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Development of the Agriculture and Agri-food Economy in Canada

Canada-China Legislative Cooperation Project:

2005 China-Canada Seminar on Agricultural Legislation and Technical Cooperation

9-10 June 2005

Beijing, China

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Development of the Agriculture and Agri-food Economy in Canada

- Objectives:
  - Outline agriculture and agri-food development in Canada
  - Demonstrate the evolution of these sectors in the Canadian economy
  - Underline the integration in the North American economy

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- Agriculture played very significant role in Canadian economic development for many decades
- Agriculture and immigration paired in Constitution in 1867
  - Major agricultural issue was immigration to fill western lands
  - Former colonial policy essentially extended to western Canada by new federal government
  - Western Canada seen as source of raw materials and food for eastern Canada and export
  - Agricultural research system established in 1886, in part, to strengthen western settlement
- Transportation infrastructure critical to development of western Canada

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- By 1900:
  - Eastern Canada deficit in grains, major exporter of livestock products…meats, cheese
  - Western Canada exporting grains
  - Major immigration to western Canada still underway
- Population densities 1901 to 2001 show sharp changes in western Canadian development
  - Rural expansion in early years
  - Rise of cities and industry in later years
  - Next four graphs show the changes over the period
  - Note that 70-80 percent of Canadians live within 160 kms. of the border with USA

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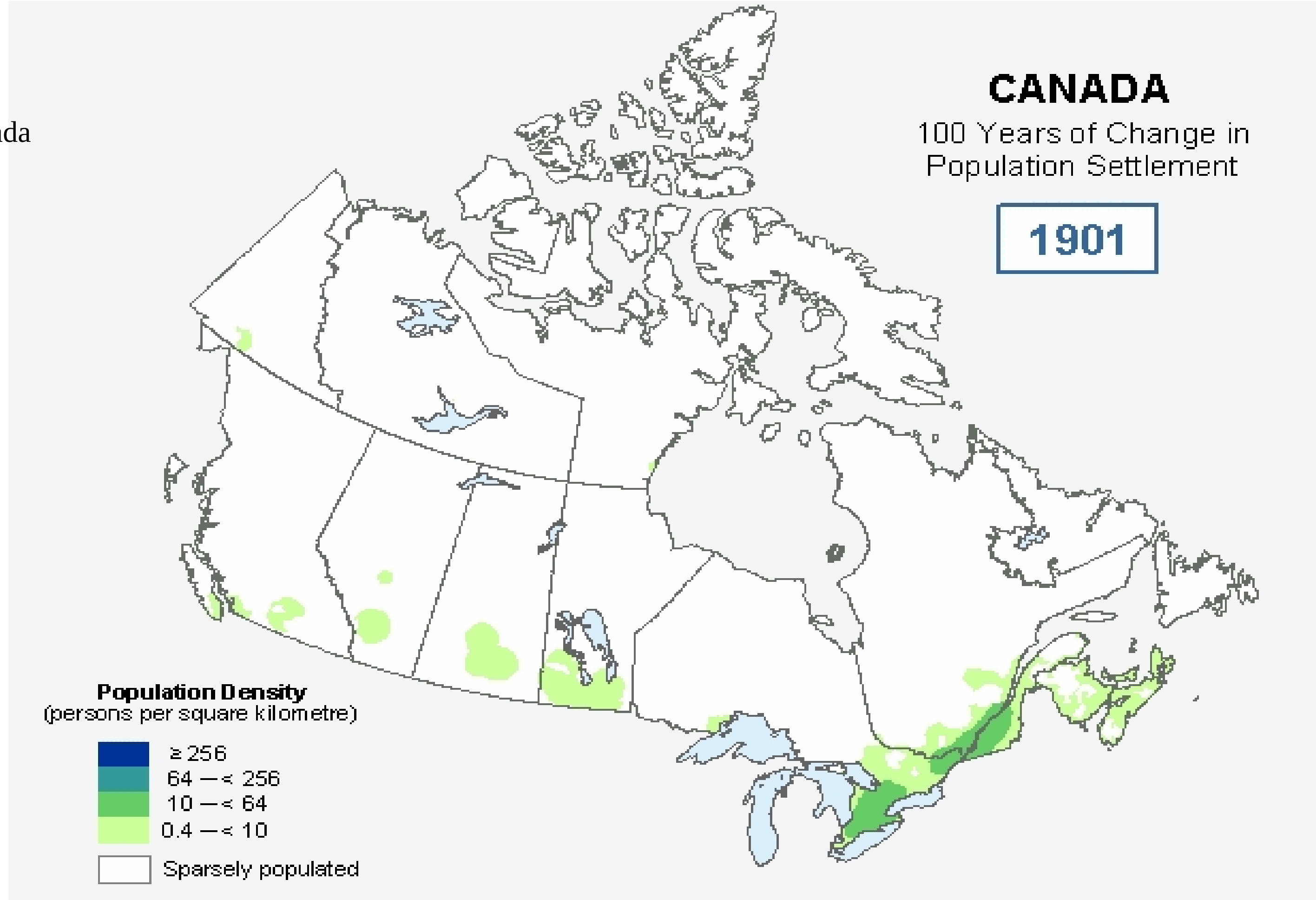
Source: Statistics Canada



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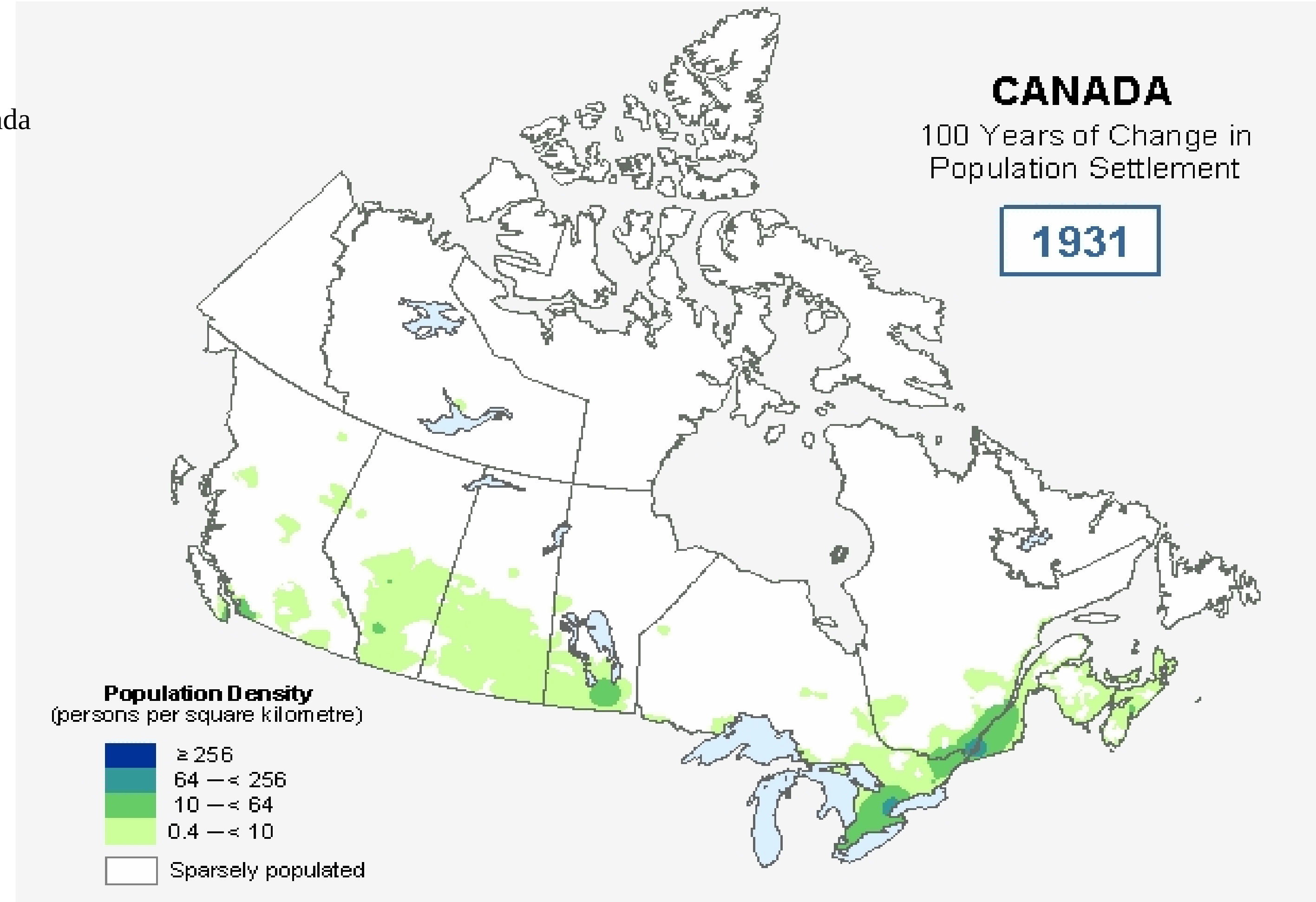

