *ad hoc* payment programmes may result in a *de facto* institutionalisation of income support and resulting incoherence with stated government policies that identify income risk management and not income support as the main focus of government intervention in the sector. Moreover, such programmes can change the expectations of producers, increasing the level of distortion and reducing the market-orientation of the sector.
- Supply management systems and related border protection are the only remaining major source of market price support in Canada. As a result, consumers continue to pay prices well above world levels, in particular for milk. Moreover, the related export subsidies require keeping exports within WTO limits, effectively establishing a barrier for growth in exports of value added dairy products.
- Further reforms might usefully explore policies that would provide producers with the instruments they need to manage income risks without continuing reliance on either supply management or *ad hoc* payments.

Figure 5.1. **Canada: Producer Support Estimate by country, 2004-06**

Per cent of value of gross farm receipts



A (area planted), An (animal numbers), R (receipts) or I (income).

1. EU25. 2. The OECD total does not include the six non-OECD EU member states.

Source: OECD PSE/CSE database, 2007.

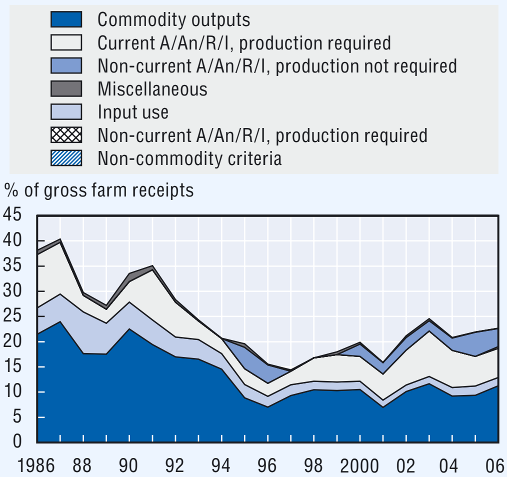
1 2 *http://dx.doi.org/10.1787/073151202402*

Summary of policy developments

Canada introduced the Farm Income Payment (FIP) and the Grains and Oilseeds Payment Programme (GOPP) in 2005 and the CAIS Inventory Transition Initiative (CITI) in 2006, continuing a series of one-time payment programmes that began with the APF Transition Payment in 2002. The Canadian Farm Families Options Programme (CFFOP) is a new initiative targeting producers with low overall household income.

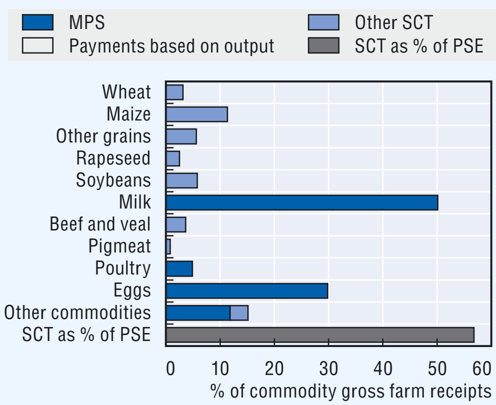
- Support to producers (%PSE) fell from 36% in 1986-88 to 22% in 2004-06, below the OECD average of 29%. There was a slight increase in 2006 compared to 2005 when the PSE rose to 23%.
- Canada has significantly reduced the share of the most distorting forms of support in the PSE. Support based on output or variable input use declined from 68% of the PSE in 1986-88 to 50% in 2004-06. Prices received by farmers were 40% above world market levels in 1986-88 but only 13% higher in 2004-06.
- Transfers to specific commodities made up 57% of the PSE in 2004-06, compared with 72% in 1986-88.
- The cost imposed on consumers as measured by the %CSE dropped from 25% in 1986-88 to 15% in 2004-06.
- Support based on non-current factors and not requiring production made up 16% of the PSE in 2004-06. No policies were in this category in 1986-88.
- Support for general services provided to agriculture has increased from 19% of total support in 1986-88 to 26% in 2004-06. Total support to agriculture as a percentage of GDP has fallen by 44%, from 1.8% of GDP in 1986-88 to 0.8% in 2004-06.

