



FACULTAD
DE CIENCIAS
ECONÓMICAS



Universidad
Nacional
de Córdoba

REPOSITORIO DIGITAL UNIVERSITARIO (RDU-UNC)

**The new canadian agricultural policy. In search for a
more prosperous, competitive, and innovative
agricultural sector**

Rinaldo Antonio Colomé, Jorge Darío Freitag, Virginia Martinelli

Artículo publicado en Anales de Asociación Argentina de Economía Política
Noviembre 2013 – ISSN 1852-0022



Esta obra está bajo una [Licencia Creative Commons Atribución-NoComercial-CompartirIgual
4.0 Internacional](https://creativecommons.org/licenses/by-nc-sa/4.0/)



ASOCIACION ARGENTINA
DE ECONOMIA POLITICA

ANALES | ASOCIACION ARGENTINA DE ECONOMIA POLITICA

XLVIII Reunión Anual

Noviembre de 2013

ISSN 1852-0022

ISBN 978-987-28590-1-5

THE NEW CANADIAN AGRICULTURAL POLICY.
IN SEARCH FOR A MORE PROSPEROUS,
COMPETITIVE, AND INNOVATIVE
AGRICULTURAL SECTOR

Colomé Rinaldo
Freitag Jorge
Martinelli Virginia

The New Canadian Agricultural Policy. In Search for a more Prosperous, Competitive, and Innovative Agricultural Sector

Rinaldo Antonio Colomé[♦]

Whith the collaboration of:

Jorge Darío Freitag[♦]

Virginia Martinelli[♦]

Abstract

The Growing Forward Framework Agreement (GFFA) laid the groundwork for coordinated federal-provincial-territorial (FPT) action over five years (2008 to 2012) to help Canadian agriculture become more prosperous, competitive, and innovative.

Canada and OECD countries have reduced their agricultural subsidies and replaced the most distorting support policies in PSEs for less distorting ones, during years 1986-2011. The GFFA has set as its main objective to help Canadian agriculture become more prosperous, competitive, and innovative. Analyzed indicators suggest that there has been progress in this direction. To persevere in it Agriculture and Agri-Food Canada is already preparing "Growing Forward 2" for years 2013-2018.

Keywords: Canadian Agricultural Policy, Growing Forward, prosperous, competitive, innovative.

Resumen

El Acuerdo Marco "Growing Forward" (AMGF) sentó las bases para la acción coordinada federal-provincial-territorial (FPT) 2008-2012 para ayudar a la agricultura canadiense sea más próspera, competitiva e innovadora.

Canadá y los países de la OCDE han reducido entre 1986-2011 sus subsidios agrícolas y reemplazado los más distorsivos por otros menos distorsivos, El AMGF ha fijado como objetivo principal ayudar a la agricultura canadiense sea más próspera, competitiva e innovadora. Los indicadores analizados sugieren que ha habido progreso en esta dirección. Para perseverar en ella Agriculture and Agri-Food Canada ya se está preparando el "Growing Forward 2" para 2013-2018.

Palabras clave: Política agrícola canadiense, Growing Forward, próspera, competitiva, innovadora.

JEL

Classification:

Q18,

N50

[♦] Instituto de Economía y Finanzas, Facultad de Ciencias Económicas, Universidad Nacional de Córdoba and Academia Nacional de Ciencias Económicas; racolome@eco.unc.edu.ar racolome@hotmail.com ; Victorino Rodríguez 1432, 5009 Córdoba, Argentina. Phone: +54 351-4813007. Cel phone: +54 351-6606072. Fax: +54 351-4334436.

[♦] Instituto de Economía y Finanzas, Facultad de Ciencias Económicas, Universidad Nacional de Córdoba, dario_freitag@hotmail.com

[♦] Instituto de Economía y Finanzas, Facultad de Ciencias Económicas, Universidad Nacional de Córdoba, viky_martinelli@hotmail.com

The New Canadian Agricultural Policy. In Search for a more Prosperous, Competitive, and Innovative Agricultural Sector¹.

I. Introduction

1. About the Problem

In a previous paper², the Canadian Agricultural Policy was analyzed specially in comparison with that of Argentina and OECD countries. The principal instrument used to achieve these goals was the Producer Support Estimate (PSE), estimated annually by the OECD. The paper showed the great effort made by Canadian authorities to reduce agricultural support, especially the most distorting ones. The conclusion is that the main lesson that Argentina should learn from Canada is that it is not possible to despoil agricultural sector for a long time. Another lesson is that agricultural policy in Canada is tailored jointly by federal, provincial and territorial governments, and financed also by the three levels of governments, usually in a proportion of 60 % by the federal government and 40 for provincial and territorial governments.

In the Introduction of that cited paper we stated: "Canada is one of the most important agricultural countries of the world, despite its cold weather. This shows that its producers are efficient, but could also be suggesting that the economic policy of Canada and, especially, its agricultural policy have been appropriate to achieve its goals". The research work for that paper was in 2004. After eight years several important changes have occurred in Canadian Agricultural Policy; new policies searching special objectives have been approved, with the name of *Growing Forward Framework Agreement*.

"The Growing Forward Framework Agreement lays the groundwork for coordinated federal-provincial-territorial (FPT) action over five years (2008 to 2012) to help the sector become more prosperous, competitive, and innovative. The agreement builds on the vision, principles, and policy outcomes agreed to by Ministers in Whistler in June 2007, and gives the details of national cost-shared initiatives, as well as complementary federal initiatives, that will help to achieve the outcomes. The agreement also contains the details of the new Business Risk Management (BRM) program suite launched on April 1, 2008. The *Growing Forward Framework Agreement* have superseded the *Federal-Provincial-Territorial Framework Agreement on Agricultural and Agri-Food Policy for the Twenty-First Century* (also known as the *APF Framework Agreement*), which was signed in June 2002 at Halifax, NS.

To support the new framework, FPT governments are investing \$1.3 billion over 5 years in new *Growing Forward* programs - an additional \$330 million over the Agricultural Policy Framework (APF). The funding is cost-shared on a 60:40 basis between the Government of Canada and provincial and territorial governments"³.

2. Objectives

The general objective of this paper is to analyze the Growing Forward Framework Agreement pointing out the main characteristics of this new Canadian Agricultural Policy.

The specifics objectives are:

¹ In fulfillment of the requirements for the FRP (Canadian Studies Faculty Research Program, Foreign Affairs Canada).

² Colomé, Rinaldo A. (2006), "Canadian Agricultural Policy. A Lessons for Argentina", *ANALES* de la XXXVII Reunión Anual de la Asociación Argentina de Economía Agraria, Villa Giardino, Córdoba, 18 al 26 de Octubre.

³ Growing Forward Framework Agreement, Executive Summary, Agriculture and Agri-Food Canada, www.agr.gc.ca

-To look forward how these policies will drive Canadian Agriculture to “prosperity, competitiveness, and innovation”.

-To analyze levels at which Canadian Governments (FPT) subsidize Canadian agriculture in comparison with other OECD countries, and see if these levels have been reduced in latest years, especially since *Growing Forward Framework Agreement* have been launched.

3. Thesis

The thesis is that “The Growing Forward Framework Agreement” will drive the Canadian Agriculture to be more prosperous, competitive, and innovative Sector.

4. Methodology

In order to achieve the general objective The Growing Forward Framework Agreement is described pointing out its main characteristics. This is made trying to achieve –at the same time- the first specific objective. In other words, to evaluate the measures the new agricultural policy will drive the Canadian Agriculture to prosperity, competitiveness, and innovation”.

The last specific objective is achieved by comparing the Canadian agricultural subsidies with those of the OECD countries, through the use of PSEs.

The paper is organized as follows: in section II the Growing Forward Framework Agreement is described in searching for the measures that will the Canadian agricultural sector be driven to prosperity, competitiveness, and innovation. Section III compares the Canadian agricultural subsidies with those of the OECD countries, through the use of PSEs, the Producer Nominal Protection Coefficient (NPC), and the Producer Nominal Assistance Coefficient (NAC). In Section IV some specific Canadian agricultural policies are analyzed., and in Section V some conclusions and considerations are made.

II. Growing Forward Framework Agreement

1. Structure

The Growing Forward Framework Agreement is composed by three parts: Part I contains general provisions for the framework, including the policy architecture (Part IA). This architecture builds on the fundamental vision, principles, and outcomes agreed to by FPT Ministers in June 2007 at Whistler, BC:

"Our common vision is for a profitable and innovative agriculture, agri-food and agri-based products industry that seizes opportunities in responding to market demands and contributes to the health and well-being of Canadians."⁴

To achieve this vision, FPT Ministers agreed to put into place policies and programs to achieve three fundamental, strategic outcomes:

“A Competitive and Innovative Sector:

- Expanding the sector's capacity to innovate by: offering support for commercialization and innovation; developing a bio-economy strategy; and creating science clusters to deal with priority areas.
- Improving governments' regulatory performance by: improving the approval processes for veterinary drugs, novel foods, and food additives; and offering science and other support to help the industry generate approvals for health claims and new minor-use pesticide products.
- Facilitating industry success in global and domestic markets through: support for industry-led marketing strategies; a Canada branding strategy; market intelligence and services for exporters; and action to maintain and improve market access.
- Enhancing the sector's capacity to adapt and succeed by helping entrepreneurs evaluate their performance and plan the futures of their businesses.