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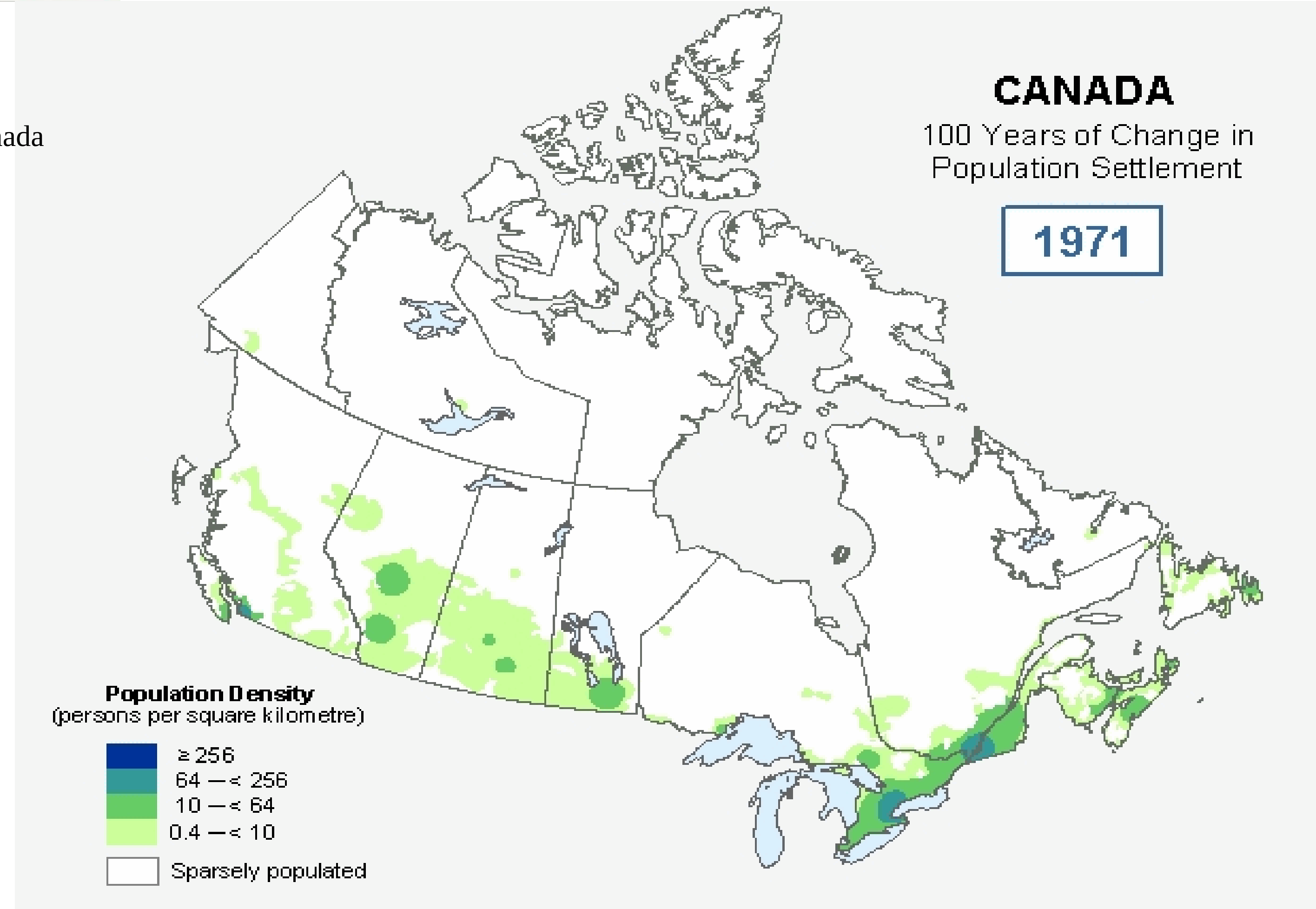

