

# canadian agriculture in the seventies

REPORT OF THE  
FEDERAL TASK FORCE ON AGRICULTURE

OTTAWA, DECEMBER 1969

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**CANADIAN AGRICULTURE IN THE SEVENTIES**  
Report of the Federal Task Force on Agriculture

*Erratum*

Page 52, lines 15 and 16: Delete "United States". At the end of that paragraph insert a new section heading entitled *The United States*.



31 December 1969.

The Honourable H. A. Olson,  
Minister of Agriculture,  
Ottawa, Ontario.

DEAR SIR:

We are pleased to transmit to you the report of the Federal Task Force on Agriculture entitled "Canadian Agriculture In The Seventies".

Our terms of reference were to analyse the problems of the Canadian agricultural industry and to make recommendations to government with respect to public policy. The most important objective was to outline policy measures which would lead to developing a viable industry over the coming decade. We have attempted to accomplish this task.

The entire Task Force has found the relationship with you and members of your department to be harmonious and productive.

Yours sincerely,

*D. R. Campbell*

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## FEDERAL TASK FORCE ON AGRICULTURE

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Mr. A. Vaillancourt	Secretary

## PREFACE

In commissioning the Federal Task Force on Agriculture the Minister of Agriculture attempted to give a positive directional impetus to the seeking of solutions to the many and diverse problems which beset the industry in the nineteen sixties and to provide policy guidelines for the nineteen seventies.

After over two years of study and many meetings with persons and groups concerned with the agricultural industry (see Appendix D and E), examination of the results of a research program and submissions (see Appendix F), the Task Force report has been prepared for consideration by government and the industry. This report is not intended to be the last work in analysis and recommendations for solution of agriculture's problems in Canada. The problems are dynamic, as are the facts and opinions contributing to the analysis. Thus, the work of this Task Force is submitted, in this report, as a contribution to the process of ameliorating the position of the agriculture sector within the Canadian and world economies.

The business of food production and utilization for non-food purposes of land-based agricultural products probably ranks as the largest and almost certainly the oldest in the world. In such an industry, technological change is inevitable; however, acceptance of change in methods of production, processing and distribution as well as the rapidly changing economic structure is difficult. Such acceptance is more difficult for persons of limited technological training and financial backing. It is the responsibility of all participants in an industry to seek accommodation of the changes but particularly the responsibility of government to fill in those gaps created by evolution.

There are great disparities in acceptance and utilization of the benefits of modern technology. To formulate and apply policies to satisfy all levels of

need in all sub-sectors of the Canadian agricultural industry is difficult and perplexing. Selected policies to attack the more contentious problems often divert from the principle of equal treatment of agriculture and the other sectors of the economy. Criticism is rife in the agricultural sphere as is gratuitous advice and contrary opinions. The Task Force, while starting with many differences has happily been successful in reaching a consensus and has produced a meaningful report as a result.

Canadian agriculture is a large, complex industry which includes far more components than just the farmer. In the course of an examination, such as the Task Force has given this industry, many inconsistencies and irrational facts come to light. As these obstacles show up one craves for more time to research and analyze each new factor fully. What soon becomes obvious is that the evolution is so rapid that at some point one must stop, take a stand and report.

Because of the urgency of the work the Task Force was obliged to commission consultants rapidly after inauguration to provide a researched background for the greater task of sifting through the pros and cons, culminating in recommendations to government. It was found that there was a dearth of good researchers available in some of the fields to be investigated by the Task Force. A constant complaint, by those who did undertake the work, was a severe shortage of data. The Task Force noted that few researchers associated with agriculture were willing to venture very far from the status quo and make recommendations for startling changes in the industry.

The Task Force has itself published only three of the research reports produced for it but feels that all the work done by consultants should be made available to those interested. Accordingly the research reports produced under the Task Force program are deposited in the library of the Canada Department of Agriculture from which they can be borrowed by interested parties.

## ACKNOWLEDGEMENTS

In the course of its work the Task Force received valuable assistance from many individuals, groups and organizations whose services are gratefully acknowledged.

Thanks are extended to the Federal government's Inter-departmental Committee and to the provincial deputy ministers of agriculture, particularly the five who formed the I.C.C.A.P. for all their encouragement, advice and assistance (see Appendix B). High on our list of persons to thank are the organizers of the Canadian Agricultural Congress, which was held in March 1969, whose work contributed greatly to its success.

There are too many persons to name in the Canada Department of Agriculture to whom we are indebted for assistance. We do, nevertheless, thank the Department as a whole for the privilege to work unfettered and for providing prompt and constructive advice and assistance when we requested same. The guidance and counsel given to our Co-Ordinator in the execution of his duties was most appreciated. The Department of Industry, Trade and Commerce also rendered valuable assistance in the work.

Special thanks go to the researchers and their assistants (see Appendix D). The Task Force expresses its sorrow occasioned by the death of Professor Hadley Van Vliet of the University of Saskatchewan. This report would have greatly benefitted from his skill and judgment in his study on the structure of agriculture.

The contribution by Mr. George Grant is especially worthy of mention; he provided much needed "in house" research which cleared up many contentious issues and filled in gaps in the research program in a most diligent manner.



To those persons across Canada with whom the Task Force met and who submitted briefs must also be extended thanks (see Appendices E and F). A special note of thanks goes to the United States Embassy in Ottawa who arranged for most constructive and cordial discussions with the Secretary and senior officials of the U.S.D.A. in Washington through their Foreign Agricultural Service.

Our special thanks are extended to the female full and part-time, secretarial staff whose work in the preparation of the papers for the Canadian Agricultural Congress and the typing of this report stands out as a most significant contribution; also Mr. Vaillancourt who served as Secretary from inception until March 1969, after which date these duties were assigned to Mr. Woodward.

Finally the Task Force acknowledges with appreciation the able leadership, loyalty, conscientiousness and total commitment to the work in the full-time direction of the operations of the Secretariat of Mr. Douglas Woodward, the Co-Ordinator. Mr. Woodward handled the complete financial affairs of the Task Force with skill and good judgment. He kept a large volume of documentation flowing from the headquarters which was indispensable to the work of the members. Later he assumed editorial functions and became responsible for the production of this report. Without his contribution this report would not have been available at this time and its quality would have suffered.

FEDERAL TASK FORCE ON AGRICULTURE  
OTTAWA, DECEMBER 1969.

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part one

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STRUCTURE

# chapter one

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## CANADIAN AGRICULTURE IN PERSPECTIVE

### INTRODUCTION<sup>1</sup>

In April, 1967, confronted with the many critical and complex problems of agriculture, the Cabinet decided to appoint a Task Force to assess the industry and recommend policies and programs for improvement. The Task Force was named in September 1967 and began work in the fall of 1967. This report, summarizing our findings and recommendations, is based mainly on 27 months of wide-ranging investigation and study by the Task Force, 25 research studies by Canadian university teacher-researchers and professional consulting firms, many meetings with farming and agribusiness representatives and government officials across the country, and the feedback from the forum provided by the Canadian Agriculture Congress, March 1969.

Although this Report is a summary of our findings, analysis, conclusions and recommendations, it is detailed and wide-ranging in scope. The purpose of this chapter is to present an overview of agriculture and to introduce the conceptual framework and point of view underlying our study and recommendations.

In this chapter we shall briefly describe the Canadian agricultural system and its environment, the major forces that will shape agriculture over the next decade, the performance and major problems, the main characteristics of the model toward which Canadian agriculture should be evolving and the key policies and programs needed to assist the transition of Canadian agriculture

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<sup>1</sup> In this Report the word agriculture includes farmers and agribusiness. Agribusiness is used in the narrower context to include farm supply firms and those engaged in all phases of marketing.



from what it is to what it should be in the short, medium and long term future.

### *The Canadian Agriculture System*

Any recommendations of national policies and programs for the Federal Government must be based on an acute understanding of the major component parts of Canadian agriculture and how they combine together in a total system.

Although the primary focus of the Task Force was on the problems of farming, it is obvious that farming cannot exist in isolation but is an integral sub-unit of the total agricultural system which includes the following mutually dependent parts:

manufacturers, distributors, and sellers of farm and agribusiness input products and services; farms, farmers, and farm labour; farm product marketing boards and sales agencies; farm product transporters, handlers and storage agents; food processors, food product distributors, wholesalers, and retailers; other food outlets such as institutions, hotels, restaurants; consumers; governments; research and educational institutions and the many organizations representing farmers, agribusiness, researchers and others involved in agriculture.

The function of this system which weaves in and out of the entire economy is to process, manage, regulate and study the flow of resources from farm inputs to the final consumer. Its central purposes are to satisfy the food wants of consumers and to provide adequate income and security for all who own and/or work in these organizations. Each sub-unit has a vital function and legitimate ownership, employment and participation stakes. Because some are linked in buyer-seller relationships there is a basic conflict of interest in their relationships. But while many must compete with each other it is important that they co-operate because they are mutually dependent.

To convey a more accurate idea of the size and scope of the Canadian agricultural industry let us review briefly the key indicators of its dimensions:

*Production Sector:* includes an occupied farm land area of 174 million acres; a farm population of around 2 million; approximately 400,000 farms, 500,000 farm workers. In 1968 farmers paid about \$185 million in taxes on land and buildings.

*Supply Sector:* in 1968 farmers spent around \$425 million on farm machinery, \$212 million on fertilizers, \$54 million on pesticides, \$568 million on feed and \$245 million on new construction. Many other millions of dollars were spent on electricity, telephones, gasoline, banking services etc.

*Marketing and Processing Sector:* firms processing farm products only into basic foods and feed had sales of \$4,800 million and paid \$665 million in salaries and wages to 146,000 employees in 1966. This does not include wineries, breweries, distilleries, tobacco manufacturers nor the retailers and traders in processed products.

*Food Consumers:* in 1968 about 21 million Canadian consumers spent \$8,500 million on food and another \$2,500 million on tobacco and alcoholic beverages.

*Government:* the Canada Department of Agriculture employs more than 12,000 persons, full-time; operates more than 200 separate establishments; provincial departments of agriculture employ in excess of 30,000 persons with a combined budget in excess of \$200 million.

The figures speak for themselves in indicating that it is almost impossible to over-emphasize the economic and social importance of agriculture to all Canadians.

### *The Environment of The Canadian Agriculture System*

The Canadian agricultural industry exists in, trades with, and is highly dependent on the environments with which it must interact.

The immediate domestic environment is the Canadian political-economic-social technological system. Because of the fundamental differences among its five regional components—The Maritimes, Quebec, Ontario, Prairies, and British Columbia—there are substantial divergencies in the performance and prospects for farming and agribusiness in each of these areas. As a result, Canadian agriculture confronts the planner with such a variety of unique regional problems and opportunities that the formation and implementation of national policies and programs that apply equally well in all regions is difficult, if not impossible.

Its more distant but vitally important, international environment is the complex of foreign nations, who are our most important customers and/or suppliers and/or competitors. Because of its heavy reliance on export trade, foreign developments—ranging from weather, crop planning, research and technology, food consumption, national economic planning, and political relationships—almost anywhere in the world can have drastic short, medium and long-term effects on the markets, competition, prices, and profits of the Canadian agricultural industry.

### *Key Forces Affecting the Canadian Agricultural System*

The supply-demand-competitive situation in Canadian agriculture results from the inter-play of many continuously changing internal and external forces. Whether the change is relatively gradual (e.g. the declining per capita consumption of milk) or drastic (e.g. the world cereal grain revolution), it is the engine that generates a never-ending stream of new problems and opportunities confronting policy planners and decision-makers throughout the system. Since the universal key to effective planning and management is to monitor change, to anticipate problems and opportunities and to formulate, implement and audit programs to solve the problems and capitalize on the opportunities, let us review briefly the major forces that have made Canadian agriculture what it is and will shape and determine its future.

1. The primary world wide force causing change in agriculture is technological development. Science in the form of a never-ending cornucopia of research and development innovations, has increased and will continue to increase dramatically the production per man hour and unit of land. This trend promises not only to continue indefinitely but also to accelerate.

2. Commodity surpluses, overproduction and excess capacity constitute the second major force hanging over the market and depressing prices especially in major commodities such as grains and dairy products.

3. Agricultural development and economic planning in less developed countries is being pushed to achieve high and rising levels of self-sufficiency. Thus many previous export markets may be dwindling. India, Pakistan, the Philippines and Mexico, for example, may be approaching self-sufficiency in grain production and have their own export and surplus problems perhaps on the horizon.

4. Political intervention in the form of subsidies, tariffs and trade agreements prevent the free market interplay of supply, demand and competitive advantage in many markets.

5. Slow growth in food demand cannot be expanded to absorb surpluses. Overall consumption of food products is growing too slowly to bring about any significant improvement in the supply-demand balance in the foreseeable future.

In addition to these world-wide forces, Canadian agriculture is experiencing other heavy pressures arising from specific domestic problems.

1. The political power of farmers is declining. Farm population, which was 31.7 per cent of total population in 1939 declined to 27.4 per cent in 1941, 20.8 per cent in 1951, 11.7 per cent in 1961 and 9.8 per cent in 1966. By 1980 farm population will have declined still further.

2. Canada is experiencing problems such as poverty, urban social disintegration, housing, regional disparities and pollution which affect larger numbers of citizens and will require increasing attention and allocation of resources.

3. All levels of Canadian governments—federal, provincial and municipal—are experiencing severe shortages of funds which promise to worsen substantially in the future. This means that the allocation of substantial public funds to agricultural subsidies will have to compete with expenditures on other public needs such as poverty, health, education, and training.

4. The substantive and emotional aspects of the wheat problem—surplus production, excess carry-over stocks, diminishing exports and falling prices and incomes—are escalating to crisis level.

5. Because the wheat supply-demand balance cannot be improved and brought under control without a very substantial reduction in wheat acreage, the wheat problem may spill over in 1970 into feed grains and oil seeds and later to livestock.

6. Families operating one-third of Canadian farms are classified as below the poverty line. Lacking the opportunity, ability, training and resources to become viable farmers, they constitute a substantial brake on progress.

7. Both government and private sectors of agriculture are marked by the negative forces of disorganization, poor management, jurisdictional disputes and individualism.

No industry can be subject to these kinds of internal and external forces without experiencing chronic price deterioration, chaotic market conditions and widespread economic, social and political strains.

Fortunately many of these negative forces are counteracted by important positive forces such as the experience, know-how and substantial motivation of the many farmers, employees and managers in agriculture, a high and rising level of technological development, a strong and growing resource base, a generally good reputation for quality and strong market demand for many products. Nevertheless the negative forces are strong and persistent.

### *Problems of Canadian Agriculture*

A problem exists when people think it exists. Performance of Canadian agriculture is rated as poor by many farmers, consumers, rural poor, agribusiness managers, farm input suppliers, the press and some economic and social planners, when compared to the rating values of each. Much interviewing of many different stakeholders in agriculture across the country, by the Task Force members, has indicated that few were satisfied with the performance of the industry. Problems do indeed exist.