⁴ Agriculture and Agri-Food Canada (2012) *Growing Forward Framework Agreement Executive Summary*”, canada.gc.ca

A Sector that Contributes to Society's Priorities:

- Enhancing food safety through support for, and recognition of, food-safety systems; and by facilitating producer adoption of systems where the market demands it.
- Enhancing environmental performance through: research into agricultural practices that improve environmental performance; support for the adoption of management practices that create benefits or reduce risk in priority areas; the dissemination of knowledge and information on environmentally-sound practices; and measurement of the sector's environmental performance.

A Sector that is Proactive in Managing Risks:

Preventing and preparing for risk through an animal and plant biosecurity strategy; and by implementing biosecurity and traceability systems.

Bilateral agreements

The multilateral framework agreement will be complemented by bilateral agreements between the federal government and each province or territory. These bilateral agreements will lay out in greater detail how national and PT programming will work within each jurisdiction to meet the needs of farmers and other industry stakeholders. Full implementation of the new framework will take place on or before April 1, 2009⁵

2. Analysis

The structure presented in II.1 is only the outline of this agreement, which through 95 pages describes the policies, responsibilities of each jurisdiction, and the articulations to achieve the stated objectives. It is not an object of this paper to analyze the plan as a whole; this is something impossible. Only a brief reference to what is considered as the ultimate objective from the economic point of view will be made; that is, to obtain a competitive and innovative sector (the first outcome to achieve), but fundamentally to analyze the levels of subsidization through the PSEs.

The first outcome is to achieve a competitive and innovative sector. Accordingly with economic theory, competitiveness is getting –among other political measures- lowering costs. This will be possible –among other things- discovering and introducing innovation, which will result in greater production.

With respect specifically to competition, the economic theory sets the conditions required to characterize a market, and is possible to define three competitive markets: pure competition, perfect competition, and monopolistic competition. However, what the Growing Forward Framework Agreement pursues is the competitiveness of the agriculture, agri-food and agri-based products industries, that is to say, the agriculture and agri-food sector, and this belongs to the concept of national competitive advantage.

In respect with this, Michael Porter stated: “There was no accepted definition of competitiveness...however, I developed a strong conviction that the national environment does play a central role in the competitive success of firms...”⁶. “In this book, I have set out to make my contribution to understanding the competitive advantages of nations”⁷.

“Why does a nation achieve international success in a particular industry?. The answer lies in four broad attributes of a nation that shape the environment in which local firms compete that promote or impede the creation of competitive advantage:

1. Factor conditions. The nation's position in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry.
2. Demand conditions. The nature of home demand for the industry's product or service.
3. Related and supporting industries. The presence or absence in the nation of supplier industries and related industries that are internationally competitive.

⁵ Agriculture and Agri-Food Canada (2012) Growing Forward Framework Agreement Executive Summary”, canada.gc.ca

⁶ Porter, Michael E. (1990), The Competitive Advantage of Nations, The Free Press. A division of Macmillan, Inc., New York, USA, p. xii (after have been the President's Commission on Industrial Competitiveness of the United States of America).

⁷ Porter, Michael E. (1990), op. cit., p.xii.

4. Firm strategy, structure, and rivalry. The conditions in the nation governing how companies are created, organized, and managed, and the nature of domestic rivalry”⁸
It is not possible to analyses in this paper if Canada meets these four conditions to shape the environment in which local firms of agriculture, agri-food and agri-based products industries could create or at present have increased competitive advantages. However, since 2005, the World Economic Forum has based its competitiveness analysis on the Global Competitiveness Index (GCI), a highly comprehensive index, which captures the microeconomic and macroeconomic foundations of national competitiveness. In this index the Canada’s economy is one of the most competitive in the world. For the year 2007-2008 Canada was 13 in the ranking with 5.34 over 7 points, while Argentina was in the position 85, with 3.87. For year 2011-2012 Canada was 14 with 5.27 point (over 144 economies), while Argentina was in position 94, also with 3.87. It is possible to assume that these conditions exists or can be developed to achieve a competitive and innovative sector.

III. Canadian agricultural subsidies in comparison with those of the OECD countries.

1. World Agricultural Support Policies

Agricultural support policies remain a topic of discussion in negotiations and discussions rounds led by the WTO. To consider the magnitude of the issue, it is worth mentioning that in 2011 only the OECD countries spent U\$S 252.424 million dollars.

The principal indicator to measure the level of subsidization is through the so-called “PSE’s”. “The use of the Producer Subsidy Equivalent (PSE) method to estimate assistance to agriculture was initially developed by Professor Tim Josling for the Food and Agriculture Organization of the UN in the early 1970’s, although the theoretical basis may be found in the work of, in particular, Max Corden. It was adopted by the Organization for Economic Co-operation and Development (OECD) in implementing the 1982 Ministerial Trade Mandate.” (Cahill and Legg, 1989-90)⁹.

The “subsidy equivalent” was initially defined as “the monetary value that would be required to compensate farmers for the loss of income resulting from the removal of a given policy measure”. That indicator estimated the monetary value of transfers associated with all policy measures affecting agriculture, grouped into four main categories: 1) Market Price Support, 2) Direct Payments, 3) Reduction of Input Costs, and 4) General Services. However, the current OECD indicator corresponds to a broader definition. It measures more than the “subsidy element”, since it includes implicit as well as explicit payments. Therefore, in order to make the names of the indicators reflect as closely as possible the underlining definitions and to make them consistent with one another, OECD countries agreed to replace “subsidy equivalent” by “support estimate”¹⁰. Thus the abbreviation PSE stands now for “Producer Support Estimate”. More precisely, Producer Support Estimate is “an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm-gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on farm production or income” (OECD 2005a). While the Percentage PSE (%PSE) is the PSE transfers as a share of gross farm receipts (including support). The main components of the PSE according to the last revision are:

- Support based on commodity output (Market Price Support and Payments based on output)
- Payments based on input use.

⁸ Porter, Michael E. (1990), op. cit., p.71.

⁹ Cahill, C. and W. Legg (1989-90), “Estimation of agricultural assistance using producer and consumer subsidy equivalents: Theory and Practice”, OECD Economic Studies, No. 13, OECD, Paris.

¹⁰ OECD (2005a)

- Payments based on current area planted (A) /animal numbers (AN) / Receipts (R) / Income (I) production required.
- Payments based on non-current A/ AN/R/I, production required.
- Payments based on non-current A/ AN/R/I, production not required.
- Payments based on non-commodity criteria.
- Miscellaneous.

Since GATT's Uruguay Round Agreement on Agriculture¹¹, the OECD is responsible for estimating agricultural supports, measuring and publishing the PSEs for OECD countries.

As it is usual with an aggregated indicator such as the PSE, this measure has been subject to criticism in economic literature, and more recently in the political debate over world trade.

The three central questions raised by the critics (as Tangermann, 2005, sees it) are:

1. The PSE does not reflect properly changes in agricultural policies and reform efforts;
2. World market conditions distort the PSE;
3. Actual world market prices are not a proper reference point for estimating the PSE.

These three issues are addressed as factors that in one way or another make the PSE deliver misleading information¹². In an extensive, yet simple manner, Tangermann rejects these critics. He basically argues that the PSE is a good indicator to monitor the nature and evolution of agricultural policies, though stressing the importance of not only analyzing its level, but also its composition. In this paper this recommendation is follows.