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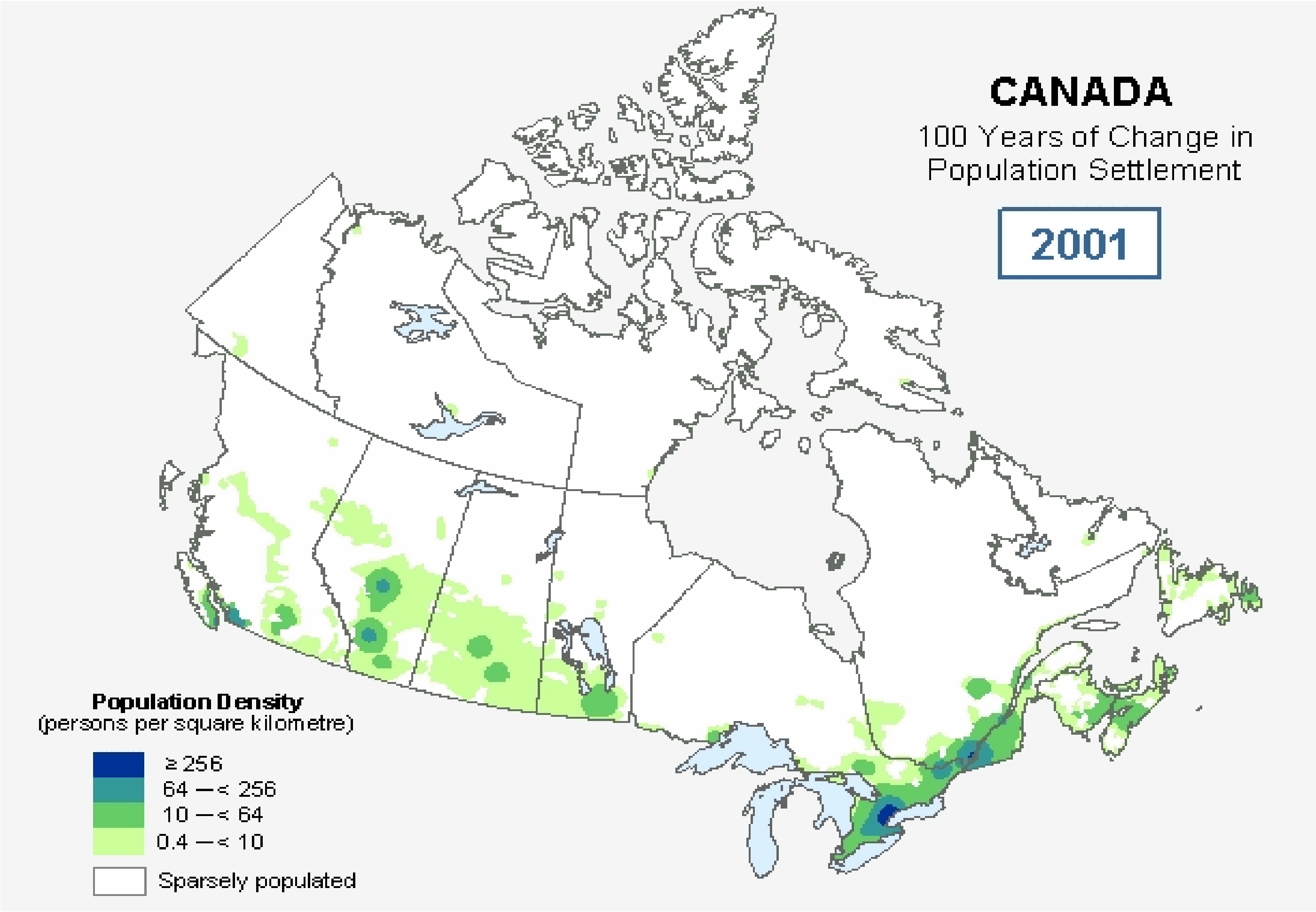

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- Number of farms peaked in 1939 at about 750,000
- Number of farms today about 250,000 but:
  - Less than 20 percent of farms produce over 90 percent of net income and over 80 percent of all products
- Number of persons involved in farming still falling: now about 2.1 percent of population
- Percentage of farmers with off-farm income continues to rise: now over 60 percent of farmers with majority of income from off-farm employment
- Rural population roughly stable: about 10-12 percent

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- Transition times from 70 percent of population in agriculture to 10 percent in agriculture:
  - Netherlands: 165 years
  - UK: 113 years
  - USA: 96 years
  - Germany: 92 years
  - Japan: 73 years
  - Korea: 26 years
  - China: ???

Source: Hanho Kim and Yong-Kee Lee, 2004. "Agricultural Policy Reform and Structural Adjustment in Korea and Japan". IATRC Symposium: **Adjusting to Domestic and International Policy Reform in Industrial Countries**, Philadelphia, June 6-7, 2004. pp. 12.

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- By 1970:
  - 80 percent of exports as bulk products: wheat, barley, live animals and meats, dairy products
  - 20 percent of exports in processed form
  - 80 percent of exports sent “off-shore”
  - 20 percent of exports to USA
- Today:
  - Over 60 percent of exports to USA
  - Over 60 percent of exports in processed form
  - Export volumes of bulk products diminishing slightly
  - Export values up from $11 billion in 1990 to $25 billion in 2003
  - Vast majority of growth from processed and high value products
  - Continuing, significant net trade surplus in agriculture and food
  - Farming a small part of rural economy in Canada

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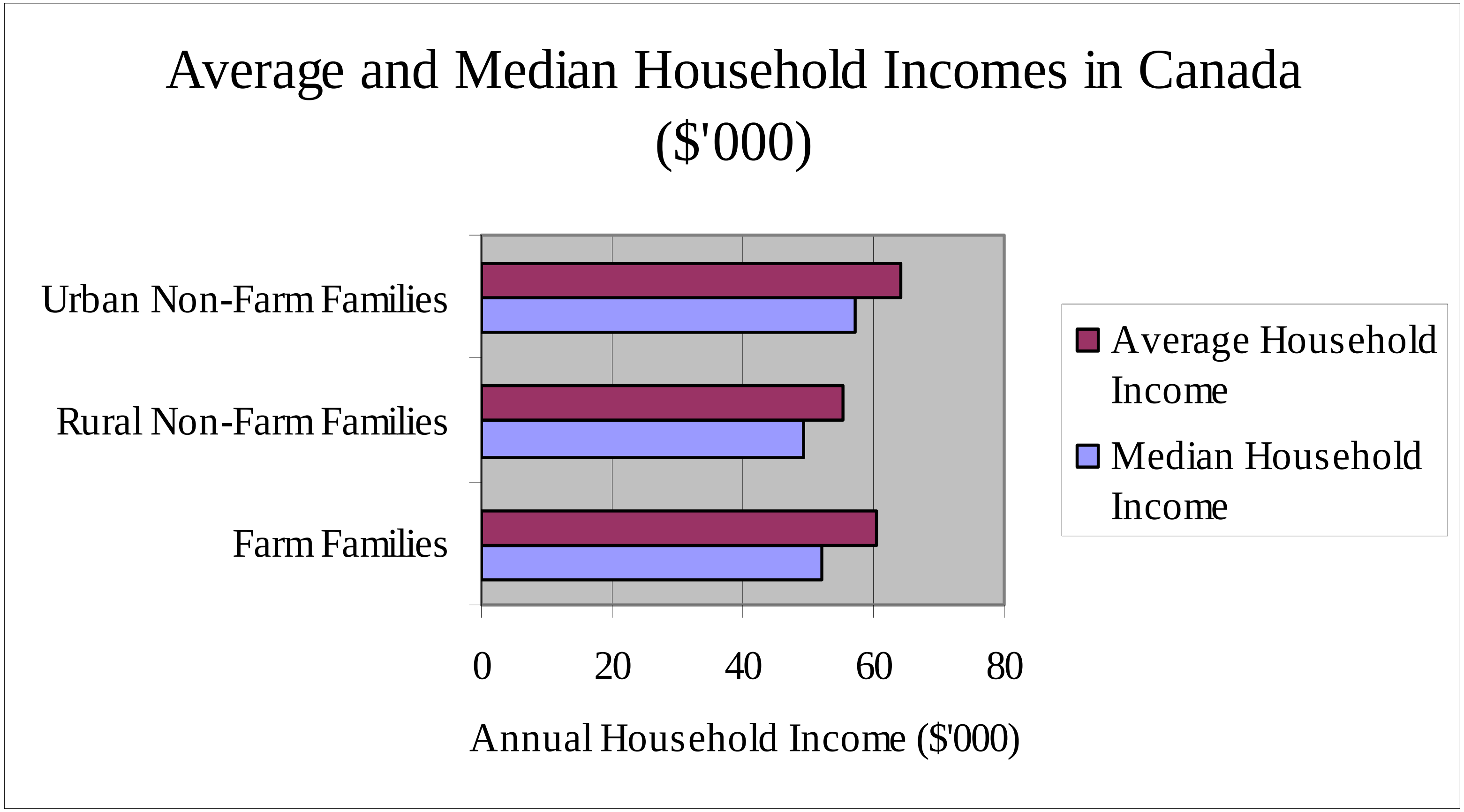
Little difference among farm, rural and urban household incomes:

