Canada's Agri-Food Policy Dilemma:
Fiscal Realities, Market Forces and Policy Intentions

Bob Seguin and Janalee Sweetland

June 2012

Introduction

In Canadian public policy, there is a critical role for the annual Budgets in each government as the clearest policy and fiscal link to the future priorities of each government. Over the past months, the Provinces and the Government of Canada have tabled their 2012 budgets outlining their new fiscal and policy directions. Each jurisdiction's budget includes their 2012 Agriculture budgets, with any new initiatives, changes or eliminations in current programming. For each government's budget, implementing legislation, when passed, provides the definitive direction for that government on their agri-food priorities for that fiscal year, and into the future as legislated. Complicating this balancing effort, there are now a number of fiscal, market and policy challenges facing Canada's agri-food sector. These challenges suggest that this is an opportune time to identify whether governments are prepared for, or preparing for, major shifts in their policy and programming for this sector.

Due to the 2008 recession, all governments undertook new economic initiatives to address the adverse impacts of the recession, and to spur the speed of the desired recovery. These economic initiatives subsequently led to new fiscal challenges for most governments. Alberta, Saskatchewan and Newfoundland and Labrador face different fiscal outlooks. Simultaneously, the global and domestic outlook for the agri-food sector has been improving, with some variations, for both primary and processed foods/beverages. There is real potential for sustained economic gains, if assisted by the appropriate public policy and programming changes. Finally, the domestic agri-food policy environment is in flux. The FPT Ministers of Agriculture are preparing to complete negotiations on the national Growing Forward 2 policy framework. This national policy framework must adapt to changes in the agri-food policy frameworks of Canada's key competitors or customers –such as the 2012 US Farm Bill, or the 2013 CAP reform as immediate examples.

With one exception, the 2012 Agriculture budgets across Canada reflected little changes from the status quo. Given the market, policy and fiscal challenges few governments made major policy/funding shifts and in turn missed an opportunity to shift their programs and funding commitments. The following analysis outlines the major forces affecting the current agri-food policy mix or programming at the provincial and national level. The analysis will then examine Agriculture budgets across Canada. The paper analyzes the policy implications from the now announced 2012 Budgets. Finally, the paper outlines the national policy challenges resulting from these budget directions, and the longer term agri-food policy implications in Canada. A key challenge is the opportunity cost of not taking the more ambitious course of altering present agriculture budgets and policies, so as to better prepare this sector for its most likely future market environment.

Fiscal, Market and Policy Context for 2012/13

All senior governments across Canada undertook fiscal actions to stimulate the economy, after the 2008 recession adversely affected overall economic growth and prosperity. By 2012, most governments determined that the stimulus programming had its impact, and greater fiscal austerity was now needed to reduce and eventually eliminate their resulting budget deficits. This implied that the Agriculture budgets in each senior government would be constrained to some extent, as part of that government's fiscal austerity approach. It should be noted that most decisions on priorities for reduction, continuance or expansion of various agri-food programs or policies were often pursued with little, if any, coordination with other governments.

For most senior governments this fiscal forecast, and announced fiscal direction, indicates an overall downsizing in agri-food programming often consistent with similar downsizing of other departments within that government. The broader austerity direction also alters the overall fiscal context for national agri-food programming (Growing Forward framework), which was developed under a less constrained fiscal outlook. To achieve these new constraints/limits on budget growth, governments must prioritize future expenditures based upon measures of effectiveness, efficiency, as well as the consistency with broader goals of each government. A possible exception may be those expenditures linked to other governments' agri-food program expenditures or to those agri-food programs with citizen participation in the financing of that program.

In contrast, the positive market outlook for most agricultural commodities and food products has been sustained for several years. Expectations of future agri-food sector growth are now common for the future. The recent MacDonald-Laurier Institute paper, Hunger for Change (2011) by GMC colleagues, Martin and Stiefelmeyer, as well the most recent longer term outlook by Agriculture and Agri-Food Canada, are among the examples of identifying major sustained improvements in Canada's agri-food markets since the middle of last decade.