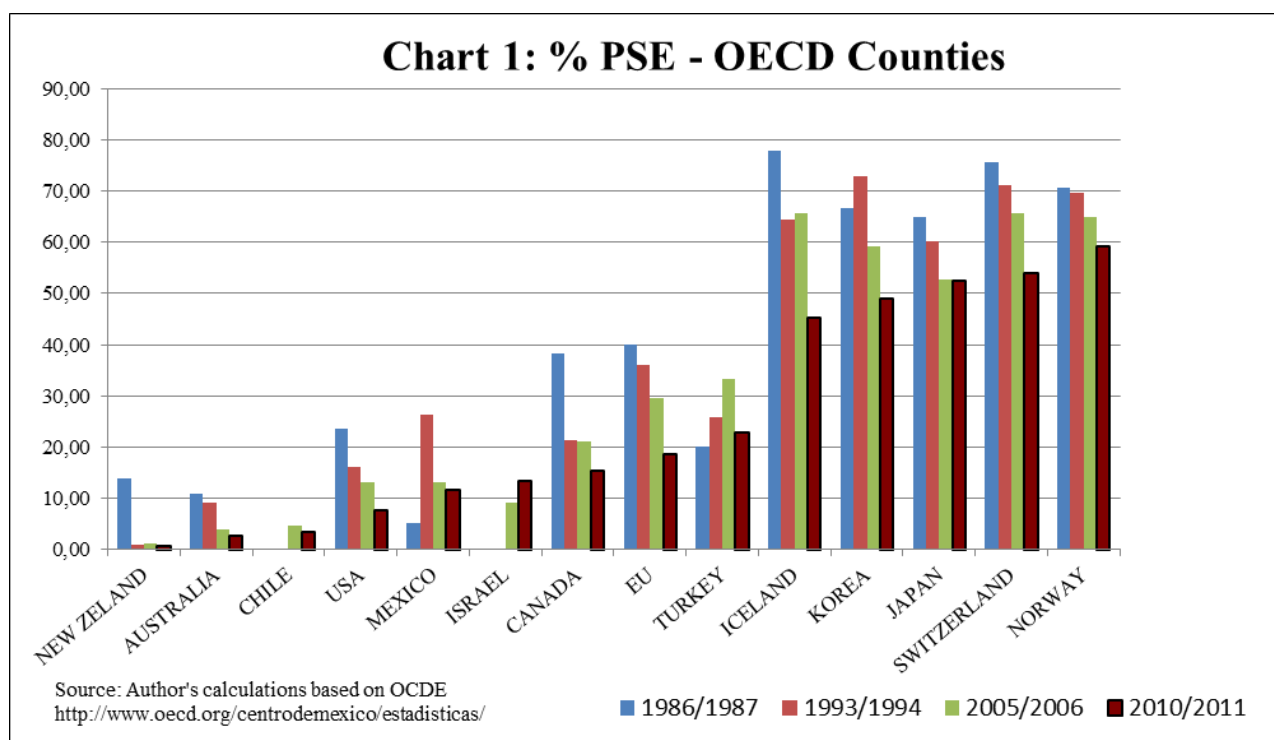
For cross country comparisons, the percentage PSE (%PSE) is used. It is "the PSE transfers as a share of gross farm receipts (including support)" (OECD 2008a). Again, the interpretation of this index should not rest only upon its level, but also (and mainly) on its composition.

In what follows two different PSE databases are used. The OECD publishes PSE for OECD countries, taking the European Union as a whole and more recently for Brazil, China, Russia, Ukraine and South Africa as well.

Chart 1 show the evolution of the Producer Support Estimates (PSE) for OECD countries for four biennia defined according to the occurrence of important events of international agricultural policy, or events related to Canadian agricultural policy. The first biennium is the one for years 1986/1987, which corresponds to the start of the GATT Uruguay Round, in September 1986, which was the first Round to discuss problems of agricultural trade issues, especially agricultural subsidies. The second biennium (1993/1994), corresponds to the completion of the Uruguay Round and signing the Marrakesh Agreement, which meant a commitment for developed countries to start a process of decreasing levels of agriculture subsidization; also, to replace most distorting for less distorting policies. The third biennium 2005/2006 has to do exclusively with Canadian agricultural policy and refers to the years in which full implementation of previous agricultural policy known as the Federal-Provincial-Territorial Framework Agreement on Agricultural and Agri-Food Policy for the Twenty-First Century (Also known as the APF Framework Agreement). Finally, the fourth biennial refers to the current Canadian agricultural policy, the Growing Forward Framework Agreement, which was agreed in 2007, and beginning to have effect from year 2008 and ending in 2012. It takes the biennium 2010/2011, the last two years for which complete data are available.

¹¹ The Uruguay Round was the eighth round of GATT formal multilateral trade negotiations. It started in Punta del Este, Uruguay, on September 1986. The Final Act of the Uruguay Round, as well as the Agreement establishing the World Trade Organization, incorporating all detailed results of the negotiation, was signed at Marrakech, Morocco, in April 1994 (Sumner and Tangermann, 1999)

¹² These are not the only criticisms. Interesting approaches over the limitations of the PSE for reflecting true support to producers in transition economies (former communist republics), can be found in Stokov and Meyers (1996)



In chart 1 the evolution of percentage Producer Support Estimates (% PSE) for OECD countries for the four biennia defined above is represented by bars, ordered from lowest to highest, according to the % PSE for the last biennium. It can be seen that all OECD countries have lower percentage PSE comparing the first period with the last one, except for Mexico, Israel and Turkey, which increased. But most important is that the all countries are in a process of decline in their respective percentage PSE, except for Israel (Mexico begins the process of decline from the third biennium and Turkey from the last one). For all OECD countries the average PSE for the biennium 2010/2011 was 25.48%, which shows an average drop of 40 % over the first two years, when it was 42.32 %.

In the last period countries with less support were New Zealand (almost 0), Australia and Chile with an average of 6.91%, while the most protective were Norway, Switzerland, Japan, Korea, and Iceland (in this order), with an average of 165.74%. It is also noted a big difference between countries with less protection (the Oceanic ones) and the higher PSE: three Europeans (with extremely cold weather), and two Southeast Asian.

With respect to Canada, the country shows the same trend as the other OECD countries. In period 1986/1987 the % PSE was 38.40 %. There is a strong decrease in the % PSE from the first to the second biennium, then it shows an stagnation in the third biennium and, finally, a significant decrease between the third and the fourth biennial, reaching 15.45% on average in 2010/2011; it period corresponds with the application of the new agricultural policy: the Growing Forward the Framework Agreement.

A comparison among NAFTA countries shows an uneven behavior. While Canada and the USA declined their respective % PSE since the beginning of this indicator, Mexico sharply increased their protection between the first and the second biennium, decreasing it significantly in the third biennium, slightly in the last one, remaining between Canada and the United States.

Another indicator that complements the agricultural policy analysis is the Producer Nominal Protection Coefficient (NPC), defined as "the ratio between the average price received by producers at farm gate (including payments per ton of current output), and the border price (Measured at farm gate)".

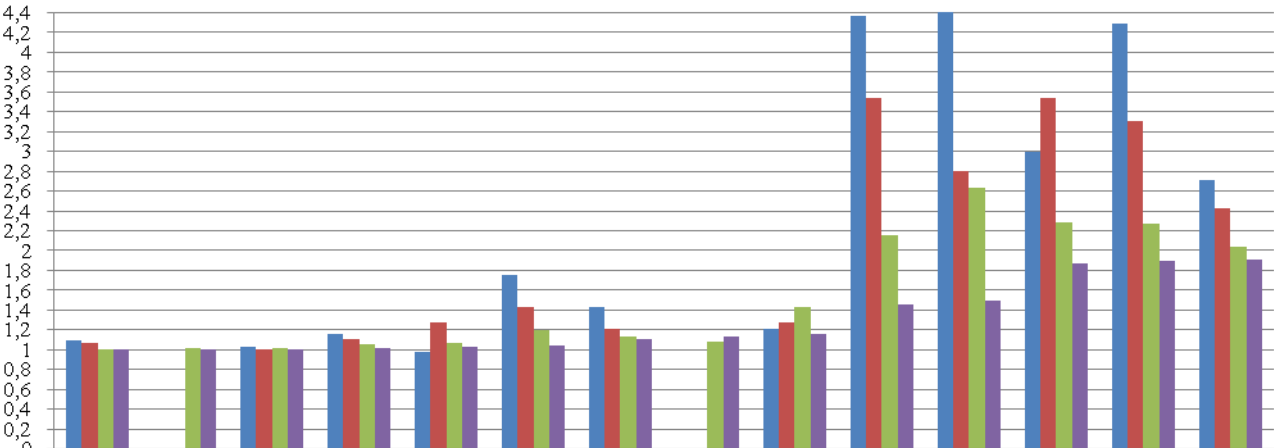
If the coefficient is equal to 1 (one) it indicates that there is no distortion between the two types of prices. Figure 3 shows the evolution of this indicator, also ordered from highest to lowest from left to right according to the magnitude of the coefficient in the last biennium. Biennia are considered the same as in previous figure. In comparison with figure 2, it can be seen that changes in location of countries in the figure are only marginal. The NPC, as has been already said, is an indicator of the most distorting support: one that relates domestic prices with respect to international prices. For Australia the coefficient is equal to 1 (one) for the last two periods, showing that domestic prices are exactly the same as the external. For Chile and New Zealand, the coefficients are also nearly equal to one (at hundredths is 1 followed by two zeros), which shows that the respective domestic price level in these countries are on average not significantly different from international ones.

The NPC values for Canada has been declining during all of the periods. For the last one – during the Growing Forward Framework Agreement agricultural policy- the coefficient is equal to 1.10, indicating that the distortion is reduced to 10%.

Combining the information in Chart 1 and 2 it is possible to conclude that not only Australia and New Zealand are the OECD countries that less protect their agriculture, but that the little support given to their farmers is practically non distortive. Contrary wise, countries such as Iceland, Norway, Switzerland and Korea, not only give a high protection to their respective agriculture, but such protection is also highly distortionary. Domestic prices for agricultural products in Japan, for instance, are on average nearly twice to the international ones.