- **adjusted for cost of living, the urban, rural and farm families have roughly the same income**



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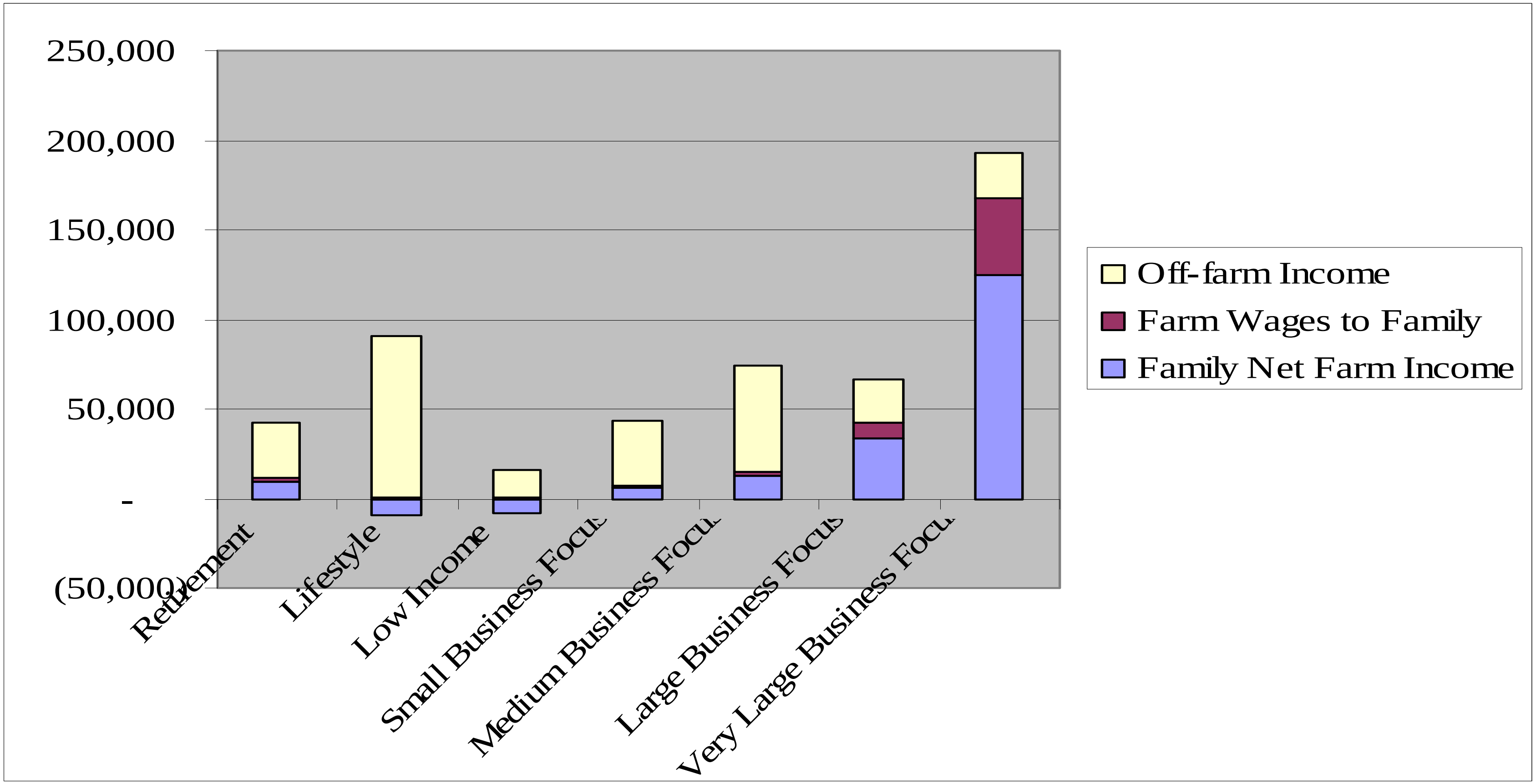
Farm Family Income by Type of Farm and Source of Household Income



Source: Farm Financial Survey, 2004, AAFC.

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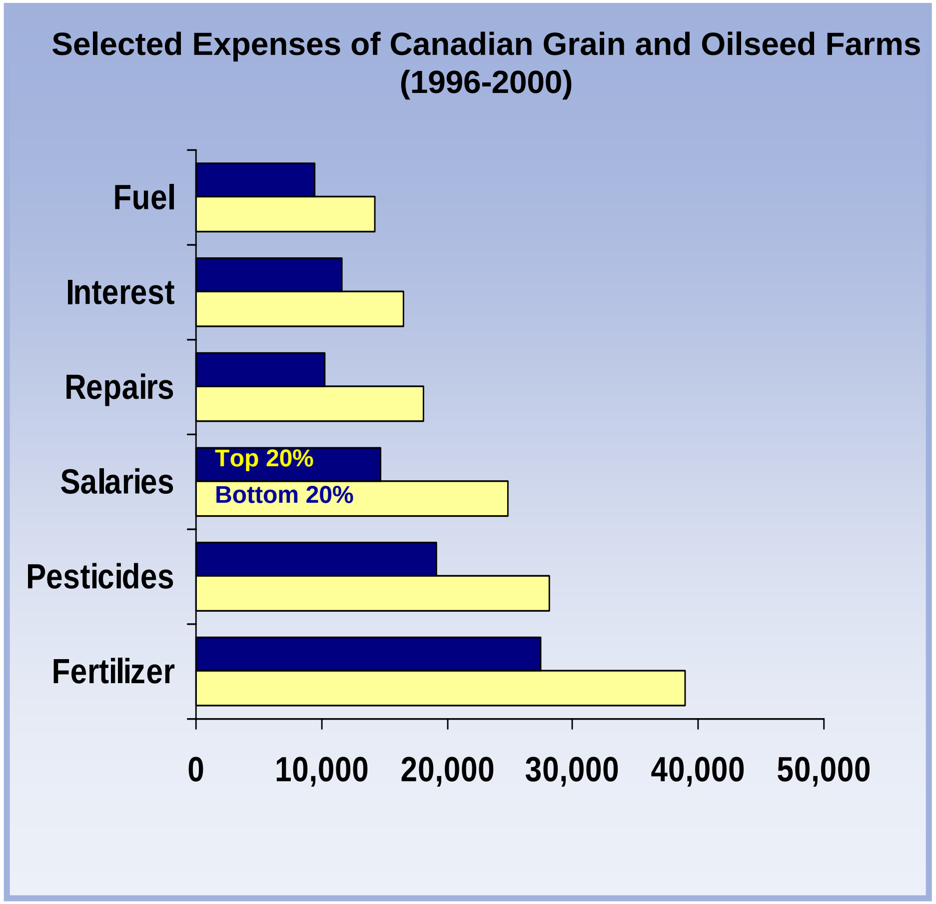
Not all farms are equally efficient:

- **Differences because of:**
  - **Scale and size**
  - **Management**
  - **Capitalization**
  - **Technology**
  - **Labour utilization**
  - **Market access**
  - **Training**
  - **Innovation**