To meet this positive market outlook, there will be new public and private sector demands for increased agri-food sector capacity, to achieve greater innovation, productivity, and competitiveness. These demands in turn argue for either new or reallocated public resources towards market development, trade development, innovation/commercialization funding, and likely fewer resources required over time to stabilize farm incomes. This would encourage significant shifts in agri-food policy and program directions towards: greater value added activities; greater market diversity; efforts to reduce obstacles to farm/food sector consolidation; increase openness of domestic and foreign markets; and increases in the managerial capacity of Canadian farms, food firms and agribusinesses. As these domestic resource re-allocations are not instantaneous, or without competition from other sectors, it is critical that the agri-food sector move forward sooner, so as to be in an improved competitive position-in domestic and global marketplaces.

A key source of agri-food programming and funding, the Growing Forward framework, is already under review as FPT Ministers of Agriculture consult/negotiate on new directions for the next generation of the national Growing Forward policy framework, due to end in March 2013.Governments and sector stakeholders are examining future priorities, funding needs, and possible reallocations, in order to best meet future sector demands. A continued domestic policy challenge is the limited quantity and quality of the measures of current program performance, and funding impacts on this sector.

The St Andrews' Statement of FPT Ministers from last summer outlined key goals and directions, but did not pursue the inherent policy tradeoffs or the resulting budgetary impacts of changing priorities. The April 20, 2012 FPT Ministerial communique on Growing Forward indicates a willingness to accept some shifting of priorities, but again with limited discussions on funding capacity. The communique as well as left the determination of new measures of performance for future discussions.

Canada's agri-food sector must also respond to developments and changes in the agri-food policies and strategies, of Canada's major trading partners. The US is developing its 2012 US Farm Bill for Congressional and Administration approvals, which will alter its domestic and global capacity to compete. The European Union is completing its multiyear review of its Common Agriculture Policy (CAP), and determining its new set of CAP priorities and funding for 2013 and beyond. The EU's fiscal challenges vary considerably by each national jurisdiction within the EU, and will in turn drive some of the decision making regarding the next generation of CAP. The overall agri-food policy context of both of these key competitor and customer jurisdictions, along with those of other nations, must affect the future competitiveness of their agri-food sectors.

These fiscal, market and policy contexts suggest significant changes facing Canada's agri-food sector participants and governments. A budgetary status quo is not the only option. But, Canadian governments-with one notable exception-chose to maintain a status quo approach for their 2012 Agriculture Budgets. In doing so, Canadian governments and the agri-food sector missed a unique opportunity to evolve from their current mix of policies and programming towards those better designed for these different fiscal, market and policy environments. It also places this sector at odds with broader market and policy trends, as well as internal demands for the needed talent and capital to best compete in future markets.

Canadian Agriculture, Food and Rural Budgets in 2012

The brief commentary below focuses in on any major program or policy announcements which indicate any shifts in the provincial or federal government's directions for its agri-food sector. Agriculture and Agri-Food Canada and provincial Agriculture budget totals are provided in Appendix 1. Nearly all, governments chose not to use the 2012/13 budget to undertake or identify significant shifts in their existing policies or programs for their sector.

<u>Major Agriculture Budget Initiatives for 2012/13</u>

In Alberta, with its now completed provincial election, their overall Agriculture Budget was basically flat lined. One new key initiative announced was a $25M enhancement to the SR&ED tax credit to spur research in agriculture among other government priorities. In British Columbia, there was a new initiative to offset the impact of that province's carbon tax on BC greenhouses. In Saskatchewan, which just re-elected its government, there were several small initiatives: $1M for International Market Development and Trade Advocacy; $1.3M for regional meat inspection services; and expenditures out of the Growing Forward pool of funds for livestock programming. Manitoba, also after its government was re-elected, opted for small reductions in funding and staffing.

For Ontario, which returned a minority Liberal government, the current Risk Management Program (RMP) was to be capped in 2013 at $100M (current provincial expenditure) with no changes in RMP in 2012. The budget included a commitment for future reductions in a series of identified areas for possible savings of $8.4M/3years, as well as reduced maintenance expenditures in Provincial research/lab facilities. A related announcement to end the Ontario Lottery and Gaming Authority agreement with participating race tracks, municipalities and horsemen, may have significant impacts on selected race tracks, communities, and the provincial horse industry at those tracks. Consultations on a approach for transition were announced on June 7, 2012.