However, it can be clearly seen the decrease of distorting protection in all OECD countries, except for Mexico, Israel and Turkey, where the % PSE has increased throughout the periods analyzed, like the NPC in the case of the first two (not for Turkey). Also, the joint analysis of Charts 2 and 3 shows that while the % PSE for Norway decreased by 16% from 1986-88 to 2010-11, it shows an effort of this country applying less distorting forms of support, since the NPC fell 55.72 % (effort equally remarkable for Switzerland, where in the same period this measure was reduced by 47%).

Chart 2: NPC - OECD Countries



	Australia	Chile	New Zealand	United States	Mexico	European Union	Canada	Israel	Turkey	SWZ.	Iceland	Korea	Norway	Japon
1986/1987	1,08882		1,02086	1,15145	0,97131	1,75226	1,42973		1,21117	4,35972	4,43432	2,98926	4,28018	2,70866
1993/1994	1,06850		1,00483	1,09871	1,26595	1,43219	1,21200		1,26894	3,53706	2,80216	3,54022	3,29610	2,42718
2005/2006	1	1,01804	1,00692	1,04670	1,05776	1,19455	1,13206	1,07920	1,43019	2,15246	2,63237	2,28609	2,27114	2,03635
2010/2011	1	1,00197	1,00530	1,01057	1,03040	1,03418	1,10924	1,12397	1,15156	1,45780	1,49207	1,8712	1,89245	1,91065

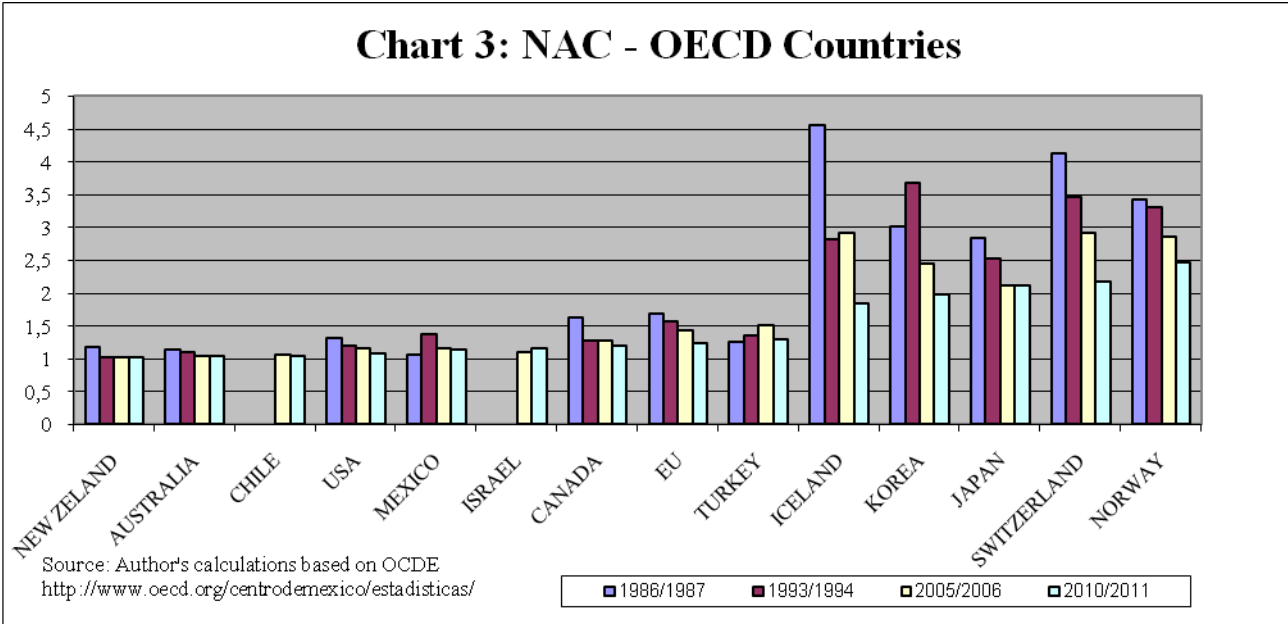
Source: Author's calculations based on OCDE
<http://www.oecd.org/centrodemexico/estadisticas/>

■ 1986/1987 ■ 1993/1994 ■ 2005/2006 ■ 2010/2011

A third indicator to assess the magnitude of the effects of agricultural policy is the Producer Nominal Assistance Coefficient (NAC), which represents the ratio between the value of gross farm receipts (including support) and gross farm receipts valued at border prices (measured at farm gate).

Chart 3 shows NAC evolution coefficient. This indicator confirms what the other two coefficients were already indicating, ie, the overall decline of agricultural protection in all OECD countries, except for Israel, with a slight increase. Naturally, Australia, Chile and New Zealand are the countries with lower NAC values (the coefficients are almost equal to 1). Paradoxically, Iceland, Switzerland, Korea and Norway, which were the countries with the highest ratios in the first period, experienced the greatest reduction in this coefficient.

With respect to Canada, this indicator confirms the reduction in protection already pointed out by the other two indicators analyzed. The first biennium is highly protective, no decrease in the second one, stagnation in the third one, and a decrease again in the last period, confirming may be the more important objective proposed by the Growing Forward Framework Agreement: to increase the competitiveness of Canadian agriculture.

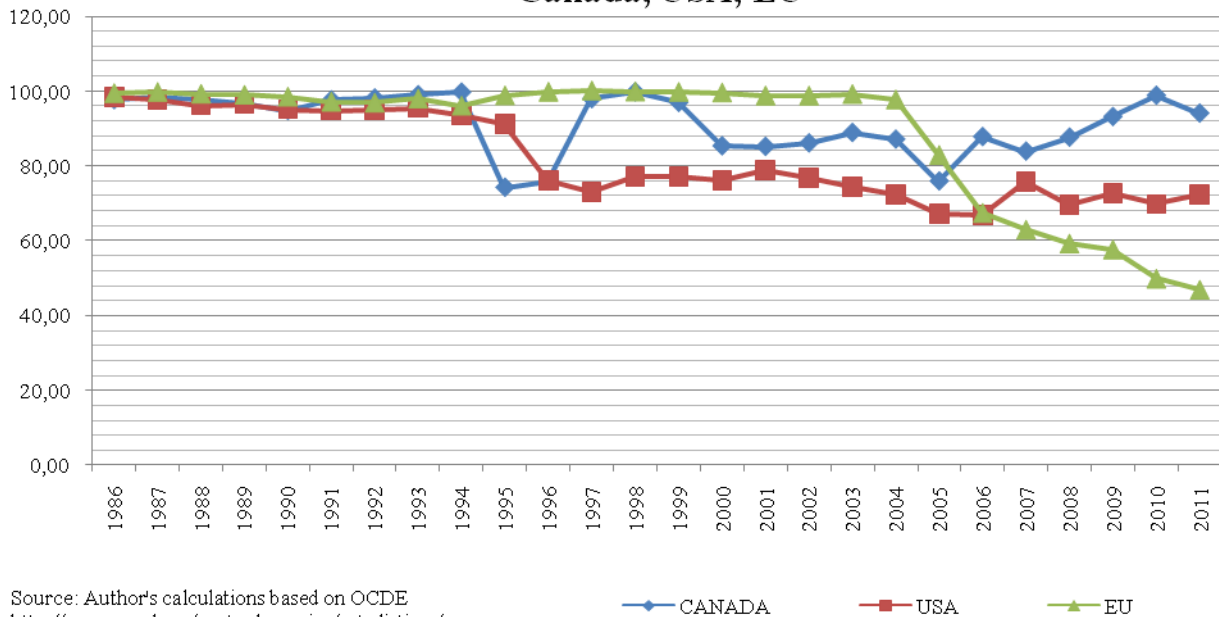


2. Most distortionary versus less distortionary policies

Chart 4 shows the share of the most distorting policies in the respective PSE from 1986 onwards, for Canada, the United States and the European Union. Support based on commodity output, Payments based on input use, Payments based on current area planted (A) /animal numbers (AN) / Receipts (R) / Income (I) production required and Payments based on non-current A/An/R/I, production required are the policies that are considered to have major distortionary effects.

Chart 4 shows that until 1994 the shares of Most Distorting Support in overall PSE measures were like the same for Canada, the USA, and the EU. From that moment the USA changes the PSE's composition, evolving from most to less distorting policies. Most distorting forms of support to agricultural activities went from 98% of the PSE to 72.32%. The EU kept the level of Most Distorting Effects policies until 2004, when a restructuration was made, and less distorting policies arise; which mean going from a share of most distorting support policies from 99.51% to 46.96%. Analyzing the Canadian case it could be mention that the most distorting effects went from 97.68% to 94.08% as share of PSE, achieving a minimum values about 74% by 1995.