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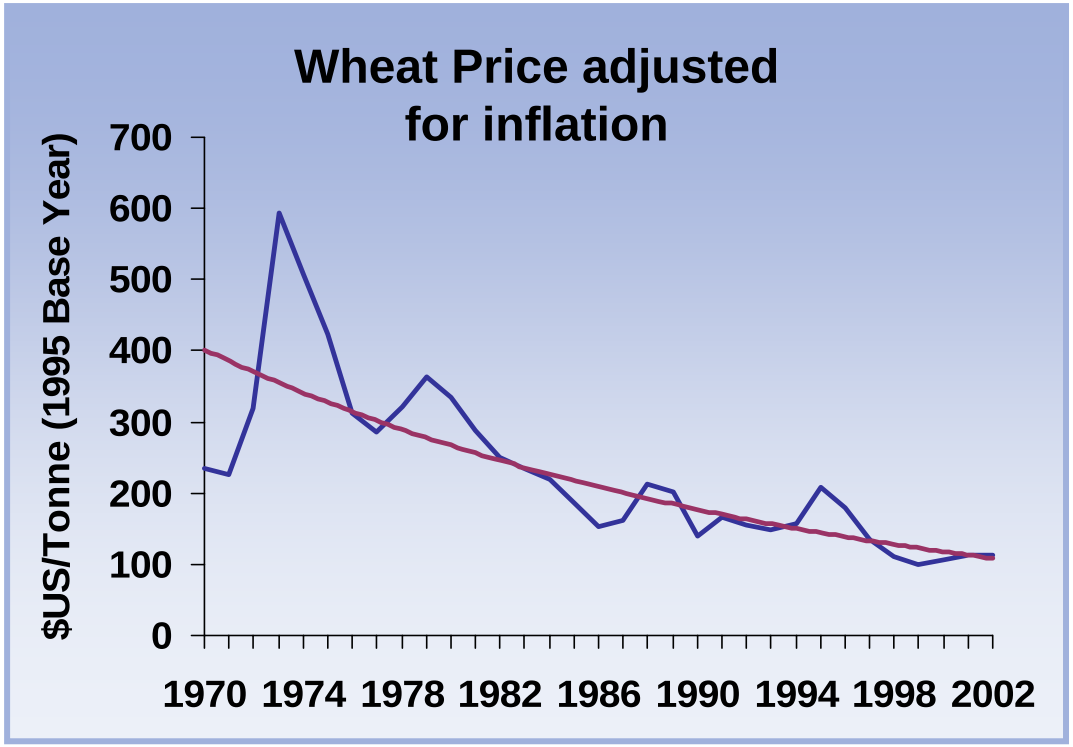
- Long run, real prices for bulk commodities continue to fall



- **For bulk commodities, continue to plan on:**
  - **Falling real prices**
  - **Large scale technology bias**
  - **Policy and market driven fluctuations**

Source: AAFC

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- Integration of agriculture in North America:
  - Integration in agricultural product markets slow to develop
    - Trade in animals and meats first to develop
    - Oilseeds and special crops followed
  - Canada-USA and North American Free Trade Agreements greatly accelerated integration
    - All farm products for Canada and USA freely traded except:
      - Dairy and poultry in Canada
      - Sugar, peanuts, cotton, others in USA
    - USA-Mexico trade moving to free trade on all farm products
  - Integration of North American markets means:
    - Greater movement north-south than east-west within Canada
    - Pricing for both products and inputs unified across North America
    - Opens the way to integrated processing arrangements
    - Creates regulatory challenges: regulatory convergence or regulations as trade barriers?

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- The entire "food chain" from farms to processing, distribution, retail and food service:
  - About 15 percent of employment
  - About 9 percent of GDP
- Implication:
  - A lot of jobs, but many at lower end of wage scale
  - Examples: food service, repetitive processing jobs

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- Historically, Canadian agri-food processing industry was oriented to domestic consumption
  - Short processing lines, many products
  - With trade agreements, integration with USA and world markets taking place
  - Processing lines getting longer, fewer products produced in Canada, but with North American or world mandates
  - China will likely see much the same evolution as agri-food trade accelerates

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- **Export and import orientation of food processing industry**:
  - One-quarter of all shipments exported
  - One-fifth of all domestic food (processed) consumption imported
  - Export intensity growth nearly double import intensity growth*
  - Net export surplus in processed food products
  - Significant growth in processing exports in last 15 years (principally to USA)
  - Processed products now 60 percent (and growing) of all agri-food exports

* Export intensity = exports / shipments; Import intensity = imports / domestic consumption

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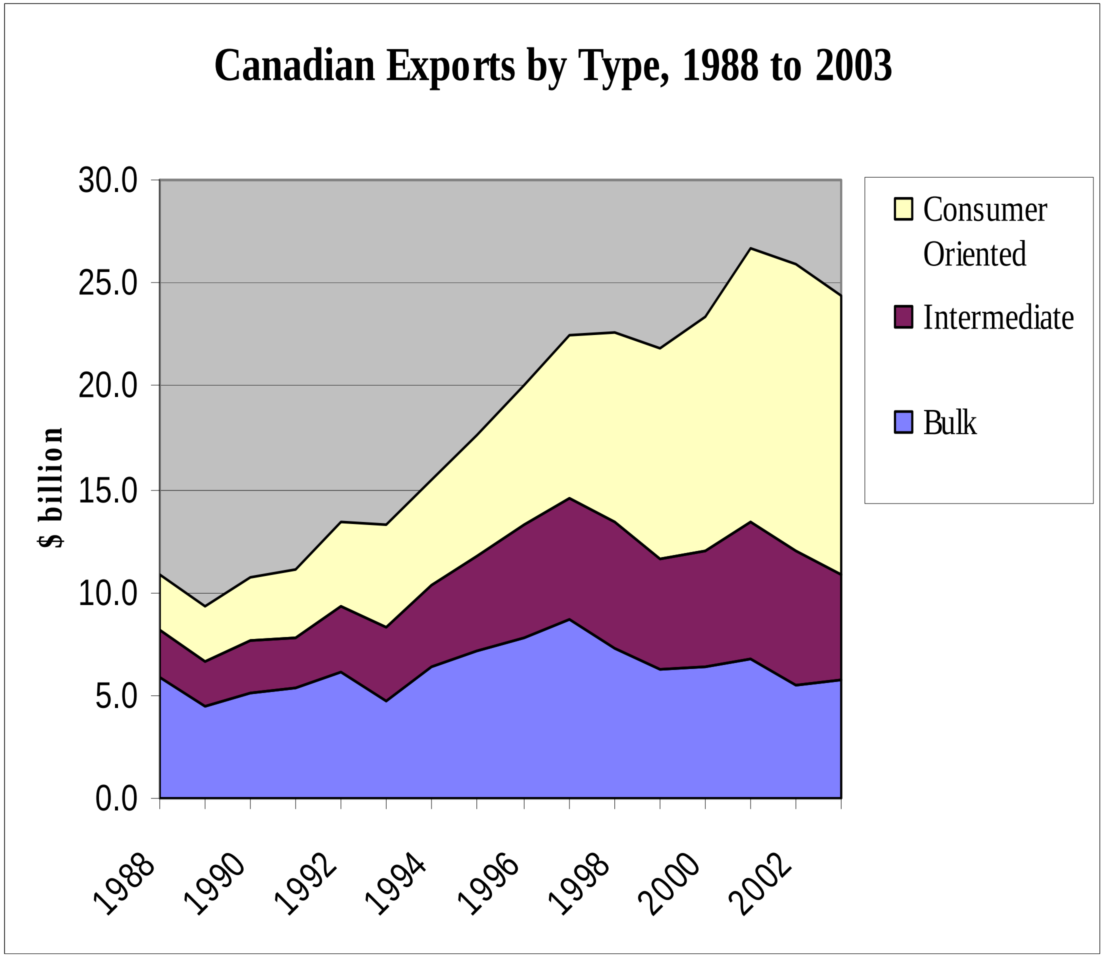
• **Rapid growth in exports**