The symptomatic problems, all of which will be examined in detail in the following chapters, include the following: low incomes, over-production, prevalence of small, non-viable farms, increasing regional disparities, low and unstable prices, cost-price squeeze, slow market growth, diminishing export markets, commodity problem e.g. wheat and dairy, declining farm share of national income, paternalism and ineffectiveness of government policies and programs and a host of others.

Penetrating analysis of these symptomatic problems indicates most are caused by the major root problems which are *lack of effective formulation and implementation of policies and programs* and its twin *lack of an adequate organization structure* to serve as a vehicle for integrated, co-operative action to improve the performance of agriculture. Unfortunately, the capacity of the conventional wisdom and the established institutions and many of their top officials to deal adequately with the relevant problems is in doubt. Without a drastic improvement in management and organization the future points to a never-ending stream of new problems such as the following:

- The wheat glut may be replaced by unwanted, market disturbing, surpluses in feed grains, oil seeds and livestock.
- Internal bickering and jurisdictional disputes in the many competing farm organizations may prevent co-operative planning and action and further fragment the industry.

- Governments may reduce the amount of initiative forthcoming from farm leaders and agribusiness organizations if they were to become increasingly paternalistic.
- Taxpayers may revolt against the substantial drain on the Treasury for agricultural supports.
- Federal-provincial and inter-regional disputes among government and commodity marketing board organizations may nullify attempts to rationalize commodity production and marketing.
- The loss of competitive position in world markets may make imports so attractive that consumer pressures build up to buy cheaper foreign products.

These are but a few of the potential problem areas where future trouble may erupt on short notice unless we implement plans to enlist the highest levels of management and responsible leadership and provide a rational organizational structure from which such men can begin the long, arduous task of improving agricultural performance.

#### *Canadian Agriculture—1990 Model*

The purpose of effective government action must be to assist the transition from what agriculture is today to what it should be in 1980, which is of course, only a mile post on the journey to 1990 and beyond. Therefore, before we can decide what the main recommendations in a program for transition should be we must consider the model toward which we are aiming.

Many of the major characteristics of the 1990 model of the Canadian agricultural system can be predicted on the basis of forces now visible. Some of the most obvious trends are as follows:

- decreasing numbers of farms, farmers, farm labour force and farm population
- fewer family farms
- increasing farm size
- tougher domestic and international competition
- increasing technological change
- stronger marketing boards, increasingly national in scope
- less independence for individuals
- increasing planning and contractual arrangements resulting in backward, forward, horizontal integration
- increase in computer centered data processing systems and management assistance plans
- better forecasting of markets and prices
- constant improvement in quality of management throughout agriculture
- greater reliance on, and use of, planning
- rising incomes
- improved research training education and management development for farming and agribusiness
- fewer government subsidies and support programs

While there are many other trends that will affect the agricultural system, these alone will cause fundamental change.

What kind of agriculture will we probably have in 1990 if these trends continue? Some of the highlights of the Task Force's 1990 model of agriculture are as follows:

1. There will be a substantial reduction in number of commercial farms. Some will be family farms but all will be rationally managed, profit oriented businesses. Farm mergers and consolidation will result in much larger units, not primarily for increased production efficiency but to structure units that are large enough to afford better management.
2. Farm organizations, marketing boards, co-operatives and similar organizations will be much larger, more professionally managed and users of much more sophisticated management, data processing, research and planning techniques.
3. Because of a drastic reduction in farm population, (probably to about 3 per cent to 4 per cent of population), the balance of power among farmers, consumers, and taxpayers, will change substantially. The government will become less involved in agriculture. Farm subsidies will be cut and the entire private sector of the agricultural system will be required to accept a much greater degree of independence.
4. Management, survival and cost-price realities will force a more effective rationalization of the relationships of production and sales; sales, costs and profits; and return on investment in agriculture from the smallest farm to the largest corporation.
5. As governments encourage agriculture to rationalize its management processes and organizational structure, a clear-cut separation of welfare and commercial farm policy programs will emerge. Some form of guaranteed annual income will be taken for granted.
6. As the necessity for planning increases, the drive for security will be manifest in increasing formal and informal integration.
7. As the size of units increases, financial requirements multiply and operating problems increase in complexity, ease of entry into commercial farming will be drastically cut allowing much greater rationalization of supply-demand relationships.
8. As a high and rising proportion of farm workers become employees working for salaries and wages, farm employee unions may emerge and become a factor in the bargaining process.

In sketching out this kind of a model for agriculture circa 1990, we are of course rejecting the "public utility" or socialized concept of agriculture. Members of the Task Force sincerely hope that option is avoided.

### Key Recommendations

The obvious keynote that permeates all our recommendations is that the government should intelligently assist an orderly and planned transition that will encourage agricultural adjustment to achieve the largest possible gains at the lowest possible tangible and intangible costs. Another theme running through all our recommendations is that governments should reduce their direct involvement in agriculture thereby encouraging farmers, farm organizations and agribusiness to improve their management and leadership functions and stand more self-sufficiently on their own. We assume that agriculture should be operated much as any other industry. If this is not feasible, the agricultural industry invites a degree of government paternalism that agriculture may not want. It is important to note that this in no way implies a reversion to anything approaching a simplistic laissez faire system. The system we propose in this Report includes institutions such as national marketing boards, stabilization programs etc. and is compatible with a contemporary complex industrial society.

The main principles of our recommendations, spelled out in detail in later chapters, are as follows:

1. The surpluses must be controlled and reduced to manageable proportions by reducing production drastically, if necessary. Where alternatives exist, production resources must be shifted to more promising market opportunities. Where such alternatives cannot be found, land and other resources must be retired.
2. Governments should provide temporary, limited programs of assistance for the crop switching and land retirement, necessary to cut surplus production. At the same time this Report emphasizes programs to expand demand, particularly on the international scene.
3. Agricultural subsidies and price supports that are not effective and efficient in achieving worthwhile high priority objectives should be phased out.
4. Younger non-viable farmers should be moved out of farming through temporary programs of welfare, education and provision of jobs in other sectors of the economy. Older farmers should be given assistance to ensure that they have at least a "livable" standard of living.
5. Improvement of management must be encouraged by providing seed money for management training, provision of information processing systems, market and price forecasts and other management tools.
6. The organizational structure of agriculture both in the government and private sectors should be rationalized. *Management by objectives, program planning and budgeting, cost-benefit analysis and other modern management techniques should be adopted.* Every public policy should embrace these principles and procedures.

### *Outline of the Report*

Let us review briefly the outline of this Report. Chapter 2 presents a more detailed review of the major problems, issues and pertinent background information related to Canadian agriculture. Chapter 3 concludes the introductory section with an examination of the goals that should govern policies and programs for the various component parts of the agricultural system.

Part Two presents an analysis of the situation in regard to the major commodities—wheat, feed grains, and oil seeds; livestock and poultry; dairy; fruits and vegetables; tobacco and sugarbeets. This section begins with a review of the international trade problems related to these commodities and concludes with our view of how these commodities will probably fit together in a total materials balance for 1980 if our recommendations are followed and the industry is reasonably successful in working out of its current difficulties.

Part Three presents our size-up and analysis of the structure and functions of the institutional and organizational framework of agriculture. The specific topics addressed in this section are the roles of government, marketing boards, farm organizations, agribusiness, credit, research and crop insurance.

Part Four examines the low income sector of agriculture, a subject that must be separated from the problems of viable, commercial farming and dealt with as a special topic on its own.

Part Five, for the convenience of the reader, draws together in one package a summary of all the conclusions and recommendations from the chapters in the first four sections.

Part Six presents appendices relating to the establishment of the Task Force; persons and organizations associated with the work; research program; meetings held; and submissions received.



## chapter two

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### THE SETTING

#### INTRODUCTION

There can be no doubt that Canadian agriculture has more than its share of difficulties and uncertainties. Throughout this Report the Task Force has attempted to identify and analyze both widespread general problems such as those of poverty and more specific problems such as the current wheat surplus and to make recommendations concerning them. There are a number of important themes and considerations which transcend specific matters such as wheat surpluses and egg marketing boards; these themes are brought together here in this broad introductory chapter appropriately called "The Setting".

#### *Problems from Different Viewpoints*

"I see, quoth he, the elephant is very like a tree."

The main problems of Canadian agriculture, as most *farmers* see them, are two in number—low farm incomes and uncertainty as to the future. There are other problems of course, such as instability of prices and incomes, rising cost of credit, inability to market wheat, difficulty of finding farm labour and so on but these are secondary compared with low incomes and uncertainty.

That incomes are low relative to non-farm incomes is beyond question. The fact that the proportion of national income going to agriculture is about one-half of the proportion of farm labour within the total labour force (eight and four per cent respectively in 1967) may be challenged on the grounds that the prices attributed to farm perquisites are too low, that farmers experience tax free capital gains, that costs of living are different, that there

are important psychic advantages in farming and so forth. What cannot be misinterpreted, however, is the fact that the farm labour force declined by 55 per cent between 1946 and 1967. After all of the psychic and non-monetary benefits had been assessed by farm and non-farm people, the departure of so many farm people from agriculture indicates the disparity of income in all forms.

Uncertainty is a factor which troubles more and more farmers. What are the prospects for exports in competition with subsidized production elsewhere? What is likely to happen to land values? Is it better to borrow extensively at high interest rates or settle for a safer and perhaps declining income? Is it wise to expand and become more dependent upon hired labour which may not be available tomorrow morning? These are not new questions but their size and urgency are much greater than ever before.

The main problems of Canadian agriculture, as seen by *agribusinessmen* turn around the subject of markets. Good farm incomes mean better markets for machinery, fertilizer and other inputs. When there are good markets for farm products there is more business for milk processors, meat packers, elevator operators and retailers. There are worrisome problems too, of producer marketing board regulations, of subsidized competition, of accusations of inefficiency or monopoly. Basically, though, the welfare of agribusiness is inextricably tied with that of the farmers.

The problems of agriculture, as *governments* see them, arise largely out of the basic low farm income problem. To governments, the cost to the Treasury of price supports and other programs become part of the "farm problem". With inflationary pressures always present, cabinet ministers divide on the question of food prices—Agricultural Ministers wanting them higher to meet the farm income problem and Consumer Affairs Ministers wanting them lower to meet the inflationary cost-of-living problem. Then, too, governments find that the social problems arising out of low farm incomes necessitate Manpower, ARDA and urban housing and adjustment programs. Finally, governments find agriculture to be a special subject in international negotiations and to be an important but sometimes widely fluctuating earner of vital foreign exchange.

The main problems of agriculture as the *Task Force* sees them also revolve around the fact of low farm incomes. Low incomes are a problem in themselves but they are also symptoms of even deeper problems in the allocation of resources between agriculture and other sectors, in labour mobility and thus in education and alternative employment, in the international competitiveness of Canadian products especially in the light of heavy subsidization and protection in competing countries, and finally in the adequacy of government agricultural programs. It is with these problems that most of this Report is concerned.

#### *Supply and Demand—Surpluses and Instability*

Farm incomes are lower than non-farm incomes in almost every country. (Almost the only exception is the United Kingdom, where a small farm

population, large food deficits, balance of payments problems and massive government payments combine to make farm incomes equivalent to the national average.) That incomes are low and unstable in almost all countries is no accident, nor is it the result of conspiracies on a grand scale by forces in other sectors of the economy or in government. The underlying supply and demand conditions in farming are such as to result in low farm incomes, in unstable incomes, prices and output and in a fairly large number of redundant farmers.<sup>1</sup>

The *Supply* side has four particularly significant factors:

1. Large number of producers.—There is a sound economic reason for there being a large number of producers. Even if all farms were of such a size to be able to produce at the lowest possible cost per unit, the average farmer's output would be so small relative to total output that he could not, by himself, affect prices in any way.<sup>2</sup>
2. Rapid improvements in production technology and management.—The Fifth Annual Report of the Economic Council of Canada called further attention to the rapid rate of technological and management change in agriculture since 1946, which has resulted in a much faster growth in output per worker in farming than in the economy as a whole. Two results follow:
  - (a) even if farm prices remain constant, output increases with improved technology and
  - (b) some producers are less able to employ the new technology than others and shall fall behind competitively and in incomes.
3. Decreases in farm prices cause only small declines in output.—In farming, the less flexible costs<sup>3</sup> are a high proportion of total costs and therefore prices would have to fall drastically before output would be much reduced. This statement holds for agriculture as a whole and in no way rules out the tendency to shift resources from the production of one product to another in response to changes in their relative prices. This shift from one commodity to another becomes less with increased specialization.
4. Instability of output.—Output varies seasonally and among years because of weather and other conditions of nature. Crop failures bear quite unequally upon individuals even when total output is stable.

The *Demand* side has five important factors:

1. Per capita expenditures by Canadian consumers for specific farm products tend to fall when domestic output is increased. For example,

<sup>1</sup> Educational levels of attainment are generally low among farmers and farm workers. This does not help their relative position in agriculture.

<sup>2</sup> A disadvantage farmers try to overcome through co-operative and marketing boards.

<sup>3</sup> Fixed costs include a good deal or all, of the operator's and family labour as well as other overheads.

if the number of hogs coming to the Canadian market increased by ten per cent, Canadian consumers would purchase all of this output only if prices fell by more than ten per cent.

2. On export markets the volume of and revenue from Canadian sales abroad can be increased considerably by a small reduction in price. This applies to most farm products but probably not to wheat. If Canadian exports are a small part of world trade, as is the case for all farm exports except wheat, a reduction in the price of Canadian exports is unlikely to cause similar price cutting by other exporters or by producers in the importing country.
3. As incomes rise, Canadian expenditures on food increase only very slightly however domestic demand for food increases proportionately with growth of population. More expensive products and more highly processed foods tend to replace less expensive and less processed.
4. Export markets are subject to protection or to the competition of export subsidies. Because 25 to 30 per cent of Canadian farm products are exported, such competition is crucial; because agricultural exports are a much bigger proportion of national income in Canada than in the United States, export subsidies would be proportionately much more costly to Canada.
5. Except where marketing boards use the authority delegated to them to operate two-price systems, the price at which the last five (or even one) per cent can be sold determines the price of the entire quantity.

### *Consequences of Supply and Demand Conditions*

1. For some products the level of output is greater than that which would maximize gross and net revenues. Each producer assumes that his level of output will not affect price; the sum of these individual decisions is an output larger than that which would maximize gross returns to the producers of the commodity. This is a major reason for demands by producers for supply management.

2. Average net farm incomes are low relative to average incomes of most other occupations. While attempts to measure and compare incomes are difficult because of problems of pricing, income in kind, personal satisfaction, security, growth of asset values, off-farm earnings and so forth, one point is clear and that is that the farm labour force has declined by 55 per cent since 1946. This fact indicates the relative unattractiveness of farming especially since there are no legal barriers to entry into the industry.

3. Per capita farm incomes are low because market offerings increase more rapidly than does domestic demand and much of our exports must be sold in protected foreign markets or against subsidized exports, or in competition with highly efficient low-cost producers (eg. New Zealand milk producers and American corn producers). With lower prices and incomes more farmers should leave agriculture but often they have poor alternatives, no apparent

alternatives or they would prefer low farm incomes to the social and psychological problems that often go with moving off the farm.