For Quebec, a new initiative to stimulate provincial exports included $3M over 3 years for agri-food exports, and a commitment of $34M over 3 years to the province's biofood sector to promote Quebec farm/food products domestically and internationally, as well as to increase quality and productivity. This initiative is consistent with the Province's biofood strategy released in mid 2011. The Estimates documents for the Quebec ministry do note some 63 FTEs will be cut in 2012/13 for savings of $1.2M annually. Quebec identifies a number of longer term budgetary changes which will have some impacts on the provincial agri-food sector, but as yet are unknown.

For Atlantic Canada, no major new initiatives or major cuts were announced in any of the four provinces, although expenditure constraints were identified. It is noted that New Brunswick also cut its funding for its horse racing industry in 2012. In Prince Edward Island, the 2012 budget was constrained, but a unique Agriculture focus was that government's emphasis on its financial support (to be capped) for the beef processing facility on the Island, and future consultations with the current funding partners and producers.

The major exception to the general status quo approach is the AAFC budget. Like all other departments of the Federal Government, it took its share of overall expenditure reductions. The AAFC budget did include new initiatives to support transition funding for the Canadian Grains Commission, and to support generic genomic research for the agri-food sector. But, in turn, a number of existing programs were consolidated; various "backroom" operations were also consolidated across several departments with overlapping responsibilities; and a series of program expenditure cuts were made from a wide range of AAFC programming. These program cuts included those funded through the Canada' Action Plan and future expenditures under current Business Risk Management programming within Growing Forward. A key announcement, which became more transparent in the weeks following the 2012 Budget, was the 10% reduction in AAFC staff from across a number of program areas or agencies (e.g.

CFIA).The full impact of these decisions will not be fully understood until all the staffing adjustments have been made, and program cuts/consolidations implemented.

Additional budgetary impacts for the sector and for AAFC will result with the passage and implementation of the Federal Budget bill, with a number of future legislative and regulatory changes, which will also shift program expenditures over time. The full impacts of these changes are also not yet well identified. However, the AAFC changes reflect a more ambitious effort to shift programs and policies, as well as reduce expenditures, to better reflect a changing national agri-food sector and outlook.

Commentary on Federal and Provincial Agriculture Budgets in 2012

The Course Taken- An Opportunity Lost

Basically, most governments and the Canadian agri-food sector opted for a status quo approach for their proposed funding/policy directions in their 2012 Agriculture budgets. This is not surprising. Those governments with recent elections did not campaign on major realignments of their agri-food budgets or their agri-food sectors. The continuing work at the national level on Growing Forward 2 (GF2), and the ongoing implementation of Growing Forward programming, means most provinces are not in a position to dramatically-or even partially-realign their contributions to new GF2 priorities. Most Canadian farm groups have not signalled any serious interest in major revamping of GF2 programming/policies, and most Canadian food groups are not fully participating in these discussions to signal any direction.

The George Morris Centre has noted previously that many of the national, federal or provincial agri-food programs and policies do not have agreed upon performance measures, to address questions of efficiency or effectiveness in achieving various policy goals. Indeed, some of the basic questions on what certain policies or programs are designed to achieve have not been asked- and the data never collected. This lack of transparent, accepted performance measures reinforce a natural inertia favouring current spending, increasing the difficulty in reallocating resources, both encouraging governments and the sector to lean towards a near status quo approach.

This is not realistic or effective. Budget changes did occur. All governments signalled that more significant changes in funding are to occur later. But, the fiscal, market and policy contexts facing this sector require greater changes, so as to better ensure longer term prosperity for the sector and the capacity of this sector to best compete for capital and talent. Not surprisingly, the budget course taken by most governments was less risky. The approaches were prudent and seemed to provide policy flexibility in the future. But, these missed the opportunity to initiate policy and funding changes, if only to start the process and begin the needed agri-food policy discussions to shift programs and funding. Such a shift would lead to more ambitious innovation and trade/market development policies as well, bringing more risk capital to support such innovation, and improve the mix of the needed management/HR policies to reinforce the sector's capacity to best manage these changes and the increased global competition.