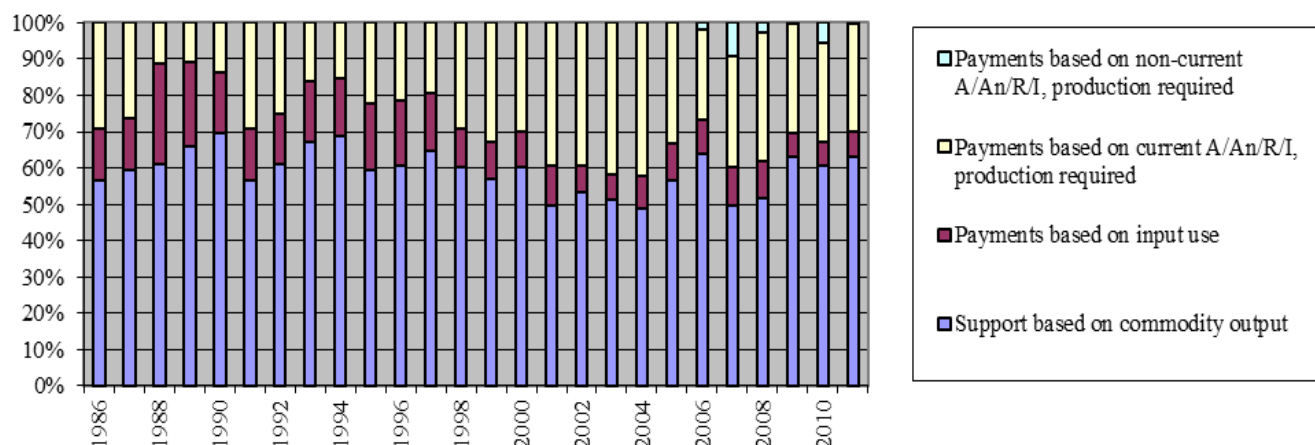
**Chart 4: Share of the most distorting support policies in total PSE
Canada, USA, EU**



Source: Author's calculations based on OCDE
<http://www.oecd.org/centrodemexico/estadisticas/>

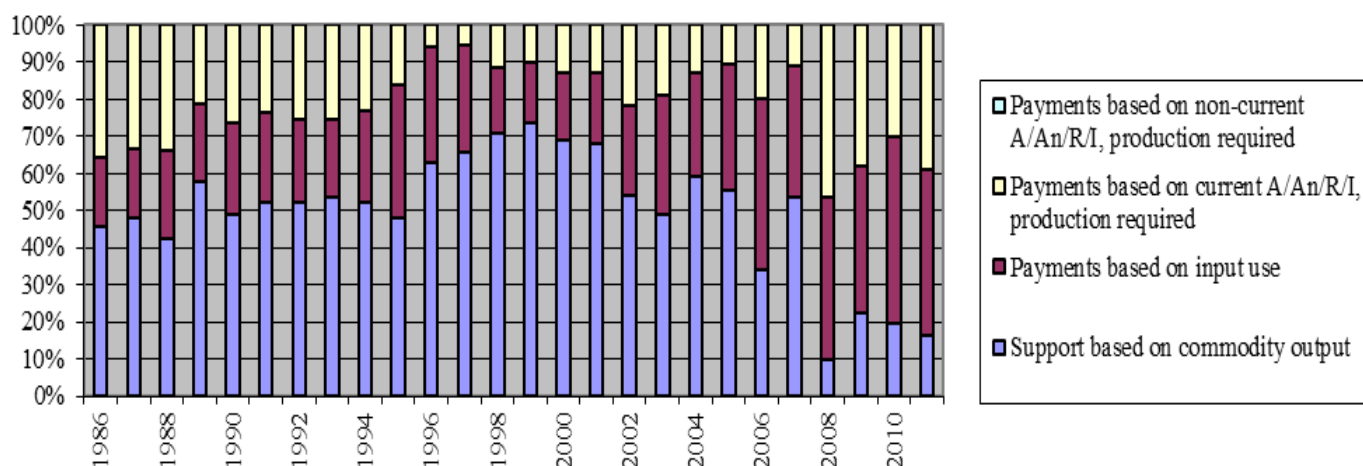
Another approach in the comparison among Canada, the USA, and the EU in relation to the behavior of distorting components -ordered from most to least distorting- can be visualized in the three charts below. It can be observed that the EU has been done the greatest effort to reduce more distortionary policies, replacing them with less distorting. However, the USA - which also has been doing a similar policy- has got the lower level in distortionary policies. Canada has experienced ups and downs and has remained at a higher level in terms of distortionary policies, at least until 2011.

Chart 5: Canada: Most Distorting Support Policies



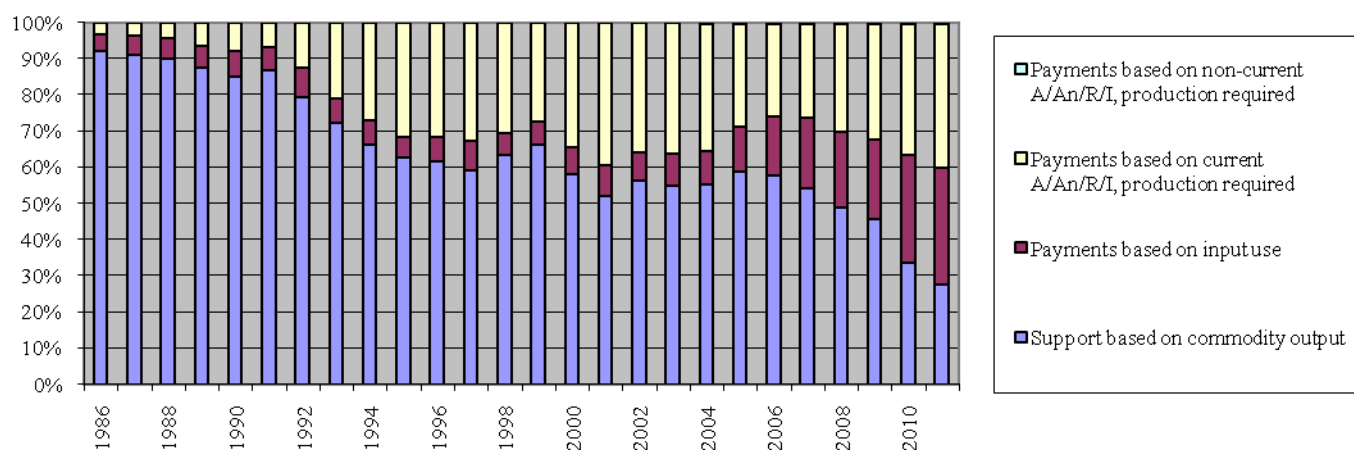
Source: Author's calculations based on OCDE
<http://www.oecd.org/centrodemexico/estadisticas/>

Chart 6: USA: Most Distorting Support Policies



Source: Author's calculations based on OCDE <http://www.oecd.org/centrodemexico/estadisticas/>

Chart 7: EU: Most Distorting support Policies



Source: Author's calculations based on OCDE <http://www.oecd.org/centrodemexico/estadisticas/>

IV. Some Specific Canadian Agricultural Policies

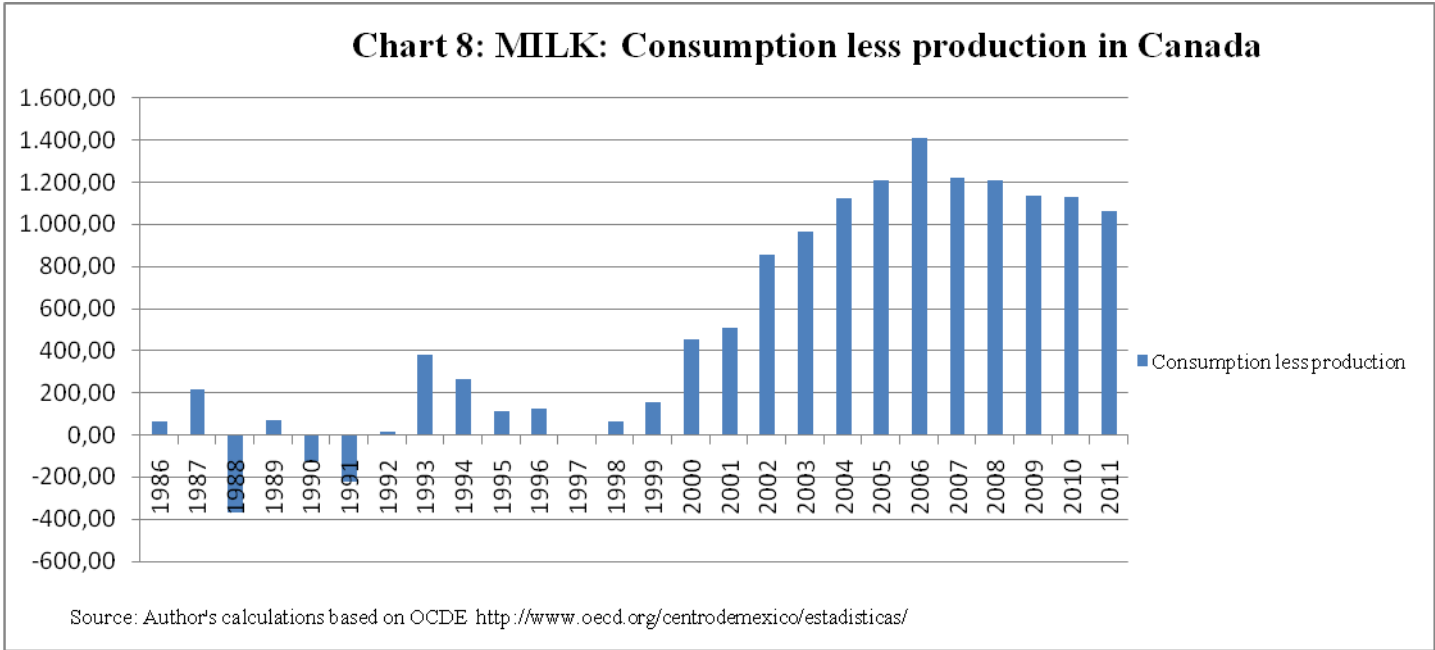
Agricultural policy in Canada is based on two systems of subsidization: the deficiency payments system, which is applied basically to crops, mainly produced in Manitoba, Saskatchewan, and Alberta and, to a lesser extent, in British Columbia and Ontario, production directed to international markets; while a floating tariff system is applied to dairy products, poultry meat, and eggs. This is known as *supply management*, production directed to domestic markets, whose production takes place mainly in center and eastern Canada, being Quebec the main province.