4. Prices fluctuate, sometimes substantially, as a result of crop failures or bumper crops, of shifting of land, labour and capital from the production of one commodity to that of another, loss of export markets or sudden increases in export demand and sudden changes in imports. Cycles of production and therefore of prices occur because individual farmers are not aware of decisions by others to increase output in response to higher present prices and vice versa.

5. Gross incomes fluctuate, though not usually as much as prices.

6. Given their levels of production, management capacities and availability of assets, many farmers could never make a satisfactory level of income from farming. If they were to be provided with the assets to increase incomes, others would be forced out of farming because their increased production would lower prices, given the demand conditions for Canadian farm products.

7. These results—low farm incomes, unstable prices and incomes and redundant farmers—arise from economic forces to be found in every non-communist country (and in fact in communist countries too, but that is another story which is irrelevant here). The response to them is the core of farm policy in every country. How nations respond depends upon their basic ideology concerning the role of government, upon political pressures, production-consumption surpluses or deficits and so forth. No one approach can be right for all nations or for all times.

### *The Cost-Price Squeeze*

There have been many comparisons made between two Dominion Bureau of Statistics price indices—the Index of Prices Received by Farmers and the Price Index of Commodities and Services Used by Farmers. The former represents changes in prices received by farmers for the products they sell and the latter represents or is supposed to represent changes in the prices of inputs such as farm labour, machinery, fertilizer and so forth. Quite incorrectly, as elaborated below, it is regarded as a “cost of production index”. For 1968 the former stood at 298 and the latter at 387, both based on 1935-39 = 100.

Comparisons between these two indices and comparisons between the American equivalent and the Canadian Price Index of Commodities and Services Used by Farmers can be, and usually are, quite misleading. The Canadian Price Index of Commodities and Services Used by Farmers is so out-of-date and misleading that the Task Force contends that publication of it should be suspended until it has been up-dated. Statistics can be misleading in the best of circumstances, especially when presented as an index (which can be prepared in a number of ways, all of which are likely to give widely varying results).

The Index measures the weighted average change in prices of a set of goods and services purchased by farmers in 1938. To put it in a different way; if it cost \$100 at 1935-39 prices to buy the particular combination of inputs that farmers bought in 1938 (so many hours of labour, so many gallons of gasoline, etc.) then in 1968 it would cost \$387 to buy this same combination of goods (the same number of hours of labour, gallons of gas, etc. as in 1938). It would cost \$387 because, as noted above, the Index for 1968 was 387.

Even persons unacquainted with the complex world of statistics recognize that when agriculture has gone through a "revolution" in technology and management in the past 20 years, an index that is based upon the same combination of goods in 1968 as in 1938 is not going to tell one anything useful about the "cost of production". For one thing the combination will change partly because of changes in relative prices and partly because of changes in technology. Labour, which represented 33.5 per cent of the 1938 expenditures is now less than ten per cent but the Index assumes no change. Since wage rates have increased more rapidly than the price of any other input, to continue to give the same heavy weight to wages makes the Index rise rapidly. For another thing, changes in productivity and in scale of operations mean that the same number of units of an input will produce more in 1968 than in 1938. The examples of improved seed, of fertilizer applied according to soil tests, of non-comparable 1938 and 1968 tillage equipment make the point.

Comparisons between the American and Canadian Indices are almost equally misleading. The weight base for the U.S. Index is 1958 compared with Canada's 1938 and therefore the U.S. Index is a better measure of recent price changes.

All of the above is intended to emphasize the point that the widely used Price Index of Commodities and Services Used by Farmers cannot be equated to "cost of production" and in fact should be suspended or up-dated. However, having debunked the use of the present Index, the Task Force would be totally wrong if it were to leave the impression that there is no cost-price squeeze.

Even after adjustments have been made for the biases in the Index, it is apparent that there has been a more rapid increase in the prices of inputs than of prices of products sold. Now the real questions arise out of comparing changes in productivity of inputs, price of inputs and price of products sold. If average farm productivity per unit of input does not rise faster than the price of inputs, the cost of production will rise, tending to reduce farm income and the competitiveness of Canadian products in world markets.

#### *Competition and Income*

Farmers are well aware that theirs is a highly competitive sector, usually buying from and selling to sectors with only a few large firms. This accounts for the creation of supply and marketing co-operatives and for demands by

farmers for marketing boards. It accounts also for a feeling that agribusiness is either very profitable, very inefficient or both. Whichever of these alternatives is the case, so runs this point of view, farmers suffer in income, because if agribusiness is profitable it is as a result of excessive margins and if it is inefficient it requires large margins just to stay in business. Chapter 11 on Agribusiness discusses these questions in some detail.

Competition among farmers within Canada inevitably means that some are forced out of business. This is sometimes thought to mean that the most efficient producers (i.e. those with the lowest costs<sup>4</sup> of production) will remain in farming and the least efficient will move to other sectors. This is not necessarily the case: it is all a question of alternatives. Farmer A may, through superior management, reduce costs of production below those of Farmer B and earn a net income of \$8,000, compared with B's \$2,000. But if A can earn \$12,000 elsewhere and B can earn only \$1,500, it is B who remains in farming.

The widespread condition of competition among farmers within Canada implies that new techniques which reduce costs will be widely adopted. The early adapters receive additional profits and they expand output thus unintentionally exerting the pressure of lower prices on those who have not adopted the technique. Those who refuse to adopt it or who cannot do so because they lack the skill, credit or appropriate other inputs, suffer lower incomes. As indicated in the previous paragraph, they may or may not move out of farming depending upon their alternative opportunities. Eventually, those with low incomes become poor credit risks and have a reduced call on credit and resources. For this reason, if no other, cost-reducing techniques are adopted.

The adoption of new farming techniques which reduce costs of production has been widely regarded by farm leaders and by many economists, as being fully passed along to consumers in the form of lower prices. This line of reasoning states that farmers may gain but only as consumers, not as producers. The same line of reasoning concludes that because there are only a few large firms in many agribusiness fields, the adoption of new techniques may be postponed by agreement (perhaps tacit and presumably beyond the effective scope of the Combines Investigation Act) if it shows signs of reducing the profits of the sector.

This line of reasoning has several flaws. The argument that a new cost reducing farming technique is passed along to consumers in the form of lower prices seems to assume no international trade. If, in fact, Canadian producers could reduce the cost of producing corn, the effect on domestic prices would be small and it would be foreign producers who would suffer through the loss of a very small share of their very large market. The degree to which the advantages of cost reductions would accrue to Canadian producers or to consumers would vary among products. However, since resources can be

<sup>4</sup> Economists will recognize that here we use the term "costs" in the layman's sense of excluding opportunity costs.

shifted from product to product the tendency would be to shift to those commodities whose prices fell least<sup>5</sup> primarily those exported or in competition with imports.

The previous discussion debunks to a considerable extent the frequently held view that the competitive structure of agriculture works to the advantage of Canadian consumers rather than producers. What it does not do and what would be totally wrong, would be to cast doubt upon the importance to Canadian farmers, of reducing costs in order to be competitive in export markets and against imports. If Canada were self-sufficient in food, international competitiveness would not be very important but Canada has substantial exports and/or imports of almost all farm products. The case for research and extension in production and marketing is sound in principle.

### *Large Farms, Small Farms*

Whether the contrast of this heading is appropriate<sup>6</sup> or not, there seems to be a growing disparity of income among farmers, largely but not entirely based on size. In 1966 Canadian net farm income was \$1,978 million or \$4,594 per farm for the 430,000 farms identified in the census of that year. However, 55 per cent of these farms—with gross sales of under \$5,000—accounted for only 14 per cent of total sales. Yet about one-half of the Canadian farm labour force and 29 per cent of farm capital is used on these farms. Chapter 16 of this Report deals with these people as it discusses the Low Income Sector.

The presence of 100,000 to 150,000 farm families at or below the poverty level<sup>7</sup> in Canada can be explained better by historical accident and technological advance than by perversity of the people themselves or of governments. Historical accident led to the establishment of thousands of families on farms in the older settled parts of Canada where, in the conditions of those times, they provided a satisfactory income and way of life. Changing technology made them marginal and then sub-marginal but the people concerned could not change as fast in their attitudes and capacities as did the economic and technological environment surrounding (and partially submerging) them. It would be improper to criticize such people as perverse in not responding dramatically and at once to change. Dramatic changes are mostly of an inter-generational type, and these, by their nature, take time. They also take patience and understanding and money on the part of those whom historical accident (perhaps a great-grandfather's decision) might have placed on a rocky Nova Scotia farm rather than on a rich \$800-per-acre farm in South-Western Ontario.

<sup>5</sup> If one assumes an equal percentage reduction in the cost of producing all farm commodities, one would expect the greatest increase in production to occur among those with the most elastic demand curves for the Canadian product.

<sup>6</sup> The supposedly contrasting terms "commercial-low income", "viable-poverty" sometimes used are less satisfactory.

<sup>7</sup> See Chapter 16 for estimates and calculations of numbers. The Fifth Annual Review of the Economic Council of Canada estimated that there were 150,000 poverty-level farm families. The estimate in Chapter 16 of this Report is of about 100,000 families.



Some people have applied the label "social problem" to the group of farm families below the poverty line and a contrasting label "economic problem" to the relatively well-off. In themselves such labels may be misleading; certainly the low income folk constitute an "economic problem" just as grave or more so than their more prosperous neighbours. The word "social" has so many uses that it too must be used with care.

Regardless of problems of terminology, it is the Task Force view that the set of programs which would be most desirable for the viable<sup>8</sup> farms would not be appropriate for those below the poverty line. In this Report, most of the chapters deal with policies and programs relating to viable farms, because, after all, it is these farms or modifications of them which will constitute the farm sector of the future.

While the presence of a substantial low income group of farm families is largely the result of historical accident rather than of perversity of individuals or programs, there are a few programs which have helped perpetuate the low income problem. These include land settlement programs which encourage expansion in the northern prairie fringe areas and Laurentian districts in Quebec, credit provisions which have very small maxima and subsidized rates, and deficiency payments such as those for hogs and eggs which are limited to a small maximum quantity per farm.

### *The Family Farm*

The family farm has given valuable service in opening up and settling the country and has been the backbone of rural society. In addition, it has been credited with being the most efficient unit for agricultural production. There is no doubt that interested and dedicated management and work by the operator and his family have wrought wonders. As we have suggested before, perhaps these contributions were part of the "subsidy" given by rural people to agricultural production; a "subsidy" that is now fast declining and bringing increased costs of production despite handsome improvements in labour productivity.

Moreover, while the average farm operator could operate a small farm business at reasonably low costs, given hard work, dedication, long hours, low returns and a little luck, the situation alters with rapid technological change, low and unstable prices, rising input costs and improving off-farm opportunities for members of the farm family. Inflation and the cost-price squeeze imply that individual farm enterprises must continuously expand and improve efficiency in order to maintain or increase incomes. Unfortunately, many farmers have too small earnings to be able to save or to justify borrowing sufficient amounts to finance the required expansion. They fall further behind in the competitive race, even though they make some improvements in productivity. Those who fall behind tend to receive declining real and relative incomes and may either become part of the rural poor with economically "unviable" farms or be forced out of agriculture altogether.

<sup>8</sup> "Viable farm", if it means anything, means a farm which, with current management, produces an income greater than the poverty level of income.

A problem for those farmers who manage to keep ahead in the rat-race of the agricultural revolution, is that as they continually expand and improve their farm enterprises in order to remain competitive; their farm businesses become extremely complicated affairs. Many farm businesses become so large and complex that they strain the capacities of a single individual. It is extremely difficult for one farmer to combine all the many skills required, from production technology (crop and animal husbandry, disease prevention, machinery and building operating and maintenance) through managerial functions (budgeting, accounting, production decisions, labour supervision, financing) to marketing skills (interpreting market outlooks, knowing where and when and how to sell). Therefore it is only natural that one sometimes hears the valid criticism that some farmers' financial difficulties are of their own making; borrowing too much, investing in excessively expensive machinery, planting the wrong crops, failing to keep adequate accounts and so forth.

For years there have been alarmist stories about the impending disappearance of the family farm, of huge land acquisitions in Alberta, of the extremes of vertical integration in Ontario, of large livestock corporations in Manitoba and so forth. Occasionally provincial marketing boards have been created with the express purpose of preventing vertical integration and farm amalgamations.

It appears to the Task Force that the family farm is likely to remain the standard form of production unit in Canadian agriculture, modified constantly, of course, but that there are serious threats to family farming as we know it in some areas of poultry and fruit and vegetable production. These threats arise partly from conventional economic forces and partly from farmers' own actions. The conventional forces are those of large volume, low margin, high risk, technically complicated production units (particularly in broiler production) where there is a tendency to follow the route taken by the sector in the United States in which the "farmer" becomes a "contracting producer" and receiving commissions and bonuses.

The threats that are largely of farmers' own making arise when they, through their marketing boards, push up the price of the farm product to such an extent that processors find their margins squeezed in processing but find real profit potential in production. Under such conditions processors of vegetables move into the production phase and find it unnecessary to contract with family farms for the product.

The requirements to be a successful farmer are changing dramatically. It used to be thought (in some cases still is) that physical strength and endurance, a willingness to work hard and a good down payment on a piece of land were sufficient requirements for success. For some, the farm—the family farm—was a refuge from economic and social pressures of urban living. In spite of generally low levels of formal education, farmers have been able to do a remarkably good job of self education: on-the-job training has been common in farming for generations.

The important qualities—strength, energy, initiative—which were sufficient conditions for success in the past are no longer sufficient. The increased technological and business complexities of the size of farm required for success make increased formal and technical education necessary. The 1961 Census indicated that 70 per cent of farm operators had not completed Grade 9; only one out of 250 had a university degree.

Forty years ago the differences among farmers were fairly small; today there is a farming “elite” of large-scale business-oriented, technically-experienced operators who are increasingly set apart from the rest. The difference between membership in the elite and in the poverty categories is not so much a matter of differences in intelligence and physique as in education and experience.

### *Protection Versus Free Trade*

Governments often tend to give protection and subsidies to those sub-sectors of agriculture which are high cost and to leave unsubsidized those which are low cost, thus tending to move resources from low cost to high cost sectors. This applies not only within agriculture but across various sectors of the economy. Some sectors do not enter directly into international competition, either because they are service industries, or because the commodities produced are expensive to transport or are subject to government regulation.

Agriculture is heavily dependent upon and vulnerable to international trade and competition. With a number of exceptions<sup>9</sup> inputs purchased by farmers or used in agribusiness are free of import tariffs. Where agricultural people rightly feel a sense of injustice is in regard to the high tariffs on many manufactured goods, “voluntary” quotas on Japanese exports to Canada, the National Oil Policy and so forth, all of which either tend to raise Canadian prices and costs or reduce the accessibility of foreign markets for Canadian exports.<sup>10</sup>

It is evident that Canadian agriculture has made the most remarkable adjustments in the face of technological change, foreign protection of agriculture and limited domestic assistance. If the Canadian manufacturing industry has not yet made the adjustments necessary to become internationally competitive, it would seem to be in the best interest of the economy that such adjustments be encouraged by greater international competition.