Figure 5.2. **Canada: PSE level and composition by support categories, 1986-2006**



1 2 *http://dx.doi.org/10.1787/073158448708*

Figure 5.3. **Canada: Producer SCT by commodity, 2004-06**



1 2 *http://dx.doi.org/10.1787/073240436203*

Table 5.1. **Canada: Estimates of support to agriculture**

CAD million

	1986-88	2004-06	2004	2005	2006p
Total value of production (at farm gate)	**18 458**	**32 165**	**31 591**	**31 570**	**33 335**
Of which share of MPS commodities (%)	*82*	*75*	*74*	*75*	*75*
Total value of consumption (at farm gate)	**15 367**	**23 394**	**22 842**	**22 959**	**24 380**
Producer Support Estimate (PSE)	**8 047**	**7 963**	**7 442**	**7 916**	**8 532**
Support based on commodity output	4 689	3 639	3 294	3 388	4 236
Market Price Support	4 176	3 639	3 294	3 388	4 236
Payments based on output	512	0	0	0	0
Payments based on input use	1 416	632	606	667	624
Variable input use	795	383	333	400	416
Fixed capital formation	595	199	177	235	184
On-farm services	26	51	95	33	25
Payments based on current A/An/R/I[1] production required	1 787	2 307	2 642	2 106	2 173
Of a single commodity	1 090	841	1 201	633	687
Of a group of commodities	697	243	376	211	140
Of all commodities	0	1 224	1 065	1 262	1 346
Payments based on non-current A/An/R/I[1] production required	0	44	0	0	133
Payments based on non-current A/An/R/I[1] production not required	0	1 314	868	1 729	1 345
Variable rates	0	274	0	0	822
Fixed rates	0	1 040	868	1 729	523
Payments based on non-commodity criteria:	0	0	0	0	0
Long-term resource retirement	0	0	0	0	0
Specific non-commodity output	0	0	0	0	0
Other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	155	26	32	26	20
Percentage PSE	**36**	**22**	**21**	**22**	**23**
Producer NPC	**1.40**	**1.13**	**1.12**	**1.12**	**1.15**
Producer NAC	**1.57**	**1.28**	**1.26**	**1.28**	**1.29**
General Services Support Estimate (GSSE)	**1 920**	**2 860**	**2 535**	**3 122**	**2 923**
Research and development	332	477	434	446	552
Agricultural schools	274	254	249	279	233
Inspection services	327	784	633	755	964
Infrastructure	438	534	503	503	595
Marketing and promotion	549	811	716	1 138	578
Public stockholding	0	0	0	0	0
Miscellaneous	0	0	0	0	0
GSSE as a share of TSE (%)	**19.2**	**26.4**	**25.4**	**28.3**	**25.5**
Consumer Support Estimate (CSE)	**–3 785**	**–3 633**	**–3 292**	**–3 378**	**–4 229**
Transfers to producers from consumers	–4 126	–3 629	–3 290	–3 378	–4 220
Other transfers from consumers	–11	–3	–1	0	–8
Transfers to consumers from taxpayers	42	0	0	0	0
Excess feed cost	310	0	0	0	0
Percentage CSE	**–25**	**–15**	**–14**	**–15**	**–17**
Consumer NPC	**1.37**	**1.18**	**1.17**	**1.17**	**1.21**
Consumer NAC	**1.33**	**1.18**	**1.17**	**1.17**	**1.21**
Total Support Estimate (TSE)	**10 009**	**10 823**	**9 977**	**11 039**	**11 455**
Transfers from consumers	4 137	3 633	3 292	3 378	4 229
Transfers from taxpayers	5 883	7 194	6 687	7 661	7 234
Budget revenues	–11	–3	–1	0	–8
Percentage TSE (expressed as share of GDP)	1.80	0.79	0.77	0.80	0.80
GDP deflator 1986-88 = 100	100	150	146	150	153

p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.
1. A (area planted), An (animal numbers), R (receipts) or I (income).
MPS commodities for Canada are: wheat, maize, other grains, oilseeds, milk, beef and veal, pigmeat, poultry and eggs.
Market price support is net of producer levies and excess feed costs.
Source: OECD, PSE/CSE database, 2007.