• **Highest growth in intermediate and consumer oriented products**

• **High concentration on USA market**

• **Agriculture and agri-food trade has a different pattern than rest of Canadian trade**



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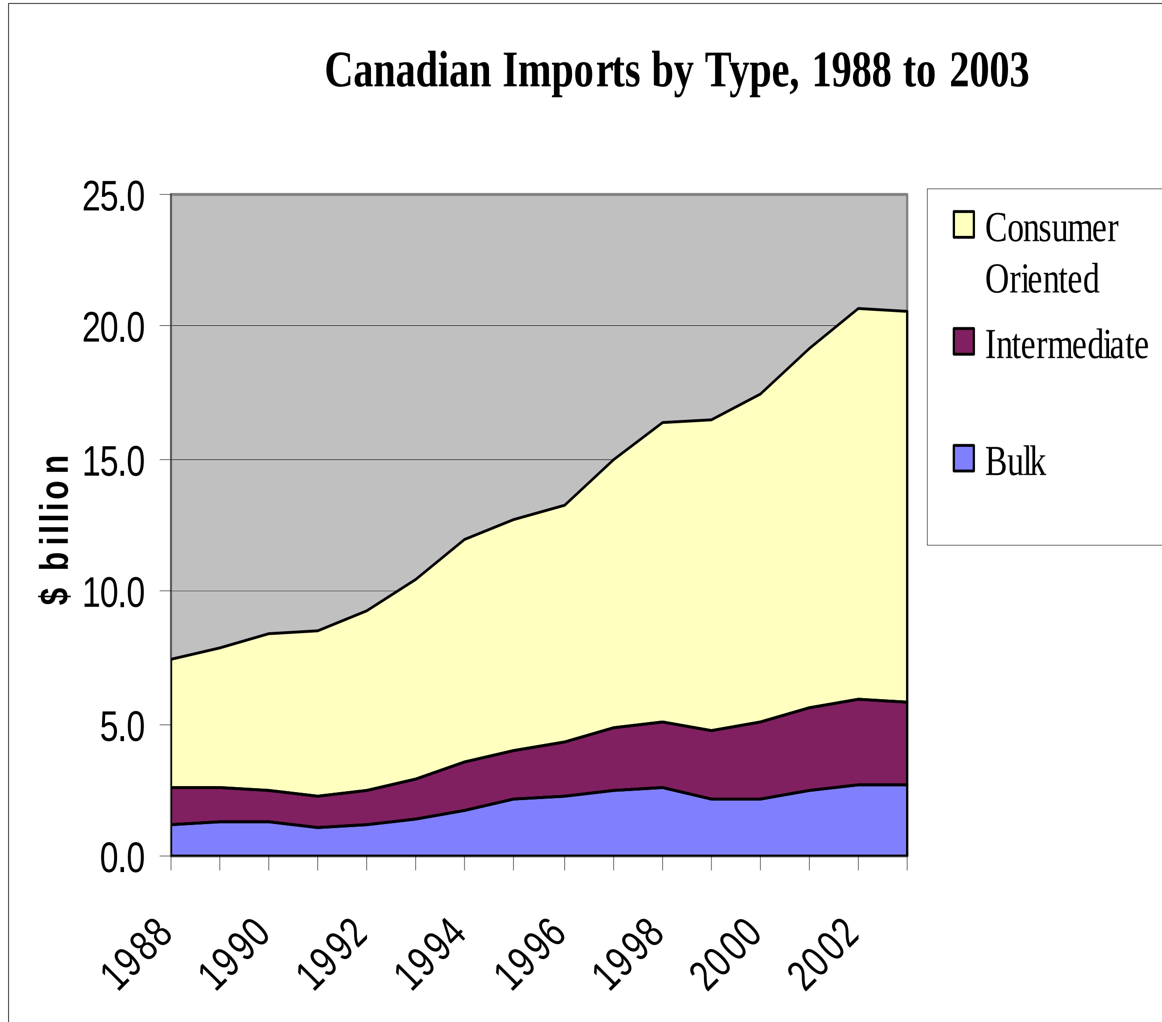
- Canadian imports are also changing
- While bulk imports have increased somewhat, the consumer oriented products have grown very rapidly
- Most of these changes result from NAFTA and WTO agreements



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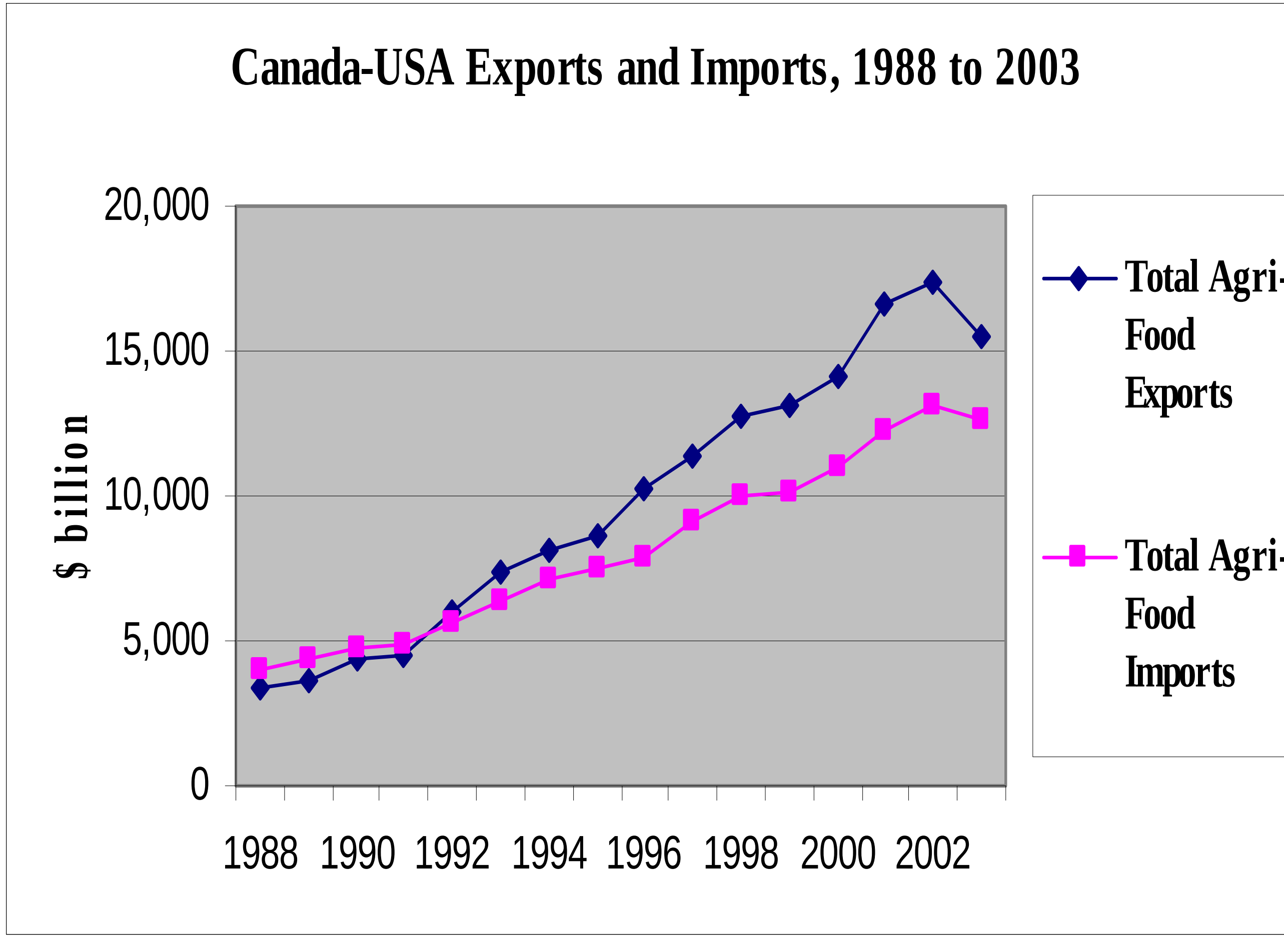
- **Over 60% of Canadian agri-food trade is with the USA**
- **Over 85% of total Canadian trade is with the USA**
- **Exports rising faster than exports for several years**