### *Bargaining power*

The fact that agriculture is competitive in two senses—of there being many small competing producers and of competition with producers in other countries—makes the issue of “bargaining power” particularly relevant to farmers. Essentially “bargaining power” involves the ability to influence prices by

<sup>9</sup> For exceptions see the Appendix to Chapter 4.

<sup>10</sup> As a counter-weight to such feelings of injustice, however, farmers must consider the complete embargo on butter imports, high tariffs on tobacco, poultry, fruits and vegetables and Canadian Wheat Board licensing of wheat, oats and barley imports.

affecting supply. Obviously one hog producer has little bargaining power when his output is perhaps 1/1000 of the quantities purchased by each of the small number of processors to whom he may have access. Under such circumstances bargaining power is unequal. The same applies to purchases of machinery and of course to many non-agricultural acquisitions such as buying groceries, obtaining dental care and so on.

To farmers the importance of bargaining power has increased with the increased commercialization of their operations whereby they buy larger and larger proportions of the inputs required in production. In marketing they find ever fewer and larger firms.

As farmers note the remarkable increases that have occurred in the wages of carpenters, plumbers and other unionized tradesmen, as they watch postal workers strike for and obtain substantial increases without any apparent increase in productivity, as they see university professors' salaries rise without any clear-cut reference to supply and demand and as they see tax concessions to oil companies, subsidies to gold mines, foreign aid loans or grants to purchase Canadian electrical generators and a host of other activities which result in incomes very different from those which would have been determined by the free play of market forces, it is not unusual that farmers should wonder why *their* product prices (and their incomes) should be determined in an atomistic market where, individually, they have no bargaining power.

Action has taken three main forms: one is to attempt to work *within* the market system through farm supply and marketing co-operatives and through teletype selling of products; a second is to work *on* the market through compulsory collective bargaining, output or sales quotas and two-price systems; the third had been to seek *government* intervention and assistance in the form of subsidies. Later chapters in this report deal with programs arising from these three approaches.

### *Food For The Hungry of the World*

Canada has provided considerable food aid, mostly wheat, primarily on a bilateral basis. Contributions made through the World Food Program and as agreed in 1969 under the International Grains Arrangement, were valued at \$333.7 million up to March 1969. Food aid donations tend to increase when stocks are burdensome.

In a research paper prepared for the Task Force, Professor P. J. Thair made the following comments:

An understandably popular goal with farmers is that of feeding the starving millions of the world. The logic is simple. Match up the problem of surpluses in this country, or North America, with the problem of hunger in many parts of Asia, and lo, both problems would be solved. In this way farmers' humanitarian instincts would be fulfilled at the same time as their incomes would be raised.

Unfortunately, instead of being the answer to both problems, such food gifts in perpetuity would be the answer to neither problem.

- (a) The surplus problem at home is part of the overall basic problem of redundancy of human resources in agriculture resulting from advancing technology. Even if we could persuade our taxpayers to make massive gifts of food abroad in perpetuity it would do nothing about this basic problem at home. Three hundred thousand farmers in Canada can produce as much food as five hundred thousand, and gifts of food abroad would do nothing towards making productive, rewarding lives for the other two hundred thousand.
- (b) The hunger problem abroad cannot be solved by gifts of food from the surplus areas. Gifts of food on a temporary relief basis are one thing, but perpetual and permanent transfers of free food are exactly what the starving peoples don't need.

Implementation of policies always has to begin from where you're at; and where these hungry nations are at is in peasant farming. What these people need is to have their own productivity (in food production) raised to the point where overall economic development can occur. Continual imports of free food would wreck the price structure and incentive for their farmers, and permit their population to grow still faster on the free food thereby creating still more hungry people. What these countries need is complete economic development, assisted by temporary, judicious, food relief, and accompanied by population control and education. And when this has been accomplished they may well become competitors of ours as food exporters, rather than importers.

If a man is hungry do you give him a fish, or do you teach him how to fish?

These comments express the view of the Task Force. Feeding the starving, hungry or undernourished is a laudable act. To countries with "Surplus" food stocks the laudible act becomes also an attractive political tool. To farmers with surplus production on their farms or facing depressed prices in home markets because of abundant harvests, the thought of people going without food is frustrating economically and unacceptable morally. Food gifts are unfortunately not the expected panacea. Surpluses at home are the consequence of too many resources in agriculture in specific areas. Gifts are a direct outgrowth of inappropriate distribution of resources. Hunger abroad is not solved by perpetual donations but by overall economic development based on the less developed countries' productivity. Gifts can ruin the price structure and incentives for local farmers and/or can promote population expansion beyond the capacity of local resources to support it. Food aid must be temporary, judicious, genuine relief and accompanied by population control and education if possible; it does not offer a solution to our problem of surplus.

### RECOMMENDATION

1. The Task Force recommends that publication of the Canadian Price Index of Commodities and Services Used by Farmers be suspended until it has been updated to truly reflect the costs of inputs.

## chapter three

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### GOALS

#### INTRODUCTION

Any rational attempt at the formulation and implementation of policy must begin with an examination of the goals sought. As we emphasize in Chapter 11, the operational functions of any government, farmer or agribusiness organization are to anticipate problems and opportunities, plan how to meet them, implement plans and evaluate results. These are "operational functions" but even prior to operations or action must be consideration of the goals or objectives sought.

*Goals* are objectives or ends desired by individuals or groups. *Policies* are decisions that certain goals will be sought following agreed-upon courses of action. *Programs* are specific courses of action, sometimes legislative, designed to achieve these goals and thus be in accord with policy decisions. On the basis of above definitions *agricultural policy* implies both a goal or series of goals and a series of programs which help to achieve those goals.

A study of goals is essential to the ratification of policies and better understanding of programs. The contribution of programs is related to the achievement of particular goals and makes it easier to identify conflicts among goals and among programs. To state explicitly what are one's goals permits a better diagnosis of problems, a clearer classification of priorities and provides a better basis for agreement concerning various problems and policies.

There is a sequence to be followed. If everyone agrees on the goal in a given situation, it is possible to start discussing the most effective way of

achieving it. If there is no agreement on a particular objective then a higher level objective must be agreed upon and negotiations started from that level.

The Task Force accepts the rational realization of each individual's potential as the ultimate goal. This statement is not so general nor so non-wordly as it might at first appear. It implies that in the ultimate analysis it is individuals that count rather than organizations, that governments exist to serve people, not the opposite. It means too, that it is "the whole man" which has to be considered and not just the "political animal", the "economic man", the "social being" or the religious soul. Pursuit of this ultimate ideal occurs in a highly complex society with many different lower order goals in apparent conflict. The conflict is sometimes between political and economic goals, sometimes between social and psychological, and also between two or more economic goals and between different political goals and so on.

This Report is largely oriented toward economic problems and their solution, but not exclusively so. The Task Force is well aware that economic welfare is only one of many goals. There can be no doubt of the importance of social and psychological and other values; as individuals and as groups we know that economic success can by no means be equated with total success. Nevertheless, there is something particularly appropriate in Boulding's position:

The hopes of mankind do not have to be confined to another world. A Human society is conceivable in which the evils of poverty are completely eradicated and in which there is sufficient production of this world's goods to enable everyone to live in health and decency. This is the proximate end toward which economic progress moves. It is not a sufficient end as every religion testifies. But even if the chief end of man is to know God and enjoy Him forever, the enjoyment of goods is surely not inconsistent with the enjoyment of good and God is better served by a race whose capacities are not stinted by inadequate food, clothing, shelter, education or health.<sup>1</sup>

Planning a better agricultural sector in the Canadian economy presupposes change. The criteria for judging change must include all kinds of human values and must include other disciplines as well as economics. At no point should the welfare of individuals be ignored; one must remember that when he is talking about wheat production he is really talking about thousands of individual wheat farmers and when he is talking about "The Treasury" he is referring to taxpayers and when discussing dairy processing he is concerned with 1,100 large and small firms and their employees. The question must be resolved as to how resources can best be used for the optimal development and satisfaction of individual needs and faculties with a minimum of effort and misery. Are the economic benefits to all individuals in society worth the dislocation costs and heartaches to the individuals directly concerned? Does "mobility of labour" for example, have a dark side in terms of family and psychological problems—problems which may result ultimately in considerable economic cost to society?

<sup>1</sup> Boulding, K. E. "Economic progress as a goal of economic life", from *Goals of Economic Life*, edited by Ward Harper, New York, (1954), p. 72.

The Task Force has concentrated its efforts on the pyramid of economic goals (Figure 1) most directly relevant to rural Canada, keeping very much in mind the human values discussed above within a general social framework in order to arrive at a workable and acceptable agricultural policy for the 1970's. The lower level goals will be seen to be means of achieving higher level ones above them. Each level is a goal to the level below it and a means to the level above it. The generally accepted national economic goals set out in the First Report of the Economic Council of Canada (1964) are indicated on the first and second level. The Task Force has added "higher net farm income per capita" on the second level of goals. The third and fourth levels are more selectively concerned with agriculture and rural Canada.

## PYRAMID OF ECONOMIC GOALS

### *First level economic goals*

A high rate of economic growth, indicated as higher national income per capita in Figure 1 is a primary objective which allows the economy to spend more on education, health, long term development and the reduction of poverty. Only higher rates of productivity can lead to higher per capita income. No amount of sleight-of-hand in manipulating prices, wages or statistical data will improve per capita income.

Advancing economies permit a rise in incomes including total farm income. Nevertheless, as incomes rise, farm income falls as a percentage of national income and the farm labour force declines in numbers and as a proportion of the total labour force.

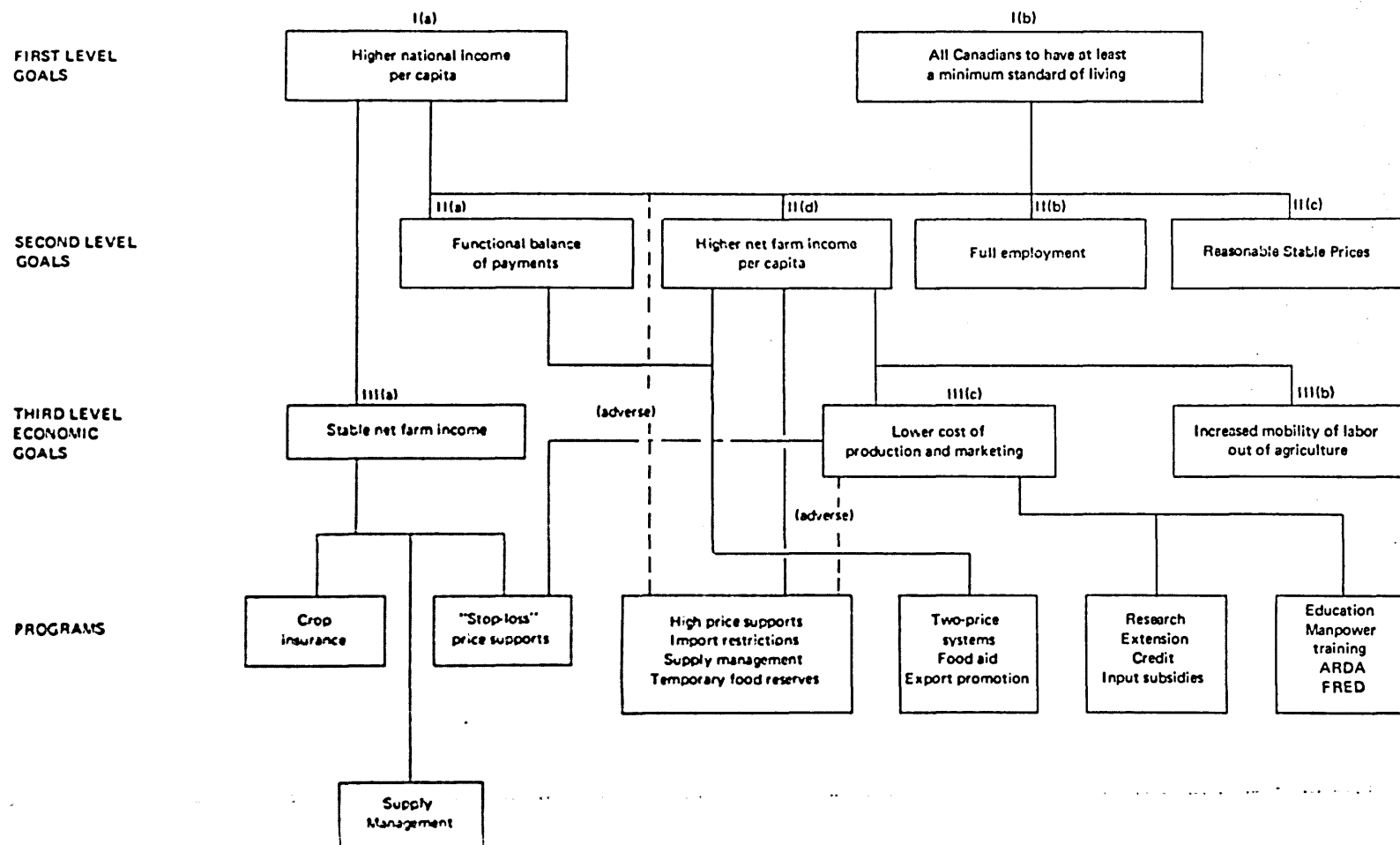
Farmers must be included in the first level goal to *provide all Canadians with a minimum standard of living*. Ensuring that all Canadians can afford at least a specified standard of living implies that incomes received by individuals will not be identical with their productivity as measured in the market place. Progressive income taxes, welfare payments and other measures redistribute income from those with high to those with low incomes. There is a profound and complex issue here in the possible conflict between growth and more equal income distribution.

### *Second level economic goals*

*Canada's balance of payments* must strike an equilibrium if the country's economy is not to suffer from spending far more abroad than it earns from foreign income sources. Programs which expand exports or reduce imports do not automatically help to improve the balance of payments; for example imports could be reduced by producing all our requirements of fresh fruit and vegetables but the resources required to do so could be better employed in other uses. Agricultural exports earn a great deal of foreign exchange since about 25 per cent of Canadian farm output is exported. If agricultural



FIGURE 1 ECONOMIC GOALS



exports are to continue to aid our balance of payments in the future Canadian products must be competitive in world markets. Competitive efficiency in domestic and trade policies are therefore a prerequisite.

#### *Reasonable price stability*

Inflation pilfers purchasing power. Inflation can lead to adverse balance of payments and can reduce economic growth. Farmers have made important contributions to price stability in Canada over the years. Between 1949-67 the Index of the Prices of Farm Products rose only 19 per cent compared with 49 per cent for the Consumer Price Index and 32 per cent for the Wholesale Price Index.

#### *Full employment*

One hundred per cent full employment is impossible. High levels of unemployment such as the seven per cent rate experienced in Canada from 1957-62 means slower economic growth. Some trade-off between full employment and price stability has to be struck.

#### *Higher net farm income per capita*

This goal is particularly relevant since the degree of poverty found by the Economic Council of Canada was much greater in rural Canada<sup>9</sup> than in the rest of the country.