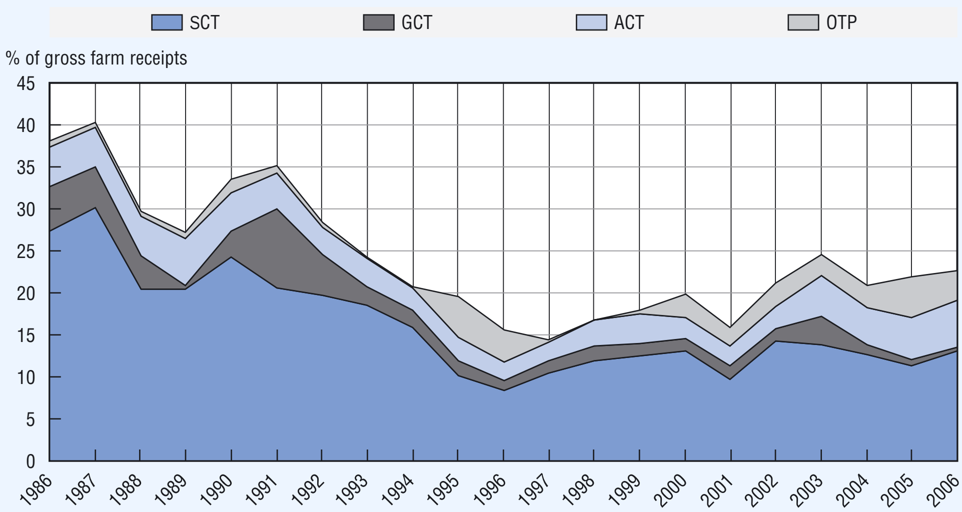
1 2 *http://dx.doi.org/10.1787/075110344644*

Box 5.1. **Canada: Commodity-Specificity of Support**

Single Commodity Transfers (SCT) made up 57% of the PSE in the 2004-06 period, a reduction from 72% in 1986-88. SCT are highest for milk, poultry and eggs. Group Commodity Transfers (GCT), where producers have the option to produce any one of a specified group of commodities as part of programme eligibility, made up 4% of the PSE in 2006, a reduction of 9% from 1986-88. Transfers provided under the headings All Commodity Transfers (ACT) and Other Transfers to Producers (OTP) place no restriction on commodities that farmers choose to produce or do not require any commodity production at all.[1] Together these made up 40% of the PSE in 2004-06, up from 15% in 1986-88.

In the mid-1980s, Group Commodity Transfers were focused mainly on a small number of grains produced in western Canada. This changed dramatically in 1991, when the Net Income Stabilisation Account (NISA) programme was introduced. This programme reflected a new, "whole-farm" focus where payments are made on the total receipts of the farm. The only exceptions were commodities already benefiting from supply-management policies – milk, eggs and poultry. By 1998, 92% of payments made as group commodity transfers were made to a group of commodities that included all commodities not under supply-management. In 2003, the NISA programme was replaced by the Canadian Agricultural Income Stabilisation (CAIS) programme. This programme continued in broad terms the whole-farm approach taken by the NISA programme, but contained a "disaster" component that eliminated the restriction on supply-managed commodities and which formed the majority of spending under the programme. As a result, group commodity transfers declined as a proportion of the PSE as the majority of CAIS funding is considered as part of ACT. Also coinciding with the phasing-out of the NISA programme was the first in a series of *ad hoc* programme transfers made on a historical basis. These are classified as OTP and now make up around 16% of the PSE.

Figure 5.4. **Canada: PSE level and commodity specificity, 1986-2006**



Source: OECD PSE/CSE database, 2007.