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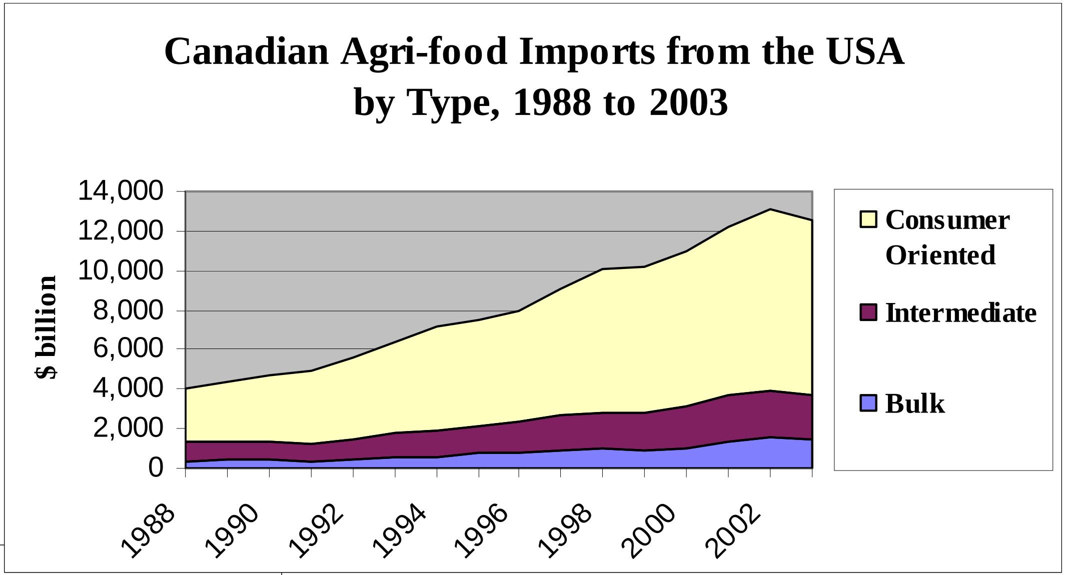
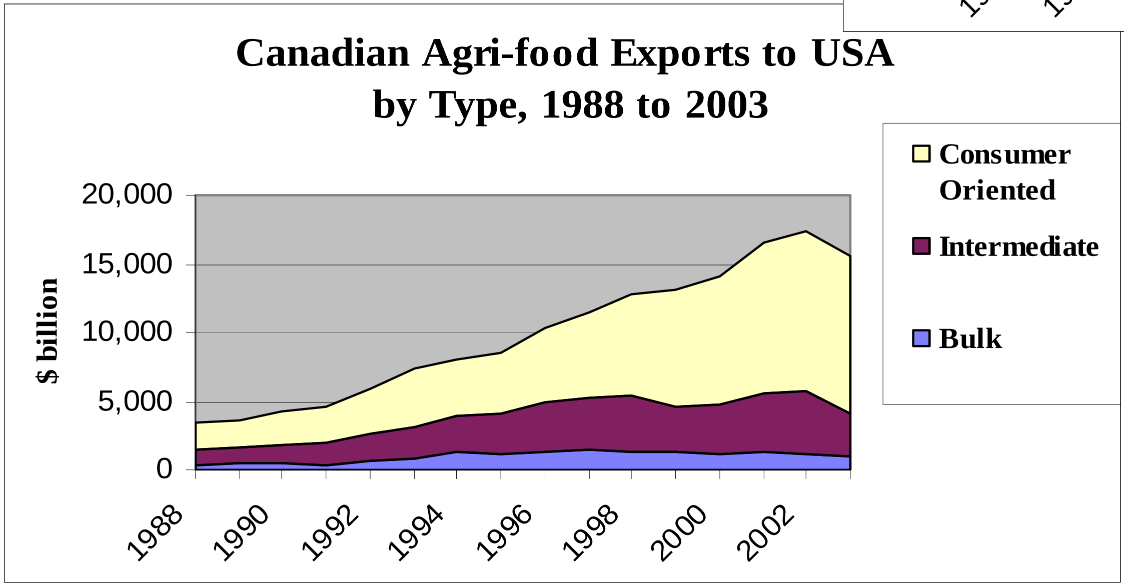
•Largest increases in Canada-USA agri-food trade are in consumer oriented products





• Demonstrates the growing integration between Canadian and USA agri-food systems