#### *Third level economic goals of import to agriculture*

*Stable net farm incomes* are to be distinguished from higher per capita net farm incomes. Wide fluctuations in price and wide variations in yield cause unstable farm incomes. The income of an individual farmer is even more unstable. Elimination of uncertainty promotes improved planning by individuals, lower costs and greater security for credit. The three-year hog cycle and two-year egg cycle of production are costly, resulting in the build-up of breeding stock, farm buildings and packing plant and cold storage facilities to meet peak production; some of these must be liquidated or become unused capacity when the low point in the production cycle is reached a year or two later.

#### *Increased mobility out of agriculture*

The farm labour force has fallen by 55 per cent between 1946 and 1968 in spite of many unfavourable circumstances. These included unemployment averaging almost seven per cent from 1957 to 1962, no effective manpower training programs or ARDA until a few years ago, perverse immigration policies that gave preference in the early post-war years to farm labour and the attitude of farmer organizations and leaders who were loathe to recognize

<sup>9</sup>The E.C.C. estimated 150,000 out of 275,000 farm families were in the poverty range in 1961. (Fifth annual review E.C.C., Page 109)

the need for a widespread exodus from farming. Increased mobility out of farming helps to achieve a higher per capita net farm income for those left in farming while at the same time obtaining better paid employment for those who leave agriculture. Increased mobility out of agriculture does not necessarily involve a move out of rural communities or regions.

### *Lower cost of production and marketing*

Farmers bid against non-farmers for goods and services to produce commodities. In selling the commodities produced, farmers must compete for consumer dollars in the open market. Farmers are critical of those who urge them to be more efficient when the critics themselves are employed in an industry or profession in which their own efficiency is not subject to competition. However, in a competitive world, those who are satisfied with yesterday's standards of performance cannot expect even yesterday's income. The inexorable pressure of increasing efficiency will not let anyone rest on previous performance.

Agricultural products are sold abroad only if they are competitive in price and can surmount tariffs, variable levies and export subsidies given by other countries. Being competitive entails being efficient. There is no alternative. Canada is in no position to compete with the United States in export subsidies. American farm exports are only three or four times as large as our exports but U.S. national income is 16 times as large as Canada's.

The criterion of efficiency should be applied to all sectors of the economy. When Canada exerts pressure on Japan to impose "voluntary quotas" on her exports of textiles to Canada there tend to be ill-effects on Japanese imports of our farm products and other commodities.

Lower costs contribute to higher per capita net farm income, partly because competition leaves fewer farmers among whom income must be distributed and partly because a good deal of Canadian output is exported or goes to reduce imports. A drastic cut in cost of production of beef and rapeseed would increase exports without proportional reduction in price. Similarly a 25 per cent cut in corn production costs and a doubling of output in Ontario would greatly increase income because prices (based on the U.S. market) would not fall by anything approaching one-quarter.

To whom do the benefits of increased farming efficiency accrue? Some economists would have it that benefits are passed along entirely to consumers. They reason that farming is a highly competitive industry with many producers each attempting to reduce costs. Production is expanded, prices reduced and other farmers are forced to adopt the new techniques. The consumers are the ones who benefit from lower prices. The argument implies that Canadian expenditures on agricultural research, extension, credit and other inputs are part of a "cheap food policy" and of no benefit to farmers. This sweeping generalization does not take into account that for most products Canadian farmers compete with producers elsewhere. If costs can be reduced and on this basis sales expanded, higher incomes accrue to Canadian farmers. Even

for products which do not enter world trade, efficiency will move resources directly or indirectly into production of export or import-competing farm products.<sup>3</sup> If our marketing institutions are not allowed to become excessively rigid, a major expansion in output could be marketed through exports or reduced imports, even though barriers may be raised against our exports in some cases.

The above discussion refers to all of agriculture—to agribusiness and government operations as well as farming. Many sectors of agribusiness have experienced tough competition just as farmers have; for example the number of dairy processors has fallen by about 35 per cent between 1961 and 1969.

There is one respect in which lower production and marketing costs in farming may work against achieving the goal of a minimum standard of living for all Canadians. Those who cannot make the adjustment required within farming and are unable to leave for non-farm employment could find themselves in extreme poverty and worse off than before the dynamic changes took place.

### *Goals in Conflict*

Critics of government policies point to obvious inconsistencies in which policies for the promotion of efficiency and policies of equity and compensation exist side by side and in direct conflict with each other. During the early stage of economic development the aims of consumers and farmers are often complementary and policies may be beneficial to both at the same time. Increased agricultural production may be of direct benefit to both, more food at reasonable prices to consumers, higher production and incomes for farmers and more markets for services and industrial goods. As economies mature, however, the various sectors may find their aims in conflict. Policies to promote increased food production will benefit consumers but may result in lower incomes for farmers, unless other markets outlets (exports) can be found.

Within agriculture, too, one finds livestock feeders wanting lower grain prices in opposition to grain producers and dairymen in opposition to soybean and rapeseed growers and one finds competition among milk processors. The potential for conflict in goals or sub-goals is unlimited.

## SOME POPULAR GOALS

### *The Family Farm*

The "family farm" has long been presented as a goal by politicians and others seeking to win friends among rural folk. Yet it is becoming a more qualified goal. For instance James Bentley, then first vice-president of the

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<sup>3</sup> In technical terms, the comment refers to elasticity of demand for farm products. What is relevant is the elasticity of demand for the *Canadian produced commodity*, including both domestic and foreign markets.

Canadian Federation of Agriculture said in 1959, "The long term objective of agriculture in Canada should be the development of rural communities based upon the maintenance of the family farm". In 1969 Charles Munro of the C.F.A. changed the emphasis to "economically viable family farms". A believer in the amended definition is placed in the same position as the chain store planners, industrial conglomerate organizers and holding company executives. Success can be had only by having fewer units. That is the only way to have family farms capable of a decent income to have fewer of them.

Recognition that the family farm is not a goal in itself but rather a means to higher goals of income, personal fulfilment and various social and cultural values, presents a solution. An examination of the "farm run by a family" can reveal to what extent it was and is a suitable means for achieving the higher objectives quoted. The rational approach is to clearly define the major goals toward which the family farm was supposed to contribute and see how these farm goals can be achieved by other alternative means before it is too late.

### *Efficiency*

The word "efficiency" has become a dirty word to many farmers and their organizations. Economists are accused of holding efficiency as a goal and recommending that farmers be sacrificed on its altar.

The word "efficiency" is a perfectly good word and can have a precise meaning, generally expressed in terms of output related to input. Efficiency is a means to the end of increased levels of income and economic well-being. Increasing efficiency is the source of economic well-being developed from the precarious livelihood of the caveman to the point now where man *knows how* to obtain freedom from want. The aim of increased efficiency is not to make people work *more* but on the contrary to allow them to work *less* and obtain greater reward for a given amount of labour.

Income is closely related to business survival, in farming as in other industries. The irony is that the survival of farms, especially those capable of financing a "way of life", depends upon increased efficiency. Progress cannot be stopped even to reduce the number of casualties caused by technological innovation. Progress is powered by the curiosity and initiative of human nature. As long as anyone is free to use imagination, new labour-saving techniques result. Eventually other farmers must follow suit or suffer sub-standard incomes as they become relatively less efficient.

### *Regional Development*

Within one nation great disparities between regions will become less and less acceptable. Regional development will likely continue to be a special national goal but specific equalization policies, developed to achieve this objective, often bring complaints from those who have to pay most for them. Agriculture lends itself to a limited amount of regional variation in (otherwise) national policies.

### *Cheap Food*

Earlier in this chapter we have noted that there is a widely held belief that greater efficiency by farmers and agribusiness benefits only consumers. This argument is used as the basis for statements that governments' support of research, credit, extension and so forth are all part of a "cheap food policy" which is designed to benefit consumers, not producers. There is some truth in that part of the argument which says that consumers as well as producers benefit from lower costs. But if governments had unequivocal cheap food policies of the kind implied by these cynical critics, we would have no embargoes on butter, no taxes on margarine, no two-price systems on white beans, no offer-to-purchase support prices on skim milk powder.

In a somewhat different sense from that usually implied in the term, a "cheap food" policy is very desirable; in this sense "cheap food" means low cost farm supplies obtained competitively from the cheapest source, low cost farm production, low cost processing and marketing. This kind of cheap food policy makes good sense.

### GOALS, POLICIES AND PROGRAMS

In this Report the goals of Figure 1 have a prominent place. In the context of these goals and current or expected conditions, we examine a host of policies and programs and the institutions involved in them and prescribe amendments which show promise of more effectively achieving these goals. Take, for example, the case of prairie wheat, now in distressing abundance. In Chapter 5 we propose a very short run *Transition Policy* with two component programs—wheat acreage diversion payments and amended delivery quota acreages—all aimed at the specific goal of eliminating the current surplus of wheat and deficit of cash on the Prairies. This goal, however, is a means and prerequisite to another goal—ensuring freer more flexible *New Marketing Guidelines* for the longer run. These in turn serve as means to achieve several of the goals of Figure 1. Other programs and lower order goals must be related to and harmonized with the Transition Policy and New Marketing Guidelines to create an integrated sectoral and then national agricultural policy.

In this Report we have ourselves attempted to follow the kind of scheme discussed in this chapter. We propose a new program here and an amended program there to achieve a desired goal for wheat (short run and then long run), for dairy, for each main product. We build in non-commodity programs and institutions for credit, national marketing boards, poverty-level persons, continental (U.S.-Canadian) markets and so forth. These become inter-related and inter-dependent parts of sectoral policies and then of a national policy for agriculture. Take away any one of the programs and the remainder would be affected. This aggregation and integration we see in tangible form in

Chapter 10. The institutional-administrative-consultative integration of national agricultural policy appears in Section 5 of Chapter 11. Herein lies the framework to clarify responsibility and to trace out the advisory-consultative structure.

## REALITIES

Goals for agriculture must be assessed in the perspective of the realities from which they derived.

1. It is in the interest of the nation, of agribusiness and of farmers, that Canadian farm products be as competitive in price and quality as possible in international markets. The means: (goal)—Lower cost of production and marketing.

2. Agricultural programs which try to serve the interests of commercial farmers and to meet the problems of poverty-level farmers are unlikely to be as successful as separate (though co-ordinated) programs designed to serve each. The means: Task Force position on credit, dairy and the low income sector are examples.

3. Regional disparities exist and will persist. Different policies are required for different regions and different problems. The establishment in 1961 of ARDA was an important step in principle and fact, recognizing regional disparities in Canada. The means: Proposals on credit, dairy, feed grains and low income sector contain possible variations by regions.

4. Farmers are vulnerable to sudden changes in natural conditions and in prices. It is in the national interest as well as in the interest of farmers to reduce instability by favouring the achievement of a stable net farm income. The means: Crop Insurance, stop loss price supports, some forms of supply management and the Prairie Grain Price Stabilization Program, among others.

5. Farmers, being large in number but small in size individually, have very limited bargaining power in the market place, whether buying or selling, unless they are organized. The means: Countervailing power through co-operatives and marketing boards and employing teletype selling, collective bargaining and two price systems.

6. Farm prosperity is important to agribusiness and other sectors of the economy, just as the prosperity of the other sectors is important to farming. Growing interrelations make it imperative for agricultural policy to be linked with national policy, national considerations and national scrutiny.

7. In discussions of farm policy goals are often neglected. Without systematic emphasis on goals, logical choice of programs is difficult and evaluation of existing programs faulty. The remedy lies in the means: Farmers, agribusiness and governments must assume the responsibility for defining goals and to see to it that they are used in appraising programs.

## RECOMMENDATIONS

1. All major stakeholders in agriculture should define their goals explicitly, indicating in quantitative terms wherever possible what it is that they regard as objectives. Such stakeholders include the two main farmer organizations, agricultural colleges, agribusiness trade associations, and other bodies which regard themselves as major stakeholders in agriculture.

2. The Department of Agricultural Industry (now Canada Department of Agriculture) should act as the initial catalyst to request a statement of goals from these organizations. These statements should be of value in creating the National Agricultural Advisory Council (N.A.A.C.) and the various commodity councils proposed in Chapter 11.

3. Thereafter the N.A.A.C. should sponsor periodic conferences on these expressed goals of major stakeholders and on the subject of "management by objectives". The process of definition and specification of goals by the stakeholders in the system must be a conscious and continuous one. Dispersion of interests in agriculture makes it imperative that the N.A.A.C. in consultation with the Department of Agricultural Industry be prime-mover of the recommended system of evaluation of goals and management by objectives.



part two

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COMMODITIES

## chapter four

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### INTERNATIONAL TRADE

#### INTRODUCTION

International trade in agricultural products is of vital importance to the Canadian economy. Agricultural exports account for about 15 per cent of Canada's total exports. These represent an important contribution to sustaining our balance of payments position. More important there are the opportunities to improve this position by enhancing the competitive position of Canadian agriculture and by the use of appropriate trade policy objectives and strategies.

Some countries are motivated by the desire for self-sufficiency, or use restrictions on food imports to handle balance of payments problems. But there are in all countries motivations for greater efficiency, improved resource use and a higher standard of living. It is in such contrasting policy climates that Canada must pursue her objective of expanding exports of farm products.

#### AGRICULTURAL TRADE IN PERSPECTIVE

On the basis of combined imports and exports Canada is the fifth most important trading nation in the world. On a per capita basis this country ranks third in the world. Commodity exports yield about 20 per cent of our national income. Maintenance of a high level of exports is most important to our standard of living and thus trade policy has a high priority on the list of economic and political issues of the nation.

The following tabulation relates the importance of 1966 total exports and agricultural exports in the Canadian economy to that of other selected countries.

TABLE 1  
Relative importance, Agricultural to Total Exports Selected Countries 1966

Country	Exports, U.S. \$ Millions		Exports, % GNP		Exports per Capita U.S. \$	
	Total	Agricultural	Total	Agricultural	Total	Agricultural
Canada.....	9,585	2,050 <sup>1</sup>	17.8	3.8	478.17	102.16
United States.....	29,899	7,125	3.9	0.9	151.80	36.18
Denmark.....	2,402	1,287	21.6	11.6	504.83	270.49
Australia.....	2,950	2,047	11.7	8.1	255.61	177.36
Argentina.....	1,593	1,474	9.8	9.1	70.20	64.95

SOURCE: United Nations, Monthly Bulletin of Statistics Agricultural Trade and F.A.O. Trade Yearbook, Rome 1967.

<sup>1</sup> The apparent discrepancy between this figure and the corresponding one in Table 2 lies in the use by the United Nations of a wider classification of products as "agricultural" than that used by the Task Force.

International trade exists because of differences among countries in natural resources, kinds of labour and levels of skills, technical knowledge and know-how. Generally, international specialization and trade, just like specialization and trade between individuals in any one country, increase productivity and the standard of living of both buyers and sellers. Perfectly free international trade, however does not operate because individual countries use restrictions on trade for internal reasons. The Task Force is very conscious of the historical reasons why Canada erected tariff barriers. Early on tariffs were an instrument of "National Policy" countering the pull of geography to the south. Much of our secondary manufacturing industry owes its start to tariff protection. Several important sectors of our agriculture are also protected by tariff and non-tariff barriers—a fact many in Canada tend to gloss over as they denounce other countries employing similar devices.