Agri-Food Policy Dilemma- Risk, Innovation and Investment Funding in a Changing World

Although each senior government did make efforts to amend their respective 2012 Agriculture budgets, the announced funding and program changes did not alter the major mix of available programs/policies for the Canadian agri-food sector. As noted above, this is reasonable of the FPT Ministers of Agriculture on a number of fronts. It is also a missed opportunity.

The major policy dilemmas facing Ministers and the sector are ones where the risk, innovation and investment needs for the sector are visible and the trends are known. But, the real costs/benefits, the full understanding of the rewards or losses across industries or regions in the agri-food sector are not well known. Without improved information-and awareness by all participants-there is an inertia in altering existing programming with its current clientele, and accepted methods of operation. Yet, the inability to make more significant changes, and to clearly identify future policy/program paths will mean that the costs of future change are likely to be greater. There are real risks that Canada's agri-food competitors will improve their competitive capacity over time. There are also real risks to move internal resources and leadership into this sector, to allow it to grow and prosper as well, will need more time than the marketplace will allow.

The 2012 budgets for the Federal and Provincial governments identified a series of initiatives-generally involving expenditure reductions, or efficiencies-to address the fiscal capacity of each government in the short and longer term. The 2012 budget actions are not sufficient in themselves to resolve all fiscal concerns, or potential for disruption of projected economic growth from external variables (China's economic growth, EU monetary stability). For future Agriculture budgets in Canada, FP governments will have to continually review effectiveness, efficiency, political acceptability of existing programs and policies to adapt to changing economic or fiscal directions. The limited action by most governments- and even AAFC changes contain a number of not yet defined future regulatory or budgetary initiatives-on their Agriculture budgets will mean the need to continually shift resources to better meet ongoing agri-food sector needs, but always with less certainty until long term programming decisions can be made. Part of that delay will be gaining agreement from stakeholders, reassuring through identified measures of the effectiveness or reduced risk, and earlier implementation to meet market needs as well as competitor's initiatives.

The domestic and global agri-food marketplace will be changing. A trite observation, but it implies the need for adaptability, innovation and continual improvements in productivity, and competitiveness for the Canadian agri-food sector to grow and prosper. Market shifts will not always be kind to existing Canadian agri-food commodities or goods/services. Increases in the incomes of developing or emerging nations will require better market analysis/development, improved innovation and market access, and improved managerial capacity along with new investments in scale, technology to best assist this sector in a more volatile marketplace. As Canada remains a relatively open market at home, these competitive pressures are domestic issues as well. For the agri-food sector to best succeed, funding and program re-allocations need to occur-with proof that the new initiatives will work-to better align the needs of the sector with the governments' capacity to provide the needed risk management, innovation, productivity tools to compete effectively.

For improved agri-food innovation alone, the need to move earlier rather than later is critical. Increased public support for appropriate innovation policies/programs for this sector will require awareness of which programs do actually work well; to understand the linkages and differences between the agri-food research base in Canada, and its base costs, and innovation in this sector; and how well/poorly Canada's competitors are doing in improved innovation investments and success in domestic and global marketplaces.

The agri-food sector policy changes in other jurisdictions will carry additional pressures for Canadian agri-food policy, to adapt to those jurisdictions where the policy and program shifts alter Canada's agri-food sector's success. There must be the recognition that innovative policies/programs in other jurisdictions also encourage those Canadian citizens with similar goals to identify and seek to replicate, in part at least, those initiatives which seem to address agri-food sector policy demands within Canada.

The Growing Forward 2 policy framework still has some considerable work before it is finally negotiated and approved for implementation. Reluctance to commit to changes early can be understandable, but even modest funding shifts, can encourage governments and clients to examine benefits of such changes prior to full commitment, to test out programming specifics, and to allow for improved understanding of what is needed to be more innovative, productive and competitive. Early action, or identification of the policy direction, can allow governments and stakeholders to better determine more desired implementation initiatives which may vary across the country/across sectors. For some governments, and stakeholders, waiting until the 2013 Budgets may seem more prudent. But, if GF2 programming changes are major, such delays in implementation/approvals will limit jurisdictions' ultimate effectiveness within the new national agri-food policy framework.