• These changes are caused by the NAFTA and WTO agreements

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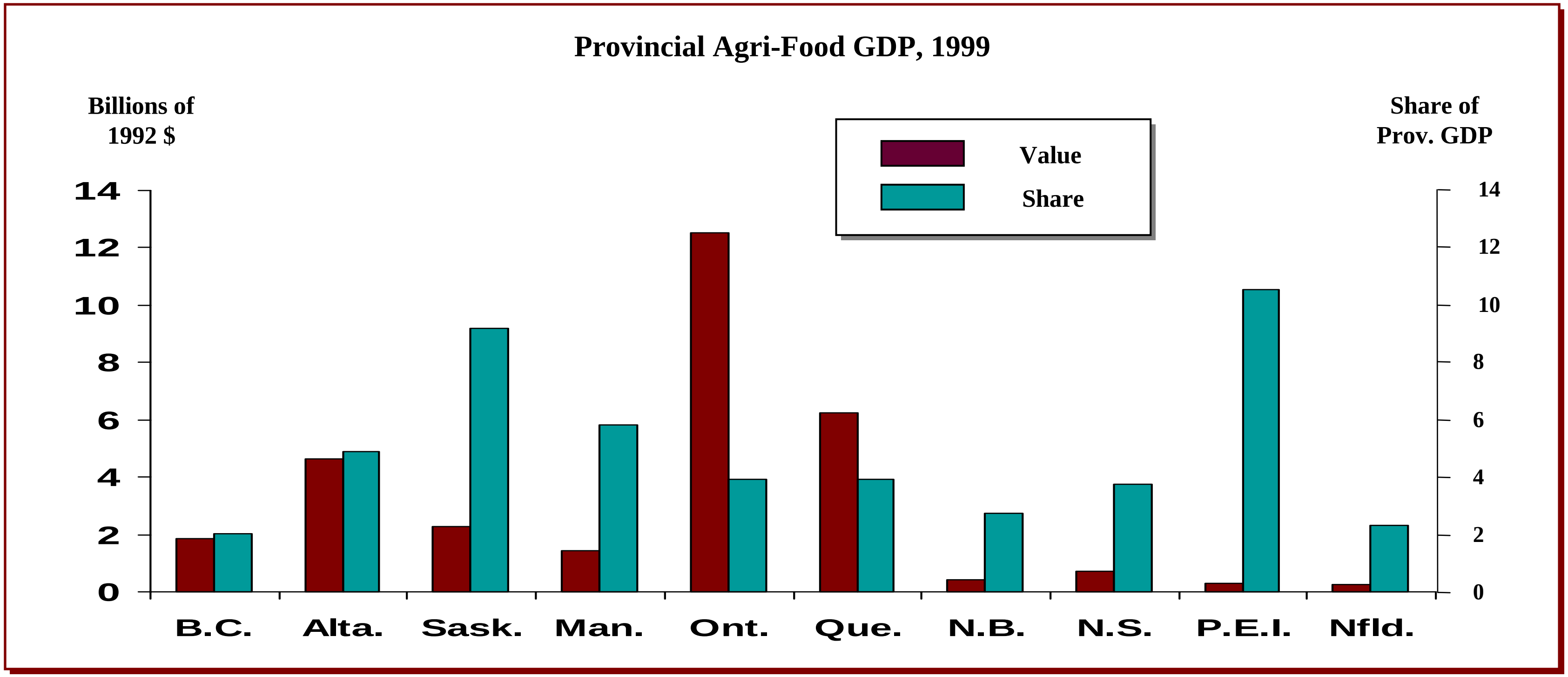
- Agriculture and agri-food GDP varies in importance by province:
  - Large proportion of national total value in Ontario, Quebec and Alberta
  - Small national value but very high proportion in other provinces, e.g., PEI, Saskatchewan, Manitoba.



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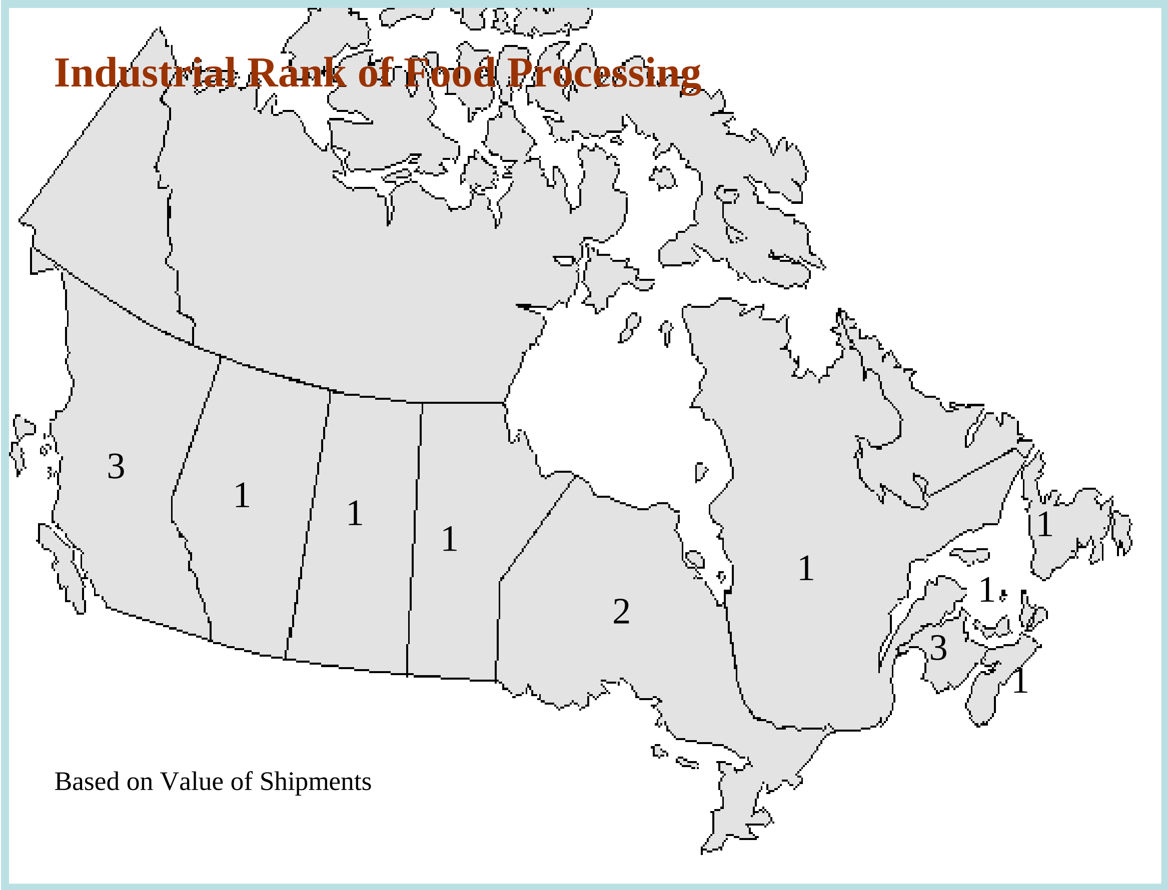
- Food processing is in the top three ranks of manufacturing industry across Canada



Note: Food processing by Province includes fish processing due to confidentiality.

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- **Some of the food processing industries are highly concentrated**:
  - Meats: four or five very large plants, a few medium sized, many small, local ones
  - Potatoes: two large companies, very few medium and small
  - Dairy: a few large companies/cooperatives in an increasingly concentrated industry with many plant locations; some small, local plants
  - Increasingly integrated with USA: for multinational companies, “product mandates” in Canada for distribution across North America

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- Productivity increases in food processing mostly due to in-bound foreign direct investment
- Research and development (R&D) expenditures in Canada are below:
  - Comparable R&D levels in USA
  - Comparable levels of R&D in other Canadian manufacturing sectors
- Since the start of North American Free Trade Agreement:
  - R&D expenditures by foreign firms in Canada falling
  - R&D expenditures by Canadian firms rising

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- The retail industry:
  - Five or six major retailers in Canada, although not all are available in all localities
    - Implication: greater concentration locally than nationally
  - Increasing concentration in retail industry, locally and nationally
  - Increasingly integrated with USA
  - Many small, franchised, convenience outlets
  - Virtually no single-store, privately-owned general food retail outlets remain in Canada
  - Some single-store, privately-owned specialty food stores emerging: high quality, local branding (e.g., meats, breads)

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- Issues:
  - Retail outlets need consistent, year-round, stable supply chains
    - Limited and variable growing season in Canada not easily compatible with retailers' needs
  - Consumers demanding more information about products (food safety, environment)
  - Consumers demanding more convenience and exotic foods

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Credit

- Several presentations in this seminar make use of presentations prepared earlier for the
- Small Farmers Adapting to Global Markets Project
- Canadian International Development Agency (CIDA), the Ministry of Commerce (MOFCOM) and Agriculture and Agri-food Canada (AAFC)
- (www.ccag.com.cn)

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