The Canadian dairy industry is protected by the requirement of import permits on butter and cheddar cheese and by moderate to high duties on other products, e.g. 3½ cents per pound on fancy cheeses. Importation of wheat, oats and barley is under Canadian Wheat Board import permits; the duty on corn is eight cents per bushel and on mixed feeds five per cent. Fruits and vegetables grown in Canada are under a complex system of seasonal duties and seasonal free trade. There are also anti-dumping procedures and surcharge techniques to meet injuries from imports to mention only a few. In

spite of all these restrictions Canada is still recognized as having fewer restrictions on agricultural trade than almost any developed country.

Tariffs were estimated to cost Canadians one billion dollars per year<sup>1</sup> in higher prices and loss of efficiency as long ago as the mid-1950's. Even in the face of this staggering figure, Canadians recognize that *some* of the benefits from our tariff structure may well be worth the cost paid. Nevertheless in many areas Canadians lose more than they gain by maintaining tariffs. The traditional idea that exports are a blessing and imports a necessary evil result in the view that in international negotiation any reduction in one's own tariff represents a loss, a loss to be offset by a reduction of the tariff of other countries. This notion is frequently in error. The general policy position of the Canadian government should be one of continually initiating and responding to negotiations, (e.g. Kennedy Round) toward mutual lowering of tariff levels and the reduction of non-tariff barriers to international trade.

There are benefits to be gained from international trade but country after country still attempts to solve internal agricultural problems and raise the income of its farmers by restraints on trade. Domestic farm policies and trade policies are becoming ever more closely related. Canada, apparently the most efficient wheat producer in the world,<sup>2</sup> has seen her historical commercial markets in importing countries decline as a consequence of restraints on imports and competition from subsidised exports by other countries. The low cost producers such as Canadian wheat growers and New Zealand butter producers often face the toughest competition in the world—other nations' treasuries. Restrictions on trade have thereby contributed to the slowing down of efficient development of agriculture in the world. One might illustrate from the Canadian dairy industry if Canada faced fewer trade restraints against those products for which she has a clear competitive advantage (wheat, oilseeds, live cattle, cheddar cheese, some fruits and vegetables and some meats) there would be no arguable basis for our 40-year virtual ban on butter imports and our present costly dairy subsidy program. Other agricultural exporting countries have comparable problems and have reacted more strongly in protectionist terms than Canada. Farmers, faced with restricted markets for the product they produce best tend to move into alternate production for which they demand restrictions and/or subsidies. Canadian restrictive policies have developed more as a result of restraints in international trade than any other single factor.

Agricultural industries of efficient producing countries everywhere are confronted by a jungle of laws and regulations (in importing and exporting countries) aimed largely at raising the level of prices and incomes of farmers. The regulations take the form of tariffs, price supports, production-control programs, import quotas, levies, export subsidies, credit for surplus disposal,

<sup>1</sup> J. H. Young, *Canadian Commercial Policy*, Ottawa, The Queen's Printer, 1958 p. 73.

<sup>2</sup> Conference on International Trade and Canadian Agriculture, Ottawa, the Queen's Printer, 1966, pp 109-119.

state trading and international commodity agreements. Throughout the history of post-war trade negotiations, beginning with the General Agreement on Tariffs and Trade (G.A.T.T.) agriculture has been given "special status" originating largely as an American position, a euphemism indicating that it has been largely exempted from such negotiations.

The Gordian knot to be unravelled by Canadian policy makers is whether to pursue similar protective policies at heavy cost to the nation or to let our agriculture suffer and decline. These are the facts of life in the area of agricultural trade and while they may be deplored, most of them will remain with us, some may even become worse in the interval to 1980.

Although Canadian agriculture has considerable protection, the Task Force was frequently and forcibly told that only the farmer and the poor are unprotected while almost all other sectors of the Canadian economy—unionized labour, the professions, manufacturing industries and many service industries (through agreements or through government regulation of prices) are highly protected. Though not fully correct, there is much truth in this argument.

Within agriculture conflicts of interest in trade policy exist between livestock and poultry producers wanting cheaper corn and Ontario feed grain producers seeking reduced U.S. corn imports, between eastern potato growers wanting free trade and western potato growers opposing it, and so on. Trade policy conflicts also exist between agriculture and other economic sectors, as illustrated in the area of inputs purchased from protected industries and in the Canadian use of quotas against some Japanese imports. While there are exceptions, Canadian farmers have improved their productivity sufficiently that they can better compete internationally than can many of our industries. Further initiatives toward lower tariffs are recommended. It would be crippling for agriculture (which exports 25 per cent or more of its output) to propose a program of self-sufficiency.

In spite of all the barriers to trade in agricultural products there has actually been a large increase in the value of agricultural exports from Canada over the past ten years. Table 2 presents data on the 15 major agricultural commodities or commodity export groups which accounted for well over 90 per cent of Canada's agricultural exports in 1967-68<sup>a</sup>. The values presented in Table 2 reflect more accurately the importance of exports to Canadian agriculture than other published series. On the same basis export value figures over the years have been impressive: 1957-58, \$903 million, 1963-64, \$1,424 million and 1967-68, \$1,326 million (calendar year averages).

<sup>a</sup> The catch-all category (other agricultural exports) includes about 200 commodity items as classified in the Dominion Bureau of Statistics *Trade of Canada* and testifies to the diversity of Canada's agricultural exports. The 200 items range all the way from baby chicks to pelleted screenings each with export values in 1968 in excess of \$100,000. The category includes malt and brewer's grains but excludes whiskey, breakfast cereals, pickles, soups and other products which have a very small agricultural content.

TABLE 2

Canada, Major Agricultural Exports, Annual Averages for Calendar Years,  
by Destination, 1957-58, 1963-64, 1967-68

Commodity	U.K.	U.S.A.	E.E.C.	Japan	Others	Total
(thousands of dollars)						
Wheat and Wheat flour						
1957-58.....	162,766	18,072	108,616	58,786	131,168	479,408
1963-64.....	176,131	13,673	122,022	104,473	563,492	979,791
1967-68.....	120,687	1,022	112,639	101,444	435,310	771,100
Oats						
1957-58.....	1,966	14,095	112	—	1,630	17,703
1963-64.....	1,143	3,037	10,306	—	2,434	16,920
1967-68.....	308	2,557	460	103	1,699	5,126
Barley						
1957-58.....	33,288	20,473	5,524	10,529	3,007	72,820
1963-64.....	10,509	9,997	2,244	3,219	11,921	37,889
1967-68.....	8,104	8,493	16,330	14,898	8,474	56,326
Rye						
1957-58.....	136	3,484	1,697	—	425	5,743
1963-64.....	256	1,893	4,405	39	971	7,563
1967-68.....	517	1,011	1,290	4,793	1,505	9,115
Flaxseed						
1957-58.....	19,928	13	23,157	8,357	3,448	54,903
1963-64.....	15,142	5	9,411	12,890	6,163	43,611
1967-68.....	9,429	7	11,654	13,396	6,781	41,267
Rapeseed						
1957-58.....	250	6	11,944	836	171	13,205
1963-64.....	214	189	1,784	9,591	1,377	13,154
1967-68.....	64	143	6,580	25,077	4,524	36,388
Potatoes Fresh						
1957-58.....	1	4,468	6	—	3,429	7,904
1963-64.....	—	3,296	656	—	5,550	9,504
1967-68.....	4	3,769	210	—	6,073	10,056
Apples Fresh						
1957-58.....	2,312	2,928	1,000	—	900	7,141
1963-64.....	4,668	5,323	157	—	1,564	11,712
1967-68.....	3,607	8,705	177	—	2,259	14,748
Seeds for Sowing						
1957-58.....	2,053	6,782	1,467	1,391	594	12,287
1963-64.....	2,286	11,626	1,053	91	1,094	16,148
1967-68.....	1,528	8,281	896	377	2,550	13,632
Tobacco						
1957-58.....	15,385	—	1,838	—	2,999	20,222
1963-64.....	26,112	239	3,012	10	4,091	33,464
1967-68.....	45,880	694	651	—	3,393	50,617
Live animals						
1957-58.....	143	75,666	62	—	1,245	77,116
1963-64.....	65	32,690	769	173	2,622	36,325
1967-68.....	217	39,551	1,468	740	5,802	47,777
Meats and meat products						
1957-58.....	650	42,853	1,338	4	4,969	49,813
1963-64.....	5,058	33,315	1,519	25	7,896	47,815
1967-68.....	5,597	52,299	3,108	289	9,227	70,519

TABLE 2 (conc.)

Commodity	U.K.	U.S.A.	E.E.C.	Japan	Others	Total
(thousands of dollars)						
Hides and skins (agricultural)						
1957-58.....	1,727	3,846	4,363	1,007	1,122	12,064
1963-64.....	567	3,576	4,723	718	3,629	13,213
1967-68.....	712	4,753	5,913	2,690	8,710	22,777
Cheese						
1957-58.....	3,664	245	32	—	99	4,041
1963-64.....	6,836	227	32	—	3,008	10,103
1967-68.....	12,241	707	23	—	776	13,746
Other agricultural exports						
1957-58.....	6,975	36,841	1,700	51	23,262	68,829
1963-64.....	51,763	52,681	11,548	4,623	26,301	146,916
1967-68.....	35,237	60,135	10,292	19,625	37,475	162,764
Total agricultural exports						
1957-58.....	251,244	229,772	162,756	80,961	178,468	903,201
1963-64.....	300,750	171,769	173,641	135,853	642,114	1,424,128
1967-68.....	244,132	192,137	171,691	183,431	534,558	1,325,948

SOURCE: Compiled from *Trade of Canada, Exports by Commodities*, D.B.S., Annual Issues.

### Exports

Canada's three largest agricultural product markets—The United Kingdom, U.S.A. and European Economic Community have hardly grown at all. Increase in exports is almost entirely to Japan and "other" countries. Sales of wheat to Socialist countries and food aid to less developed countries have been of greatest importance here.

Wide year-to-year fluctuations of the magnitude of \$100-300 million are another disturbing feature of the Canadian agricultural export trade. Regional and individual commodity export earnings fluctuate far more than the total, revealing a very vulnerable aspect of the Canadian farm economy.

### Imports

Canada's annual imports of agricultural products in the 1960's surpass \$1,000 million keeping pace with the growth of Gross National Product and of general merchandise imports. Since the Second World War the annual value of agricultural exports is only about one-third larger than imports. The major source of Canadian imports is the United States. From 40 to 45 per cent of our agricultural imports are products not produced in Canada, e.g. citrus and other tropical or semi-tropical fruits, sugar, rubber, tea, coffee, cocoa, rice and cotton. Another group, constituting 15 to 20 per cent of our agricultural imports, are winter produced fruits and vegetables largely from the United States and Mexico.

Trade between Canada and the U.S. in farm products is mutually advantageous, except for occasional dumping and disposal of end-of-U.S. season lots

of fresh fruits and vegetables imported into Canada at distressingly low prices. Canadian crops just coming to market or in the mid-season of marketing are annually exposed to the possibility of an avalanche of imported products.

## POLICIES OF IMPORTING COUNTRIES

Market and political developments in customer countries are part of the scene in which Canadian development of agricultural policy takes place. We briefly state some major foreign policy positions of importance to Canada's agricultural export trade in the coming decade.

### *The European Economic Community*

Agriculture is an important sector in the European Economic Community (France, West Germany, Italy, Netherlands, Belgium and Luxembourg). It accounts for about seven per cent of the value of production in the area and employs about 14 per cent of the Community labour force, an indication that the average level of farm income is about one-half that of non-farm income. Self-sufficiency in food production has risen from an average of about 85 per cent before the Second World War to the present 90 per cent. Agricultural output in 1968 was 31 per cent above 1957-59 levels, an increase mainly from technological improvement revealed in a sharp decline in the farm labour force. The level of self-sufficiency is maintained at high cost because the structure of the farm sector is weak. Almost one-half of all farm holdings are 12 acres or less in size. The fragmentation of holding inhibits the efficient use of modern techniques and wastes the time operators required to move from plot to plot. Marketing institutions and arrangements are also criticized as being inadequate for a modern efficient agricultural industry. One of the two important aspects of the C.A.P. (Common Agricultural Policy) is concerned with the improvement of production efficiency.

The C.A.P. calls for freeing trade in farm products among the six countries and a common regulatory system for imports from all restrictions. There is elaborate machinery for raising Community farm prices by a system of variable import levies and/or by fixed tariffs or a combination of these. The C.A.P. has succeeded in raising internal prices considerably (Table 3). High price supports have in turn led to embarrassing surpluses most of which have been sold abroad with the help of export subsidies. The breakdown of the International Grains Arrangement is in part ascribed to France selling subsidized exports at prices well below minimum levels in the Arrangement.

Central among the institutions in Community agricultural policy is the European Agricultural Guidance and Guarantee Fund (Fond Européen d'Orientation et Garantie Agricole). The revenues of this fund derive in part from the proceeds of variable levies on agricultural product imports from sources outside the E.E.C. and in part from Treasury contributions by the governments of the Six. The 1969-70 F.E.O.G.A. Guidance Section budget is



\$285 million compared with the Guarantee (price support) Section expenditures budgeted at \$2,750 million. In addition, Treasury costs for programs administered individually by the six governments totalled close to five billion dollars in 1967<sup>4</sup>.

The staggering costs involved in the import levies and the governmental appropriations to the F.E.O.G.A. do not represent the full cost of the C.A.P. Table 3 presents data on wholesale prices of selected farm products in the E.E.C. and compares them with world levels. The higher prices are of the order of 17 per cent for rice, 30 to 75 per cent for meat and eggs, 99 per cent for hard wheat and on up to 297 per cent for butter and 338 per cent for sugar. Canadian consumers should note that they are indeed well treated compared with their counterparts in the E.E.C. It has been estimated that "..... indirect costs in terms of higher prices to European (E.E.C.) consumers is valued at \$6.4 billion (annually)" and that "direct budget expenditures for farm price support (are valued) at \$7.7 billion for a total cost of U.S. \$14.1 billion annually."<sup>5</sup> By 1968-69 the operation of the variable levy system and other production incentives led to the creation of burdensome stocks of butter, skim milk powder, wheat and sugar which led Dr. Mansholt, Vice-President of the European Communities Commission, to remark: "by 1970 we will not know what to do with our blessing".

TABLE 3  
E.E.C. Prices and World Market Prices, 1967-68

Commodity	Community Price <sup>1</sup>	World Market Price	Excess of Community Price, %
(All prices in U.S. dollars per 100 lbs.)			
Soft wheat.....	4.88	2.63	86
Hard wheat.....	7.34	3.69	99
Hulled rice.....	8.16	6.97	17
Barley.....	4.12	2.58	60
Maize.....	4.10	2.56	60
White sugar.....	10.16	2.32	338
Beef and veal.....	30.91	17.65	75
Pigs.....	25.78	17.53	47
Poultry.....	32.88	25.00	32
Eggs.....	23.25	17.61	32
Butter.....	85.20	21.48	297
Oilseeds.....	9.18	4.60	100

<sup>1</sup> Data are wholesale prices and include direct support for production of durum wheat, olive oil and oilseeds.