The GF2 policy framework is a major but not the only policy and program priority for the Canadian agri-food sector. The ongoing evolution of Canada's supply management systems will continue to have significant impacts across the affected commodities/industries, as well as on other national policies, such as trade. Successful market access negotiations, and the resulting market shifts will mean differing domestic initiatives to encourage growth and allow for some industry/firm transitions. New regulatory measures (in all FPT jurisdictions) designed to encourage innovation, such as those now identified in the new Federal omnibus implementing legislation, will also affect the desired mix of programs and services to best enable the agri-food sector to adapt and compete.

There are two final comments on the 2012 Agriculture budgets and cross government linkages. The Alberta budget noted a new R&D initiative linked to the federal SR&ED programming. This cross sectoral initiative in Alberta seemed to neatly tie in a long standing federal program. However, following a recent outside review of the SR&ED program, the 2012 Federal Budget identified a number of future changes to the program, which may-when fully implemented-provide different impact on the desired sectors than was anticipated in the Alberta Budget when tabled. This is but one example of the "devil in the details" of the many budget initiatives; subsequent linkages, consultations, and legislative changes may alter the desired results.

A second and clearer example is the 2012 Ontario decision to cap its RMP initiative in 2013, while still requesting federal contributions. As has now been noted by the Ontario Minister of Agriculture, Food and Rural Affairs, increased federal contributions may not seem likely. The need for change in the original design of the RMP initiative seems to be more pressing. With $100 million under discussion at the provincial level, and the need to realign the program in some manner (once capped, and without direct federal contributions) and with likely future BRM changes, the Ontario government and Ontario farm groups have considerable work to undertake to best determine the appropriate course of action. An improved public understanding and transparency of the results of the 2011 RMP initiative would assist such deliberations. It would also assist in improving what policy or program shifts are required to achieve the real desired results of such expenditures.

Conclusion

The 2012 Federal and Provincial Budgets signalled, almost across the board, a desire to restrain past stimulus spending. The intent was to focus, as appropriate, on those budgetary initiatives which best reduce fiscal deficits, but also encourage growth. The Canadian agri-food sector has a very optimistic growth outlook-globally and domestically. This sector's growth requires a shift in domestic public and private resources, from one program area or institution to another. However, given the market outlooks of the past decades and the policy initiatives of most governments in those decades, there is considerable reluctance to make wholesale program and policy changes.

Although not surprising, it is not the best choice. For those governments accepting the need to make moves now- even moderate ones-there is the real opportunity to better participate in ongoing GF2 negotiations, and more quickly adapt their agri-food industries to the more challenging (and profitable) marketplace. This will also allow governments to better align the mix of policies and programs outside of the budgetary process, with the funding programs.

It is also clear that to build the needed trust among and between segments of the Canadian agri-food sector, vastly improved measures of performance of various agri-food programming and policies must be developed, matching up results to goals, effectiveness and efficiency with desired results and improved understanding of the inevitable tradeoffs between programs, policy goals, and sector needs.

It is the agri-food policy dilemma. All too often the needed resources are not available in the manner/programs needed, or just not available given the competition from other segments of the society or the economy. The greatest challenge for Canada's agri-food sector is the domestic one; to obtain and secure the necessary human and capital resources to best enable the sector to compete and prosper.

Appendix 1

Agriculture Budgets in Selected Provinces, and Federal Government-2012/13

Agriculture	**$ '000**			
	2011-12	**2012-13**	**Difference**	**% Change**
AAFC	2,571,509	2,418,594	-152,915	-6%
Quebec	1,054,161	1,067,583	13,422	1%
Ontario*	1,043,500	1,124,900	81,400	8%
Manitoba	228,446	227,238	-1,208	-1%
Saskatchewan	417,816	430,777	12,961	3%
Alberta	623,936	628,580	4,644	1%
BC	65,771	65,788	17	0%
*2011-12 interim				

Sources: Governments of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec and Canada, Budget papers, speeches, news releases 2012