In what follows, the main products that make up the supply management: milk, poultry meat, and eggs are analyzed through some indicators. The most important is the Producer Single Commodity Transfers (SCT). The Producer Single Commodity Transfers (SCT) measures “the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policies linked to the production of a single commodity such that the producer must produce the designated commodity in order to receive the transfer”(OCDE). In a very simple way, the Producer SCT = MPS + sum of other transfers. Another indicator is consumption less production.

1. Milk

Milk is, by far, the most supported Canadian product. It represented almost one third of the Canadian total PSE by 2004. The %PSE for milk in 2004 was 52%, well above the 22% aggregated average.

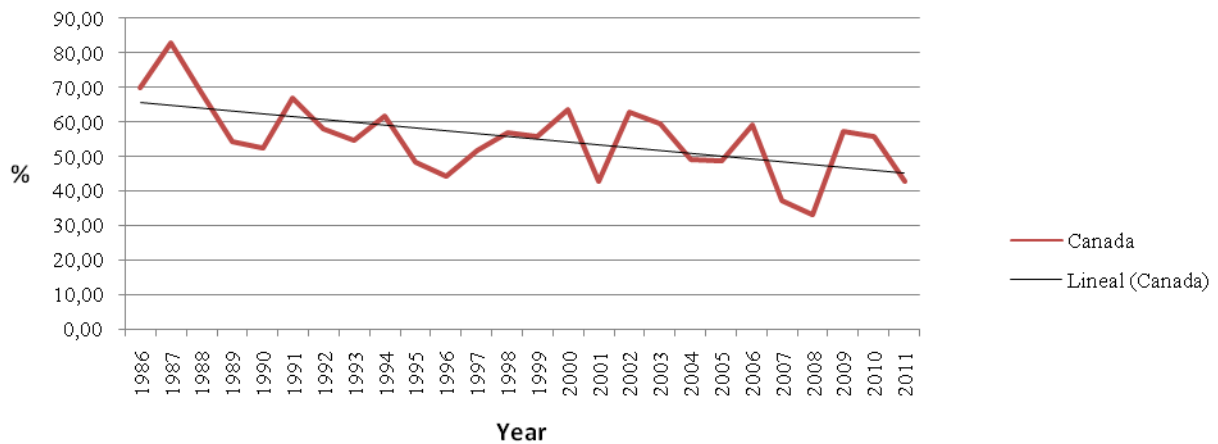
Even with those high support levels, milk consumption in Canada for most of the years of the analyzed periods has had to be partially satisfied by international markets, as Chart 8 below shows. Only in three out of the twenty six years of the series could Canada export milk: it was in 1988, 1990 and 1991. It can be seen that since 2004 milk total imports in Canada is always greater than one million tons, reaching a peak in 2006, almost a million and a half tons.



Follow the OCDE definition of PSE, it can be expressed as the sum of four mutually exclusive category indicators of support transfers, relating respectively to a single commodity (SCT), a group of commodities (GCT), all commodities (ACT). This classification is based on the degree to which policy measures deliver support on a commodity basis.

Producer Single Commodity Transfers (producer SCT) is “the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policies linked to the production of a single commodity such that the producer must produce the designated commodity in order to receive the transfer” (OECD, 2008).

Chart 9: MILK: % Producer Single Commodity Transfers



Source: Author's calculations based on OCDE
<http://www.oecd.org/centrodemexico/estadisticas/>

The decline in producer SCT would be good news for consumers and taxpayer, and can be also good news for producers to the extent that, at the same time, increase its competitiveness. As it can be seen in figure above, the tendency for the producer SCT for milk has been decreasing since 1986.

Throughout the period 1986-1987 the producer SCT has an oscillatory behavior, but maintained a downward trend. In 1987 reached a maximum of 82.73% and in 2008 a minimum of 33.27%. It is worth to point out that after the peaks of 2009 and 2010; the year 2011 shows a significant reduction. This could be signaling that the objective of improving competitiveness proposed by the Growing Forward Framework Agreement is in progress.

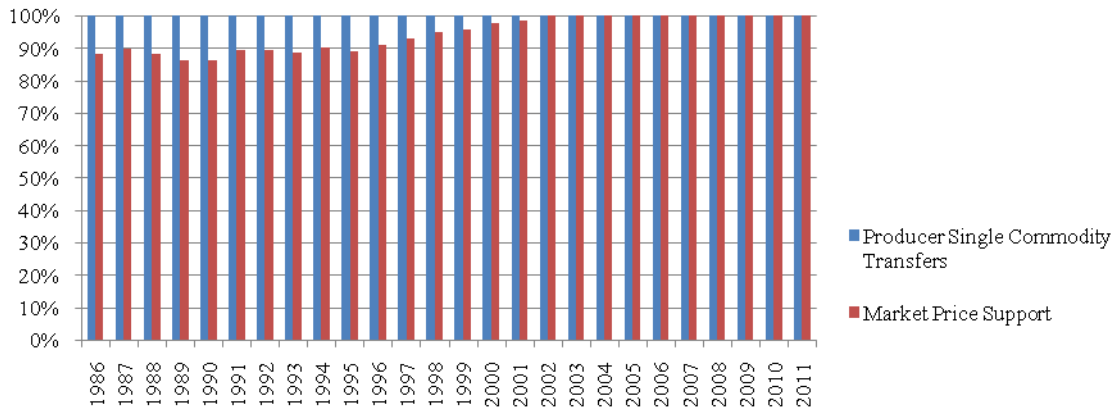
A national (aggregate) producer SCT can be found by summing up all transfers arising from policies that have been attributed to single commodities (SC):

$$producerSCT = MPS_c + \sum BOT_{SC}$$

Where $\sum BOT_{SC}$ - national aggregate budgetary and other transfers to producers from policies that have been labeled as based on a single commodity (SC) (OECD, 2008).

Following chart analyze the evolution of SCT components, whereas MPS is the most distorting.

Chart 10: MILK: SCT and MPS



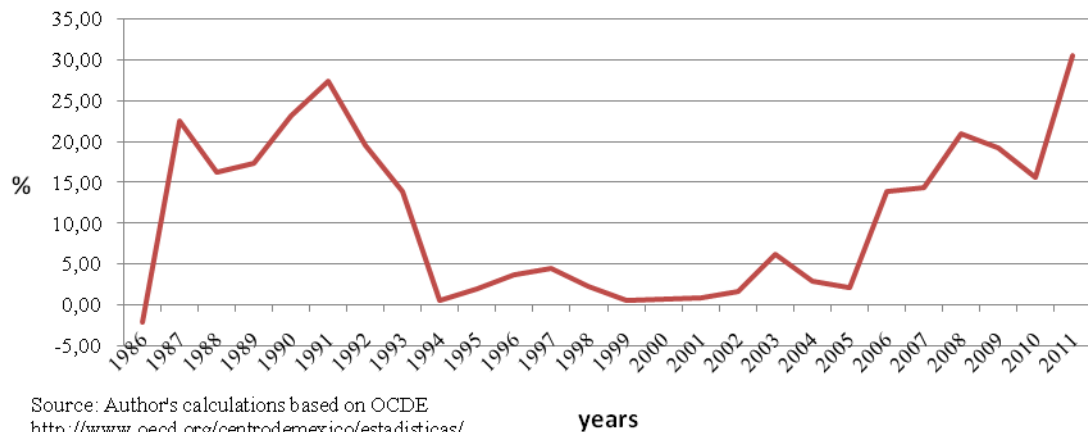
Source: Author's calculations based on OCDE
<http://www.oecd.org/centrodemexico/estadisticas/>

Analyzing Chart 10, it can be observed that since 2002 that the MPS represents 100% of producer SCT for milk. Throughout the period since 1986 this share is always greater than 86%, with an increasing trend. The other components are: transfers of payments based on output, payments based on input use, payments based on current A / An / R / I required for milk production, and payments based on non-current A / An / R / I production required. Moreover, total producer SCT for milk for the whole series is totally explained when payments based on output are added to market price support.