SOURCE: Ibid, Annexe 12. Converted from U.S. Dollars per 100 kg.

Growing surpluses and the ineffectiveness of farm structural adjustments has led the E.E.C. to develop a ten year reform program. Under the new Mansholt Plan, emphasis would be shifted from support of product prices to

<sup>4</sup> Commission des Communautés Européennes, Com. (68) 1000 Annexe 21.

<sup>5</sup> U.S. Secretary of Agriculture Press Release, 27 June 1969.

farm structural adjustments. Incentives to move out of agriculture would be increased by grants, advanced retirement pensions, vocational training and the creation of 80,000 new jobs per year in agricultural areas. The Plan proposes the creation of much larger production units, some consisting of joint ownership and operation by a number of existing producers. An improved structure is expected to produce a still greater output. Therefore, to offset further increases at least partially, the Plan proposes to retire 12.5 million acres out of the 177 million currently in use for farming. The farm labour force would be reduced by half, from ten million to five million by 1980. Average annual cost of the plan for the 1970's will be \$2.5 billion. The plan also makes medium term proposals to deal with the pressing surpluses of butter, skim milk powder and sugar. Among these is a proposed subsidy payment of \$200 per cow slaughtered to be paid to farmers abandoning dairying.

While the Mansholt proposals make reference to the need for dismantling some of the mechanisms of intervention in the market and greater use of price policy to guide production more closely to demand, there is no indication of a reversal of the inward-looking policies of the C.A.P. The Community is expected to try to shift land resources from products now in surplus to temperate-climate products now imported such as feed grains and beef.

The results of the E.E.C. policies have been discouraging both in and outside the Community. The income gap between farm and non-farm families has widened. The Vedel Commission studying French agriculture to 1985 criticized market support as "ineffective and unjust" and stated that structural reforms have "merely accompanied developments which would have occurred in any case".<sup>6</sup> Sorenson and Hathaway have assessed the situation as follows:

Those who believe that a move to a Common Agricultural Policy is likely to solve, or even appreciably alleviate, the low-income problem in E.E.C. agriculture are likely to be disappointed. First, the most prosperous farms are found in northern France and the Low Countries. These are the countries where the greatest increases in farm incomes will occur under the new policies...

It should be noted that no price policy will solve the income problem of most of these low-income farms. Only structural improvement can solve the problem and it will require a continued reduction in farm numbers, which is a long and difficult process. In this sense the E.E.C. policy is not unlike that of the United States; it gives great emphasis to income transfers from non-farm to farm people but the money that is transferred goes predominantly to those who are best off in agriculture, not to the poor.<sup>7</sup>

Monetary policy adjustments in the fall of 1969 struck a body blow to the C.A.P. The devaluation of the French franc forced the "isolation" of the

<sup>6</sup>"Perspective à long terme de l'agriculture française 1968-1985", préparation du 6ième plan, Ministère de l'Agriculture; documentation française 2931, quais Voltaire, Paris 7ième.

<sup>7</sup>Sorenson V. L. and Hathaway D. E.: *The Grain-Livestock Economy and Trade Patterns of the European Economic Community*, Institute of International Agriculture, Michigan State University, 1968, p. 117

French farm market from those of the other five countries, at least until the end of the 1969-70 crop year. The mechanism agreed upon is to adjust French farm prices to the extent of the devaluation. French farmers do not benefit by the increase they normally would have required for their produce due to devaluation. France is also required to impose levies on about 200 farm products exported to other member states and to third countries and grant subsidies on imports from the trading partners. To offset the upward revaluation of the German mark farmers in that country will receive about U.S. \$465 each year over the next four years in the form of increased subsidies.<sup>8</sup>

Of great concern to Canadians is the possible reduction in Canadian wheat exports brought about by increased E.E.C. import restrictions, export subsidies and changes in milling techniques. Task Force estimates show wheat imports by the E.E.C. from Canada at 42 million bushels in 1967-68 and at 40 million in 1980.<sup>9</sup> Proposed taxes on vegetable oils, increased rapeseed production capacity of the Community and free entry of oilseeds from some 20 African countries further reduces prospects for Canadian oilseed exports to the E.E.C.

Imports of processed agricultural products increased by 86 per cent between 1960 and 1967, in spite of E.E.C. efforts toward greater self-sufficiency in agriculture. Canada's exports of those products to the Community, largely falling in the category "other agricultural exports" increased six fold between 1957-58 and 1967-68. Moreover, the E.E.C. processed foods market is expected to continue expanding at a rapid rate. The implications of the C.A.P. to world agricultural trade is disconcerting. The C.A.P. example could encourage other similar trends, disturb the climate of trade negotiations throughout the world and lead to a general erosion of markets for all agricultural exports. The C.A.P. lends strong support to the age old concept of self-sufficiency and leads major trading nations away from a multilateral approach to trade problems, a great disadvantage for Canada. Confronted with the prospect of further unilateral E.E.C. action against Canadian imports, Canada should employ tougher measures than in the past. She might well follow the precedents which have been used by both Britain and the United States against the E.E.C. in similar circumstances: threat of retaliation and where necessary, retaliation.

### *Britain*

Britain is the world's largest single import market for agricultural products. Imports of temperate-climate agricultural products were valued at \$3,873.7 million in 1964 and \$4,099 million in 1968. Imports are being replaced as a matter of policy by domestic production. In an important policy statement

<sup>8</sup> Payment of 1,700 million German marks to be distributed, 10% from F.E.O.G.A. and 90% from West Germany. "Le Monde" Selection Hebdomadaire No. 1099 13-19 novembre, 1969.

<sup>9</sup> Chapter 5, Table 13.

late in 1968, the Minister of Agriculture, Fisheries and Food proposed an additional selective expansion of output to save a further \$414.3 million in foreign exchange by 1972-73. The major reason given for seeking increased domestic production was in the saving of foreign exchange but protection for British farmers does not appear inconsequential. Britain's agricultural production in 1966-67 to 1968-69 was 39 per cent greater than in 1954-55 to 1956-57. Table 4 gives details of the remarkable accomplishments of British agriculture in replacing imports by domestic production. We note also that while the world is struggling with serious grain surplus problems, Britain is going all out in expanding grain production. Food imports in 1960-62 accounted for 31.2 per cent of all British imports and in 1966 for only 26.5 per cent.

Production increases have been stimulated by substantial government assistance: expenditures by the Exchequer on price guarantees and production grants in 1968-69 and 1969-70 were estimated at \$727.6 million and \$823.4 million, compared with estimated net farm incomes of \$1,235.1 million and \$1,336.1 million respectively. Since the technique used to support prices is primarily that of deficiency payments, consumers have generally had the advantage of purchases at or near world prices. This is in contrast to the E.E.C. where price supports are implemented by offers-to-purchase and by high variable import levies. However, Britain does use tariffs for horticultural imports.

Gradually more order has been introduced to British markets through negotiating a series of agreements by which imports are allocated to specified exporting nations. In the case of the Cereals Agreements of 1964, signed bilaterally by Britain and about twenty exporting countries, export suppliers were to share in the growth of the home market. Domestic production increased so much that this provision was embarrassing to Britain and was quietly dropped in the 1967-68 negotiations.

TABLE 4  
Production and Imports of Agricultural Products, United Kingdom, Selected Years

Commodity	1953-54		1961-62		1967-68 <sup>1</sup>	
	Home	Imports	Home	Imports	Home	Imports
(thousands of long tons)						
Wheat.....	2,664	3,853	2,573	4,609	3,836	4,023
Barley.....	2,521	1,255	4,974	531	9,242	180
Oats.....	2,821	82	1,822	42	1,361	20
Maize (corn).....	—	1,413	—	3,938	—	3,608
Total grains <sup>2</sup> .....	8,917	6,632	9,556	9,675	14,568	8,091
Meat.....	1,421	1,000	2,141	1,106	2,376	960
Butter.....	29	288	58	407	41	467

SOURCE: Annual Review and Determination of Guarantees 1968 HMSO Cmnd. 3558.

<sup>1</sup> Forecast

<sup>2</sup> Also includes rye, mixed grain and sorghum.

Import quotas (by countries) were begun for apples at the end of the Second World War, for sugar in 1951, for butter in 1962 and bacon in 1964. Pork and cheese are also covered by voluntary market sharing arrangements.

If Britain and Denmark should join the E.E.C. they would have to move rapidly to adopt the C.A.P. Most estimates indicate that the cost of living in Britain would rise by three to four per cent. Some estimates run as high as seven per cent. Fruits and vegetables from Italy and France would take over the British import market. An enlarged E.E.C. would sharply reduce Canadian cereal and oilseed exports to Britain in the next decade and virtually eliminate cheese and apple exports. Membership in the E.E.C. would also entail substantial adjustments in British agriculture. Under present C.A.P. policies, resources would move toward cereals and away from hogs, poultry and horticultural crops.

Britain will be strongly impelled to press for liberalization of the C.A.P. when she negotiates for entry. In this she will have friends within the United States Community. Such possible development would help Canada to maintain her agricultural exports to Britain and the E.E.C.

In many ways the farm policy of the United States has been similar to that of the E.E.C. in spite of the fact that the U.S. has an agricultural surplus and the E.E.C. a deficit and that agriculture in the United States is only about one-half as large, relative to the American economy as is the case of the E.E.C. American offer-to-purchase support programs in the 1950's led to the accumulation of large stocks which in turn led to Public Law 480 disposal, primarily in less developed countries, to export subsidies and to acreage retirement and more severe acreage allotment programs. An estimated 63 million acres are kept out of production by acreage diversion payments of the U.S. government. It requires little imagination to picture what could happen to world markets and to prices if these acres were to be returned to commercial production. One specialist, Professor Earl Heady, states that with the continued advance of technology and foreseeable markets, it will be necessary to increase land retirement over the decade. He notes the rapid changes in American agriculture in the past 20 years and deduces:

(change) will have greater implications in extending the commercialization of the agricultural industry in making technology and management more sophisticated and responsive to change. Certainly farming will be a competitive industry, partly because the level of managerial skills will rise greatly . . . I predict, by 1980, that all leading commercial farms of any complexity will be using the services of electronic computers to devise annual plans. This system of planning will allow the manager to compare literally hundreds of production alternatives and to select the one most suitable.<sup>10</sup>

Professor Heady's quotation emphasizes the climate of international competition in which Canadian farmers will live. The Task Force has been accused

<sup>10</sup> SOURCE: "U.S. Agriculture in 1980", *C.A.E.D. Report* 27, 1966, p. 18.

of excessive emphasis on the need for efficiency in Canadian agriculture. On the contrary, however, developments in the United States make it hard to be sufficiently emphatic on the consequences for the Canadian economy, of not 'tooling-up' its agricultural production. The United States is by a wide margin the largest agricultural export country in the world. American exports have exceeded \$6 billion per year for the past six years, compared with Canadian agricultural exports of about \$1.3 billion. Table 5 indicates that most American agricultural exports are directly competitive with Canadian i.e. in wheat, feed grains, oilseeds, tobacco and animal products. The similarity of our exports and the potential of U.S. capacity gives Canadians no choice.

From 1965 on there has been substantial change in the policy of the United States with respect to agricultural exports, particularly grains but also on other products. The Food and Agriculture Act of 1965, described as a "milestone in post-war agricultural legislation", provides for price support at or near world levels for the major crops with stabilization and adjustment programs to avoid the accumulation of surpluses. This is in contrast with earlier legislation which placed price supports at higher than world levels. The case of wheat is illustrative. In 1965 the loan rate (price support) level was dropped from \$1.82 to \$1.30 per bushel but millers were required to pay higher prices for all wheat consumed in the United States. Currently the wheat price support level is \$1.25 but a further \$1.31 per bushel is paid on wheat used domestically.<sup>11</sup>

While the United States restricts some farm imports, she continues as a large importer. Food imports were valued at 4.7 billion dollars in 1968. Just over one-half of the commodities imported are also produced in the United States, the other half are tropical products. U.S. imports of "competitive or partly competitive" products have more than doubled in the past twenty years and grew by one billion dollars in the last decade. This would seem to provide an encouraging basis for Canada to participate in mutually advantageous negotiations between the two countries, particularly on livestock and livestock products and on fruits and vegetables. It is very easy to be too critical of U.S. policies on food imports. The above import figures do not describe an exceedingly protectionist country. Since 1934 and continuing through several stages, there have been very substantial reductions in U.S. tariffs on a large number of agricultural products. President Nixon has presented to Congress a proposed trade bill which, if accepted, would give limited tariff cutting power and go much further than the Trade Expansion Act of 1962 in opening the area on non-tariff trade negotiations. It is a matter of urgency that U.S. export subsidy programs be subject to review in G.A.T.T. or in another competent inter-governmental body.

<sup>11</sup> Those who do not adhere to the acreage allotment programs are not eligible for either the price support or the domestic milling payments. Of the \$1.31 per bushel, \$0.75 is paid by millers (and consumers) and \$0.56 by the Government.

TABLE 5  
United States, Agricultural Exports, 1968

Commodity	Value (U.S. \$ million)
Wheat and wheat flour (Bus.).....	1,227
Corn and cornmeal (Bus.).....	753
Soybeans, including oil and cake.....	1,109
Tobacco (pounds).....	494
Fruits and vegetables and preparations.....	457
Animal and animal products.....	625
Other (cotton, etc.).....	1,648
<b>Total.....</b>	<b>6,313</b>

SOURCE: U.S. Foreign Agricultural Trade by Commodities, U.S.D.A., 1969

The foregoing analysis of American trade and agricultural policy suggests that there is scope for negotiation to mutual advantage for expansion of trade in agricultural products between the two countries. The low cost of transportation as well as comparable plant disease and animal health regulations also facilitate trade.

### *Japan*

Japan has become one of Canada's most important markets for agricultural products. Table 2 shows 1967-68 annual exports from Canada to Japan of more than \$183 million, only slightly behind those of the United States and the E.E.C. Wheat and wheat flour exports to Japan have run at or near \$100 million per year for several years. She has become Canada's leading market for rapeseed and flaxseed. O.E.C.D. projections show a decline in Japanese wheat production in the future and rising import requirements from 2.8 million metric tons in 1961-63 to more than five million in 1975 and to 6.4 million in 1985. Only since the end of the Second World War has bread become an important item in the diet of the Japanese. Canada has an advantage in the market by selling quality wheat but the Japanese import market, under firm government control, is competitively divided between Canada, the U.S. and Australia, the three major suppliers.

Japan's per capita meat consumption is only 15 pounds per year but is rising rapidly. With her very limited land supply it will be necessary to import large quantities of feed grains. Thus from average imports of 3.2 million metric tons in 1961-63 O.E.C.D. projects imports of 11.7 million tons for 1975 and 17.7 million in 1985. Canada, already an important supplier, has an opportunity to greatly expand barley exports to Japan, provided our barley is competitively priced. At the same time all Japan's increased meat consumption will not be produced at home. There are limited prospects for Canadian beef and pork exporters to get a footing in the Japanese market, again on a price basis. Japan is presently removing some trade restrictions

and is expected to remove still more. This new trade climate would respond very well to aggressive sales efforts by Canada.