1 2 *http://dx.doi.org/10.1787/073272721043*

1. The definition of the categories SCT, GCT, ACT and OTP are provided in the Chapter I.3 of this report including an annex with the list of groups used in specific countries in the period 1986-2006.

Description of policy developments

Main policy instruments

Major Canadian agricultural policies are delivered through a policy framework agreed with the provinces, who share in the cost of programme delivery. This Agricultural Policy Framework (APF) is approaching the end of its implementation period and discussions regarding its successor agreement are currently under way. While this framework encompasses programmes targeting several different policy areas (business risk management, food safety, environment, science and innovation, sector renewal), the largest programme in terms of funding under the framework is the Canadian Agricultural Income Stabilisation (CAIS) programme. This programme continues a long-standing policy focus on income stabilisation rather than support, and is based on overall farm income in comparison with a reference income based on the producers' recent history. However, special one-time payments have been made in recent years for exceptional circumstances.

Milk, poultry, and eggs receive support through the supply management system which is a combination of price support through high out-of-quota tariff protection for these commodities and production quotas designed to balance domestic supply and demand. This system accounts for the great majority of market price support in Canada and has been in place since the late 1960s for milk and the mid-1970s for poultry and eggs.

The Canadian Wheat Board (CWB) has statutory authority to market for export and domestic use wheat and barley grown in designated areas of western Canada. In actual practice, most feed quality wheat and barley are marketed outside the CWB. The CWB pools sales revenue and returns proceeds to producers through a series of payments. The CWB is also involved in the negotiation of rail car supply and allocation and manages the flow of Board grains into the primary elevator system. During a plebiscite held in February and March 2007, the majority (62%) of producers voted in favour of the marketing choice option under which they would be able to market barley outside of the CWB. The government of Canada has begun the process of amending the Canadian Wheat Board Regulations with the intention of removing barley from the board's single desk authority by August 1, 2007, across the CWB's designated area.

Domestic policy

The CAIS programme insures against drops in farm income through insuring a "reference margin" based on a recent historical average. In its original design, in years where the margin falls below the reference margin, producers are allowed to make a withdrawal from a programme account they maintain and receive a matching payment according to the extent of the shortfall relative to the reference margin. The programme has been modified since its introduction in 2004 to include coverage of "negative margins" to compensate for losses as well as reductions in income. The requirement for producers to deposit one-third of the insured amount using their own funds was eliminated, and in 2006 was replaced by a participation fee of CAD 4.5 per CAD 1 000 of reference margin protected. CAIS accounts were closed and the balances repaid to participants; participants now directly receive a programme payment when their margin falls below the reference level.

The Tobacco Adjustment Assistance Programme (TAAP) was implemented in 2005. This programme was designed to aid in the transition of the Canadian tobacco growing industry by permanently retiring Base Production Quota (BPQ) through a reverse auction process. The programme paid producers CAD 1.05 per pound of BPQ under the federal programme, plus an additional payment of CAD 0.6690 per pound of BPQ from the province of Ontario programme fund distributed by the Tobacco Board. Tobacco is grown primarily in the province of Ontario.

The Canadian Farm Families Options Programme (CFFOP), started in 2006, is a two-year programme providing payments to participants in order to maintain a minimum household income (from all sources) of CAD 25 000 for a family or CAD 15 000 for an individual. To remain eligible for the payment in the second year of the programme, producers must either carry out a farm business assessment, or participate in a learning programme provided through the Canadian Agricultural Skills Service. The second-year payment will be reduced by at least 25% from the first-year payment.

The Cover Crop Protection Programme (CCPP), also initiated in 2006, is a national initiative that provides financial assistance to Canadian producers who were unable to seed commercial crops in spring 2005 and/or spring 2006 as a result of flooding. The programme provides a payment to affected producers to assist in improving and protecting flood-damaged soil until a commercial crop can be planted. The CCPP targets land that producers normally seed with commercial crops as part of their ongoing farming operation. The programme provides a one time payment of CAD 15 per acre for eligible claims of 10 acres or more. In total, CAD 50 million will be available in 2006/07 fiscal year for the 2005 and 2006 crop years. Payments are made to owners of flooded land and the programme does not require producers to take any specific actions regarding cover crops.