2. Poultry Meat

Chart 11 shows the evolution of % producer Single Commodity Transfers for Poultry Meat.

Chart 11: POULTRY MEAT: % Producer Single Transfers

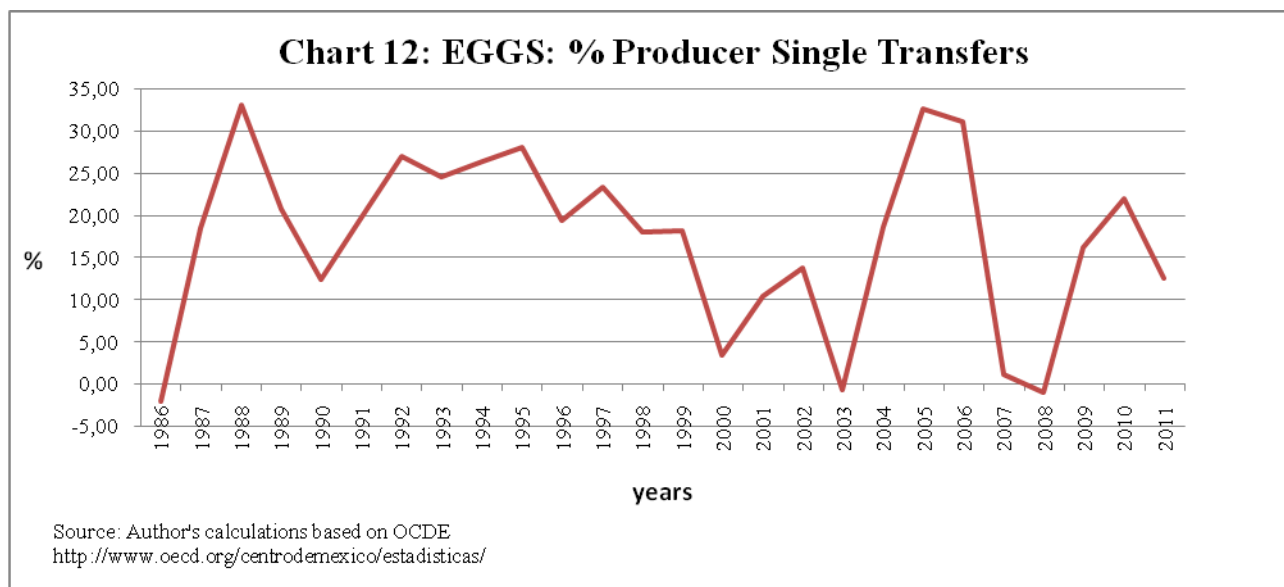


Source: Author's calculations based on OCDE
<http://www.oecd.org/centrodemexico/estadisticas/>

The behavior of % producer SCT for poultry meat has not been stable throughout the serie. It shows a % producer SCT over 15% between 1987 and 1993. After reaching its maximum (over 25%) in 1991, decreases rapidly to be null in 1994. After that year the % producer SCT have been maintained below 5% and, in 1995 begins to grow again.

3. Eggs.

Chart 12 shows the evolution of % producer Single Commodity Transfers for Eggs.



The behavior of % producer SCT for eggs has also not been stable throughout the series. It varies from minus 1%, reaching its maximum (over 30%) in 1988 and 2005.

If the analysis were to end here, it could be said that the SCT support for both products (poultry meat and eggs) is not so big, actually below the national average. However, that conclusion hides an important aspect of that support, which is its composition. Charts 13 and 14 show the share of market price support in total producer SCT for eggs and poultry meat. The share of MPS in the producer SCT is 100% for both products.

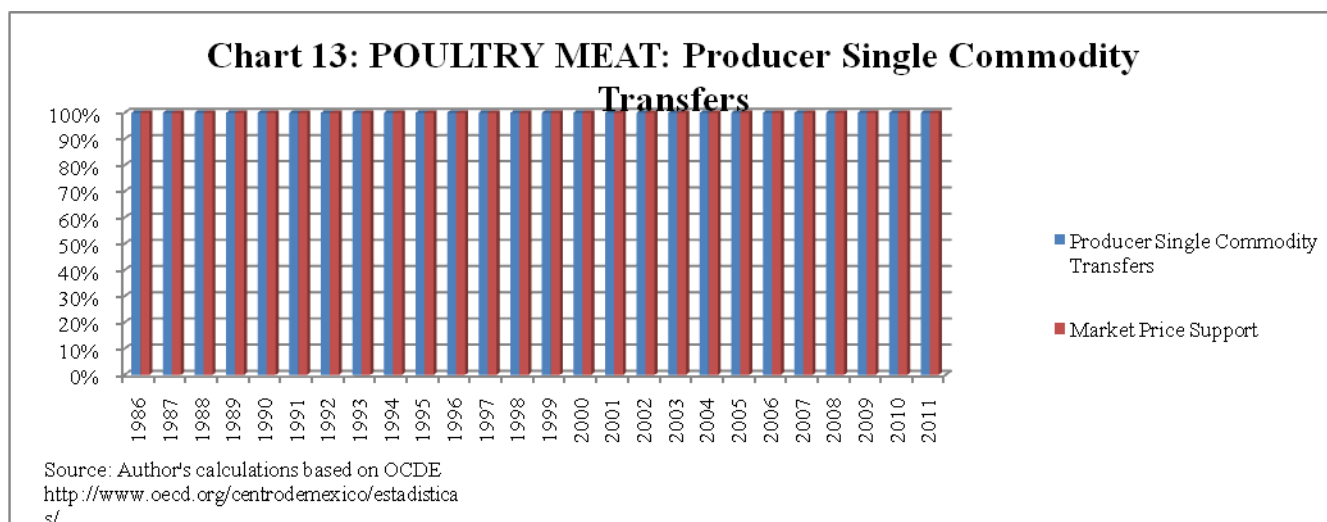
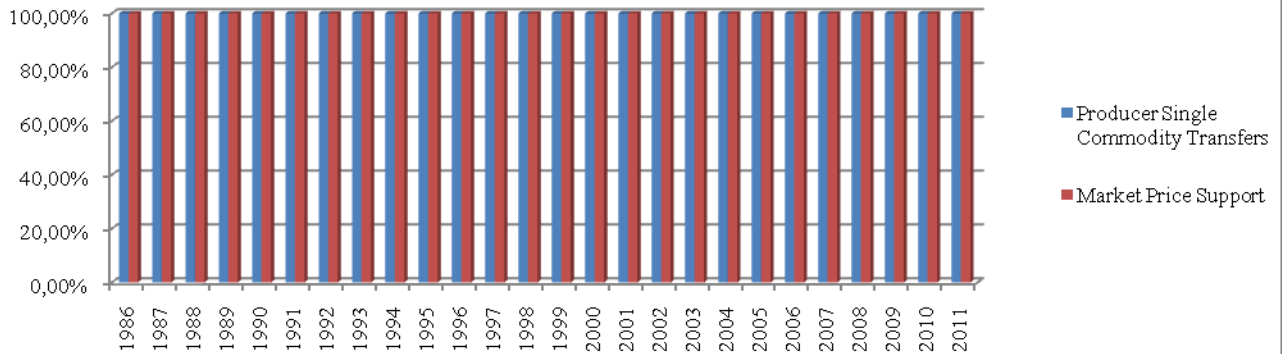


Chart 14: EGGS: Producer Single Commodity Transfers

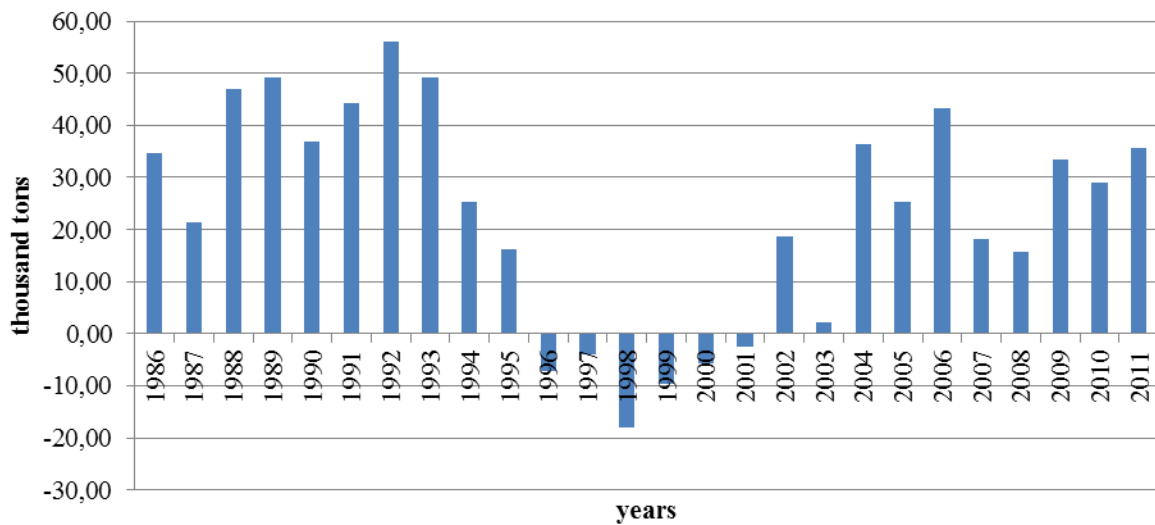


Source: Author's calculations based on OCDE <http://www.oecd.org/centrodemexico/estadisticas/>

Milk, eggs and poultry meat – products included in the Supply Management System – represent the bulk of market price support in Canada. To sum up, distorting agricultural support is concentrated in a few products, mainly milk.