### *The Developing Countries*

Less developed countries have provided an important market for American agricultural exports, almost all subsidized; and only a small market for Canadian exports, primarily wheat. The importance of these markets to Canada, however, lies largely in their ability to absorb surplus U.S. wheat, much of which would otherwise be forced into commercial markets in competition with Canadian wheat, than in the absolute size of Canadian exports to them. New American P. L. 480 regulations will reduce the amount of free food aid and increase the proportion granted on low interest loans.

A more important development however, is the introduction of high yielding wheats and rice and improved technologies which promise to make large deficit areas self-sufficient. One of the most important current trends in economic development assistance is the increased emphasis on speeding the introduction of modern technology, especially new varieties of plants and seeds, and the required accompanying inputs, into agriculture. Despite population increases the performance of the developing countries in producing their own food requirements in the 1970's is expected to be better than in the 1960's. Even so, there will be a continuing place for sizeable food aid shipments, from temperate-zone developed, to tropical developing countries over the next decade. The Task Force recommends that planning be undertaken by the Canadian Government on the question of supplying food aid. The government should be prepared to make food aid commitments for periods up to five years, even though this might involve planning and supporting production to meet such commitments. At the same time the Canadian government must do educational and promotional work in selected developing countries for the purpose of assuring outlets for Canadian products. And it should develop food aid products involving the use of skim milk powder, grains, and other Canadian farm products, whether or not they are in surplus.

### DUMPING, DISTRESS AND INJURY

The issue for Canadian farmers in competing with low priced imports largely relates to imports entering at cyclically or seasonally depressed prices. Horticultural producers are particularly affected, since the harvest season in the United States is earlier than the Canadian season. However the stress is also felt by chicken, turkey broiler, egg and corn producers. Canada's most recent anti-dumping legislation of January 1969 is more effective than earlier anti-dumping legislation which became embroiled with G.A.T.T. regulations besides being slow in application. Canadian farmers complained of delays in getting decisions of their complaints and of the fact that the vast majority of their complaints could not be proven to the satisfaction of government. (The



Canadian government actually applied value for duty only eight times on charges of dumping between 1956 and 1968).

The Canadian government has understandably been very reluctant to impose value for duty since its application could very well result in a setback to delicate Canadian trade negotiations. Such a setback in negotiations could be far more costly to Canada than any possible gain from using arbitrary valuation for duty. The whole area of dumping, injury and threatened injury has led to serious conflicts among the signatories to G.A.T.T., forcing the issue to become an important part of the Kennedy Round negotiations. As a result, an Anti-Dumping Code was agreed and submitted to member governments for ratification. Canada's special interest led it to take a leading role in these negotiations. The Anti-Dumping agreement codifies the determination of dumping and injury; investigation and administrative procedures; and anti-dumping duties and provisional measures. To bring Canadian laws and regulatory procedures into conformity with the Code, the Anti-Dumping Act was proclaimed effective in January 1969 and an Anti-Dumping Tribunal created.

Upon complaint or on the basis of information supplied by government officials, the Deputy Minister of National Revenue can make a preliminary determination of dumping or injury. Cause established, the Deputy refers the case to the Anti-Dumping Tribunal, which must report within 90 days. A provisional duty may be levied or a deposit required from the importer until the findings of the Tribunal are available. Only after the findings have established damage can dumping duties be levied. The dumping duty applied is the difference between the normal value in the export country and the actual export price.

In dealing with products entering Canada at cyclically or seasonally depressed prices but not being dumped, action is taken by Order in Council under the amended Tariff Act. Products entering Canada at a low or distress price can be made subject to a surtax sufficient to remedy the situation. The use of this action is limited to 180 days unless approved by Parliament and is subject to consultation with the G.A.T.T. members which might be affected. Most of the problems in agricultural trade are of a seasonal or cyclical nature and are dealt with outside the context of the Tribunal. Changes in legislation and administrative procedures implied in the Anti-Dumping Act and in the consequential amendments of Canada's tariff legislation provide more effective protection to Canadian farmers without raising the level of protection. Questions of dumping, distress and injury would still apply whether a complicated tariff structure, as now prevails for fruits and vegetables or in a free trade situation.

In spite of the improvement coming from the new legislation, the question of the speed essential for relief against dumping and seasonally low import prices is still not fully available. The question of the U.S. price norms on which the surtax should be applied remains. The use of U.S.D.A. current price quotations in the area of origin of imports has been suggested. Another

method has been to refer to historical price series over a period prior to filing the complaint. An automatic triggering device to determine when and how much action is necessary should be established. It should be possible to negotiate this issue. The U.S. government, signatory to the Code, is surely just as interested as Canada in developing the necessary administrative machinery to provide for the application of meaningful measures of relief against dumping or injury.

Several conclusions may be drawn from the foregoing review of the form and direction of Canada's trade in farm products and the domestic and trade policies of countries which import Canadian farm products or which compete with Canadian exports in third country markets.

1. Canadian farm exports are of such a size relative to Canadian production that it is futile to consider a policy of self-sufficiency and withdrawal from world markets.

2. Continued participation in international trade demands competitive prices and therefore lower cost production.

3. The United States, Britain and E.E.C. have huge programs which support farm incomes and in the case of the latter to encourage output. The United States and the E.E.C. support their agriculture by export subsidies. Similar programs would be far more costly in Canada because agricultural exports are a far greater proportion of national income than in the other countries.

4. A dilemma facing Canada is whether to follow (partially, and as much as we can afford) the subsidy and protection policies of others or to let the farm sector take the brunt? The dilemma is more acute if the subsidy and protection policies of other countries are judged to be ill-conceived and not even in their own best interests.

## COMMERCIAL POLICY CONSTRAINTS

Compilation of information on tariffs, licensing arrangements, exchange controls, sanitary regulations and other documentation activities of government are very useful to exporters and prospective exporters. Documentation activities, however, do not create trade and governments now take a more active role in trade promotion by establishing more contacts with their exporters, with importers of Canadian products and by bringing possible exporters and importers together. Specialists in commodity promotion e.g. in potatoes and pork products should be given particular assignments to expand sales of agricultural products. Trade fairs assisted by governments are a valuable means of trade promotion. Japan uses a floating trade fair which has visited more than 100 large trading centres. The United States successfully developed a wheat market by using mobile bakeries to encourage the Japanese to become bread eaters.

Since the Second World War, export insurance and export credit have been widely used. Canada employs the Export Development Corporation (E.D.C.)

in this work. An international convention governing some of these activities has been established to prevent abuses arising when extreme competition exists in the provision of these services. The insurance policy of the E.D.C. predecessor, the Export Credit Insurance Corporation, was "excessively conservative" and interest rates charged by the corporation were higher than those charged in competing countries. The Export Development Corporation, which has assumed all functions of E.C.I.C. will expand operations and facilitate borrowing at lower interest rates. Canada must be fully competitive to support farm exports, even in the face of the danger of substituting some non-commercial sales for commercial.

During the 1970's negotiations respecting agricultural trade are expected to become negotiations respecting domestic agricultural policies of both importing and exporting countries. This will likely include the question of using export subsidies. However, there is understandable reluctance, and in most situations, an outright refusal to place domestic farm policies on the negotiating table. The failure of the Kennedy Round negotiations respecting agriculture is a case in point. However, attempts to include national agricultural policies in international negotiations cannot be abandoned. Canada must continue initiatives to encourage negotiation of agricultural trade multilaterally. Failing success, Canada must undertake similar initiatives on the basis of smaller groups of countries and if necessary, on a bilateral basis. She must in turn be prepared to discriminate in both agricultural and non-agricultural trade against countries which impose further restrictions against Canadian agricultural exports. At the same time governments must take a fresh look at the use of export subsidies on food. She faces the challenge of export subsidized products of other exporters in markets where Canada has an already established position. Further an indication of Canada's readiness to compete in export subsidization would help to moderate the use of this practice by competitors. The use of export subsidies in the contrast of market development is increasingly acceptable. Canada should consider its use, for instance, in tobacco exports.

The Task Force contends trade in agricultural products can be expanded by implicitly bargaining away some features of domestic agricultural protection. Fruitful efforts will result only when all parties approach the bargaining table with a shelf of concessions it is prepared to make in the trade-off process. The main point is that in tackling this bargaining process Canadian negotiators have the broadest possible leverage to make trade gains for our agricultural products. When very substantial gains to agricultural industries, consumers and national treasuries resulting from a more rational pattern of resource use are widely known, governments may be pushed toward rationalization of agricultural programs. Canada should work toward this end.

The foregoing assessment of the important factors bearing on Canada's prospective international trade opportunities in agricultural products can best

be placed in perspective by a quote of Mr. J. H. Richter of the Staff of the International Federation of Agricultural Producers. He states,

One might even say, paradoxically, that in the relatively near future, the growth of commercial agricultural trade is likely to be hampered either by the growth of protection or by the growth of productivity. Clearly, the world's choice must be for the latter. But in any case, it will be the better part of wisdom for all agricultural exporting countries of the temperate zone to face this prospect realistically in their negotiations as well as in their international and domestic policies.<sup>12</sup>

There are positive and constructive initiatives which Canada can and must take in the international trade arena—consistent with the above statement. Most important is in providing leadership in re-structuring G.A.T.T. so that it can constructively discuss non-tariff barriers, price supports, and the relation between monetary and trade policies.

## RECOMMENDATIONS

1. The Canadian Government must take further initiatives (as opposed to merely reacting to others' proposals) in attempting to reduce tariffs on agricultural products. What is essential here is a re-appraisal of the old notion, that every tariff cut represents a loss and is to be bargained against similar cuts (assumed to be losses) by others. Canada must assert strong leadership in the direction of securing a resumption of trade discussions on a multilateral basis and insist on including agriculture. Failing success, Canada must be willing to join trade arrangements with small groups of nations, including where necessary, bilateral trade treaties (e.g. with the United States). Further, Canada must in international negotiations show a readiness to discriminate in agricultural and non-agricultural commodities against countries or blocs which impose restrictions on Canadian agricultural exports.

2. The primary specific trade goal of Canada should be to negotiate a free trade Continental Market with the United States for livestock and livestock products, feed grains, oilseeds, potatoes and some fruits and vegetables.

3. Government must be willing to subject other sectors of the Canadian economy to increased foreign competition. For example the so-called "voluntary quotas" on Japanese textiles and other manufactures adversely affect the willingness and ability of the Japanese to purchase Canadian grains and meat. If other sectors of the Canadian economy have not made the adjustments necessary to become competitive (as most of agriculture has), then it is time they were helped to do so by the pressure of competition.

4. Canadian agricultural development and farm incomes are adversely affected by tariffs on farm inputs and on inputs used in the agricultural processing industries. These duties should be removed in the interest of

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<sup>12</sup> "World Agriculture", Washington, I.F.A.P., Vol. 18 No. 3, 1969 p. 18.

making Canadian farm products more competitive, particularly in an international context. Appendix 1 to this chapter lists the more important input items on which such action should be taken.

5. Canada must experiment with pricing strategies aimed at meeting dumping of products by its competitors, e.g. 1968 and 1969 barley exports by France to Japan. This might be the best possible means to restore international competition to a commercial basis.

6. Increased trade promotion and trade development activities are required. Support and encouragement must be given for joint endeavours by farm groups, by the federal and provincial governments, by trade associations and private business.

7. Export credit and export insurance. The Export Development Corporation must be fully competitive, in its time horizons and interest rates, with similar bodies in other countries. Credit terms are often as crucial to sales as are prices.

8. Canadian grades and grading must be improved on many agricultural commodities. Failure to move to protein grading has resulted in loss of wheat sales.

9. Emphasis must be placed on continuity of supply for export markets. Because export markets are residual markets for many products and often yield a lower net price than the home market, there has been a tendency to turn to them only in emergencies, a poor way to create a market for exports. British Columbia apples, controlled by a provincial marketing board present a sharp contrast to tobacco, winter wheat and white beans also marketed by provincial marketing boards.

10. Plan food aid to less developed countries. While the Task Force welcomes the break-through in the application of newly-developed grains in the developing countries, substantial food aid requirements will continue for many years. Canada's contribution to food aid needs should be carefully planned and involve commitments of specific quantities of specific foods for periods up to five years.

11. Market research must be greatly expanded. The research should reveal (1) size of markets; (2) quality of products demanded; (3) how markets are changing; and (4) market strategies for Canadian firms. Through research, government must attempt to anticipate international trade developments before they occur, pass along warnings and advise and give assistance to farmers so that they might take advantage of or avoid the impacts of such developments. The Task Force has observed that there is insufficient "forward looking" research and that there is a gap between those undertaking the research and the farmers who make production decisions.

12. Domestic farm policy must be made consistent with changing international developments.

# APPENDIX 1

## Input Items on Which Existing Canadian Import Duties Should Be Removed

Tariff Item No.	Description	Most Favoured Nation Per Cent
6905-1	Cattle food.....	10
6921-1	Feeds n.o.p.....	5
6922-1	Bran, shorts.....	5
6923-1	Dried beet pulp.....	5
6924-1	Brewer's and distiller's grain.....	5
6925-1	Grain hulls.....	5
6926-1	Flaxseed screening.....	5
6927-1	Screening n.o.p.....	5
6928	By-products from milling of grain.....	5
40112-1	Wire fencing, mesh, netting, screening.....	12½
42700-1	Machines, n.o.p. fans, conveyors, feed mixers etc.....	17½
44603-1	Manufactures of iron and steel, n.o.p. poultry, waterers and feeders, wire gates, haying equipment, milk parlor stalls, etc.....	17½
44706-1	Water pumps, hand or power.....	17½
44725-1	Well points, well screens, well strainers.....	7½
17900-1	Price tags, etc.....	20
19300-1	Paper sacks or bags.....	15
19900-3	Paper milk bottle caps.....	17½
19910-1	Containers from fibreboard.....	17½
19911-1	Fibreboard shipping containers.....	15
19950-1	Wire reinforced paper tape for packaging of fruit, vegetables or other farm products.....	10
40946-1	Pasteurizers for dairying purposes.....	15
40952-1	Milk evaporators.....	7½
40960-1	Materials and parts for silo construction.....	10
41800-1	Machinery to manufacture poultry feed and fertilizers from fish.....	10
42732-1	Machinery for dairying purposes, power churns, cookers, ice cream mixers, etc.....	15
42733-1	Machinery for dairying purposes, power filters and cappers, power washers, ice-breaking machinery, etc.....	7½
43105-1	Shovels and spades.....	15
43110-1	Hoes, forks.....	15
43205-1	Dairy, hollow ware.....	17½
43215-1	Tinplate containers for canning foods.....	17½
54325-1	Bags of jute, hemp, linen or sisal.....	12½
66330	Iodized mineral salts for feed.....	5
66335	Fish meal.....	10
66340	Oyster shell for poultry.....	5

SOURCE: Trade of Canada, Imports by Commodities, D.B.S December 1968.