In 2006, the ***CAIS Inventory Transition Initiative*** (CITI) is a one-time programme providing a payment based on a retroactive change in the formula to calculate value of farm inventories under the CAIS programme. The payments are limited to an individual payment of CAD 500 000 for each programme year. A participant’s total payment cannot exceed the overall CAIS payment cap of CAD 3 million or 70% of a programme year margin decline, from CITI and CAIS for each programme year. Payments totalling CAD 822 million were made under this programme.

The ***Grains and Oilseeds Payment Programme*** (GOPP), put in place in 2005, is a one-time payment based on historical farm sales. The programme provides payments to producers of grains, oilseeds, or special crops based on average net sales from 2000 to 2004. An initial payment of 7.47% of a producer’s five-year average of net sales of eligible grains and oilseeds for the 2000-04 tax years was followed by a final payment is based on 1.28% of average net sales of eligible grains and oilseeds. Payments in 2005 totalled CAD 752 million. Similar *ad hoc* payments were made under the APF transition payment programme (2002 and 2003), the Transitional Industry Support Programme (2004) and the Farm Income Payment (2005). At the provincial level, the Disaster Declaration Programme in Alberta and the Nova Scotia Margin Enhancement programme made payments in 2006 based on historical CAIS participation, and the Ontario Grains and Oilseeds Payment Programme was an enhancement to the national programme.

The ***Enhanced Spring Credit Advance Programme*** (ESCAP) is an enhancement to the existing Spring Credit Advance Programme (SCAP) which doubles the interest free loan maximum to CAD 100 000 and extends the repayment period for loans by nine months to September 30, 2007. The advance is calculated by multiplying the producer’s insured yield under crop insurance by the advance rate provided under the guarantee agreement. The amount of the advance must be less than the total insured value of the crop under crop insurance. SCAP began as an emergency initiative in 2000 but has been extended until 2006. Starting in January 2007, SCAP and the Advance Payments Program have been merged into a single programme. This new Advance Payments Program is available to crop and livestock producers.

Trade policy

Canada had deregulated the marketing of milk (and cream) for dairy product exports in response to a ruling of the Appellate Body of the World Trade Organization (WTO) in 1999. Commercial export milk (CEM) mechanisms were developed by dairy industry stakeholders, implemented through provincial deregulation, and accommodated by federal deregulation. Following a ruling by the WTO Appellate Body in December 2002 that the supply of CEM involves export subsidies, provinces amended their respective regulations to eliminate CEM. Canada now limits the provision of ***export subsidies*** to dairy products to the levels specified in its WTO schedule of commitments.

Canada has requested consultations with the United States at the World Trade Organization (WTO) on subsidies provided to US corn growers, as well as on the total level of US trade-distorting agricultural support and certain US export credit programmes. Canada's position is that existing US corn subsidy programmes cause prejudice to Canadian corn growers through their effects on prices in the Canadian market. Canada also asserts that the United States' export credit guarantees serve to subsidize the exportation of certain US agricultural products. Canada's position is that these programmes are inconsistent with the United States' WTO obligations. Moreover, Canada believes that total US trade-distorting domestic support, specifically, the Total Aggregate Measurement of Support (Total AMS), exceeds the United States' corresponding WTO commitment levels for certain years.

Canada is currently negotiating ***free trade agreements*** (FTAs) with the Republic of Korea, Singapore, the Central America 4 (CA4, comprising El Salvador, Guatemala, Honduras and Nicaragua) and the European Free Trade Association (EFTA, comprising Norway, Iceland and Switzerland-Liechtenstein). Canada also held exploratory discussions with a view to negotiate FTAs with the Andean Community countries (Colombia, Peru, Ecuador and Bolivia), the Dominican Republic and the Caribbean Community (CARICOM).

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