Even with those high support levels, poultry meat consumption in Canada for most years of the analyzed periods has had to be partially satisfied by imports. Chart 15 shows that only in the period 1996-2001, Canada exported poultry meat.

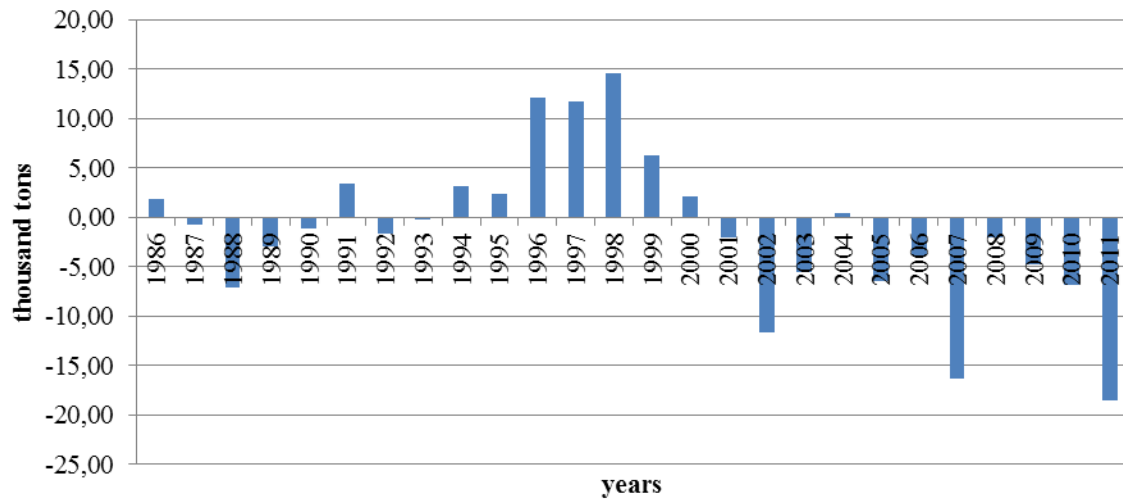
Chart 15: POULTRY MEAT: Consumption less production



Source: Author's calculations based on OCDE <http://www.oecd.org/centrodemexico/estadisticas/>

Regarding eggs, the situation is the opposite of poultry meat. In the period in which poultry meat is exported, eggs are imported, reaching a peak in the level of imports in 1998. Since 2005, eggs are exported at increases rates.

Chart 16: EGGS: Consumption less production



Source: Author's calculations based on OCDE <http://www.oecd.org/centrodemexico/estadisticas/>

V. Some Conclusions and Considerations

The Growing Forward Framework Agreement laid the groundwork for coordinated federal-provincial-territorial (FPT) action over five years (2008 to 2012) to help the Canadian agricultural sector become more prosperous, competitive, and innovative.

Main agricultural policy indicators for OECD countries analyzed through this study show that all of them have made progress in reducing levels of subsidization of their respective agricultural sector (except for Israel) and at the same time replaced the most distorting support policies in the respective PSE for less distorting support ones.

The main indicators of Canadian agricultural policy also analyzed through this work show that Canada has made a similar policy to the other OECD countries, that is, has made progress in reducing levels of subsidization and, at the same time, is trying to replace the most distorting support policies in the respective PSE for less distorting support policies.

Canada not only has decreased their levels of subsidization, but also Canada is among those countries that least subsidizes their agriculture, despite its agriculture has to face a very powerful enemy, an extremely cold weather. While subsidization levels are higher than those of the USA (country which has many similar conditions to Canada, but has important comparative advantages), are below those of the EU, and well below the European countries (not EU members) of extremely cold weather, such as Iceland, Norway, and Switzerland. We must recognize that these countries have fewer advantages in other production factor for the agricultural production, especially the soil; while Canada has large prairie suitable for agriculture, Iceland, Norway, and Switzerland do not have them.

Another issue to consider when evaluating if warranted subsidize agriculture and, if so, at what levels, is the degree of development of the country and, especially, other objectives, such as food security, environmental protection, rural life preservation, prevent migration of population to urban areas, etc. If the country wants quality in all these objectives set, and an equitable income distribution, some level of subsidization to agriculture is justified, especially when it must face adverse conditions. Canada's efforts to decrease their levels of subsidization and, above all, to replace the most distorting support policies in the respective PSE for less distorting support policies, is a politically very difficult task.

Despite the fact mentioned in the previous paragraph, the Growing Forward Framework Agreement has set as its main objective to help the agriculture sector become more

prosperous, competitive, and innovative. It should be emphasized that to help the agricultural sector, there must be an agreement with the other sectors of the Canadian economy. The only way to achieve any goal in life is precisely trying. And that is why Agriculture and Agri-Food Canada is already preparing the "Growing Forward 2" for the years 2013-2018.

D. Bibliography

- Colomé, Rinaldo A. (2006), "Canadian Agricultural Policy. A Lessons for Argentina", ANALES de la XXXVII Reunión Anual de la Asociación Argentina de Economía Agraria, Villa Giardino, Córdoba, 18 al 26 de Octubre
- Cahill, C. and W. Legg (1989-90), "Estimation of agricultural assistance using producer and consumer subsidy equivalents: Theory and Practice", OECD Economic Studies, No. 13, OECD, Paris.
- Gifford, M. G., A. F. McCalla and K. D. Meilke. 2008. "The Doha Round and Agrifood: A Question of Political Will." *Policy Options* (September):16-19.
- Huff, K. M., K. D. Meilke, R. D. Knutson, R. F. Ochoa and J. Rude, eds. 2008. *Contemporary Drivers of Integration*. Texas A&M University, University of Guelph, Instituto Interamericano de Cooperación para la Agricultura-Mexico.
- Rude, J. and K. D. Meilke. 2002. "Two Unknowns and No Equations: Implications of the Doha Declaration for Canadian Agricultural Policy." *Canadian Journal of Agricultural Economics* 50(4):415-38.
- Wainio, J., L. M. Young and K. D. Meilke. 2003. "Trade Remedy Actions in NAFTA: Agriculture and Agri-Food Industries." *The World Economy* 26(7):1041-65.
- Huff, K. M., K. D. Meilke, C. G. Turvey, and J. Cranfield. 2004. Modeling Bioterrorism in the Livestock Sectors of NAFTA Members. *Current Agricultural, Food and Resource Issues* 5:1-22.
- Loyns, R. M. A., K. Meilke, R. D. Knutson, and A. Yunez-Naude eds. 2004. *Keeping the Borders Open*. Proceedings of the Eighth Agricultural and Food Policy Systems Information Workshop, Texas A&M University, the University of Guelph and El Colegio De Mexico
- Rude, J. and K. D. Meilke. 2004. Developing Policy Relevant Agrifood Models. *J. Agricultural and Applied Economics* 36:369-382.
- Huff, K. M., K. D. Meilke, R. D. Knutson, R. F. Ochoa, J. Rude, A. Yunez-Naude eds. 2005. *North American Agrifood Market Integration: Situation and Perspectives*. Texas A&M University, University of Guelph and El Colegio De Mexico.
- Grant, J. and K. D. Meilke. 2006. The WTO Special Safeguard Mechanism: A Case Study of Wheat. *Review of Agricultural Economics* 28(1):24-47.
- Meilke, K. D. 2006. Production Subsidies. In: J. D. Gaisford and W. A. Kerr, eds. *Handbook on International Trade Policy*. Northampton, MA: Edward Elgar.
- Rude, J. and K. D. Meilke. 2006. Canadian Agriculture and the Doha Development Agenda: The Challenges. *The Estey Journal of International Law and Trade Policy* 7(1):32-48.