Working Towards a New Direction for the Agri-Food Sector

Discussion Document

Canadian Agri-Food Policy Institute

February 2006

Preface

The Canadian Agri-Food Policy Institute (CAPI) serves as an independent voice on agri-food policy issues in Canada. CAPI identifies emerging issues, trends, and policy issues in the agri-food sector that requires further study and coordination on a national basis. CAPI is represented by key stakeholders from across the agri-food supply chain on its seven member Board and its 12-member Advisory Committee. The federal and provincial departments of agriculture and food support the work of CAPI and seek CAPI's input on policy issues.

In its forward-looking approach, CAPI engages a wide range of national and international experts to undertake specific studies focusing on these issues and trends.

CAPI provides a framework for the development of future agricultural policy options by: commissioning studies; convening expert panels to review and critique these studies; conducting sessions for stakeholders to input their views, and disseminating the proceedings to agri-food industry associations, businesses operating in the agri-food supply chain, farm organizations, governments, other national and international bodies, and universities.

The Institute seeks to secure the future of Canadian agricultural producers by enhancing their linkages with downstream components of the food chain, and ultimately with all consumers.

Beyond its work with the agri-food chain, CAPI seeks to establish links between agriculture and food and the health and wellness of Canadians; current and future industrial opportunities for agricultural production; and, preservation of Canada's rural communities.

CAPI envisages links between agriculture, food, and health that will provide primary producers and food manufacturers with new opportunities while beneficially impacting all stakeholders, including consumers whether in rural or urban communities.

This discussion paper contains a number of policy implications arising from CAPI's comprehensive study of factors responsible for the long-term decline in real farm income in Canada. The major findings of that study were presented and discussed at a forum with 70 leaders of the agri-food industry and related experts in June. The individual studies and the synthesis report from those papers are available on the CAPI website (www.capi-icpa.ca). This discussion paper is offered for response and input from stakeholders. Please submit your comments, by the end of February, 2006, to the address below.

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Note to Reader

A summary of findings is provided on the following page, entitled Consultation Summary. This summary has the working list of policy implications and a preliminary working version of a vision statement for the agri-food sector.

Please provide your comments to Yvan Jacques, CAPI's A/President or John Groenewegen, CAPI Farm Income Project Manager at 519-836-1860 by telephone, by fax at 519 836-3503, and by email at john@jrgconsulting.com

Executive Summary

Many factors affect farm income prospects, and the key issues and findings for Phase I of the CAPI farm income project were summarized around three broad themes, which are:

1. *Farm incomes in Canada are shaped by global forces, particularly prices for commodities that are determined in the global market place and are reflective of exportable supplies of low-cost exporters; these long-run market forces are beyond the control of farmers and government policy in Canada;*

2. *The farm sector has commercial business focused farms and many non-business focused entities; business management capability is necessary for business success; government policy has tended to take a one-size fits all approach versus recognition of the large number of smaller non-business focused farm operations that are an important part of Canada's rural area; and*

3. *Government policy has focused on supporting incomes versus policies that support the business of farming; current levels of government support and spending on R&D, innovation, marketing and promotion, and general infrastructure required for a vibrant agri-food sector, and regulations that affect the availability of essential inputs are not conducive to a business-focused commercial agriculture.*

The agri-food sector has an opportunity to respond to these challenges and key issues. Findings from the first phase of this project indicate that some repositioning of the agri-food sector may be required.

As part of this repositioning, CAPI has identified a number of policy related implications that emanate from these findings. These policy implications are categorized and summarized around themes of:

- Focus of government policy;
- Access to markets;
- Policy, farm incomes and support;
- Innovation; and
- Regulations.

The listing of these far reaching implications can be viewed in section 3.0 on page 16 of this document. This is a working document and CAPI invites feedback on these policy implications. These policy implications, as well as our findings from the first phase of the CAPI farm income project will also be used to assist CAPI in developing a vision statement for the agri-food sector.

A vision statement can help guide the repositioning that is required within the agri-food sector. Some working examples of a vision statement are provided in section 4.0. This is a work in progress; accordingly CAPI is requesting feedback on the future state of agriculture and food, the vision statement used to inspire and direct action, and the high level strategies to achieve the vision. CAPI fundamentally believes that the future is very bright for the Canadian agri-food sector.

1.0 Background

In 2005, CAPI undertook a comprehensive study on the subject of farm income in Canada. This farm income project was guided by the objective of *"providing a fact-based analysis to contribute to the policy dialogue, and stimulate discussion on the key issues affecting farm income prospects for the sector*". The first phase of this study examined factors that affect farm income and the competitiveness of the agri-food sector and was primarily a situational assessment to provide a better understanding of where the agri-food sector is today regarding farm income prospects and factors affecting these prospects for the future.

In support of this objective, CAPI held a Forum in June 2005 called "*Understanding the Factors Affecting Current and Future Farm Income Prospects in Canada".* Seventy participants were invited to review preliminary findings from some of the CAPI commissioned papers that were part of the study, to solicit their input, and to facilitate dialogue among these stakeholders. This Forum laid the foundation for further discussion and future action as it relates to farm income and the Canadian agri-food sector[1].

The key issues and findings for Phase I of the CAPI farm income project were summarized around three broad themes[2], which are:

1. *Farm incomes in Canada are shaped by global forces, particularly prices for commodities that are determined in the global market place and are reflective of exportable supplies of low-cost exporters; these long-run market forces are beyond the control of farmers and government policy in Canada;*

2. *The farm sector has commercial business focused farms and many non-business focused entities; business management capability is necessary for business success; government policy has tended to take a one-size fits all approach versus recognition of the large number of smaller non-business focused farm operations that are an important part of Canada's rural area; and*

3. *Government policy has focused on supporting incomes versus policies that support the business of farming; current levels of government support and spending on R&D, innovation, marketing and promotion, and general infrastructure required for a vibrant agri-food sector, and regulations that affect the availability of essential inputs are not conducive to a business-focused commercial agriculture.*

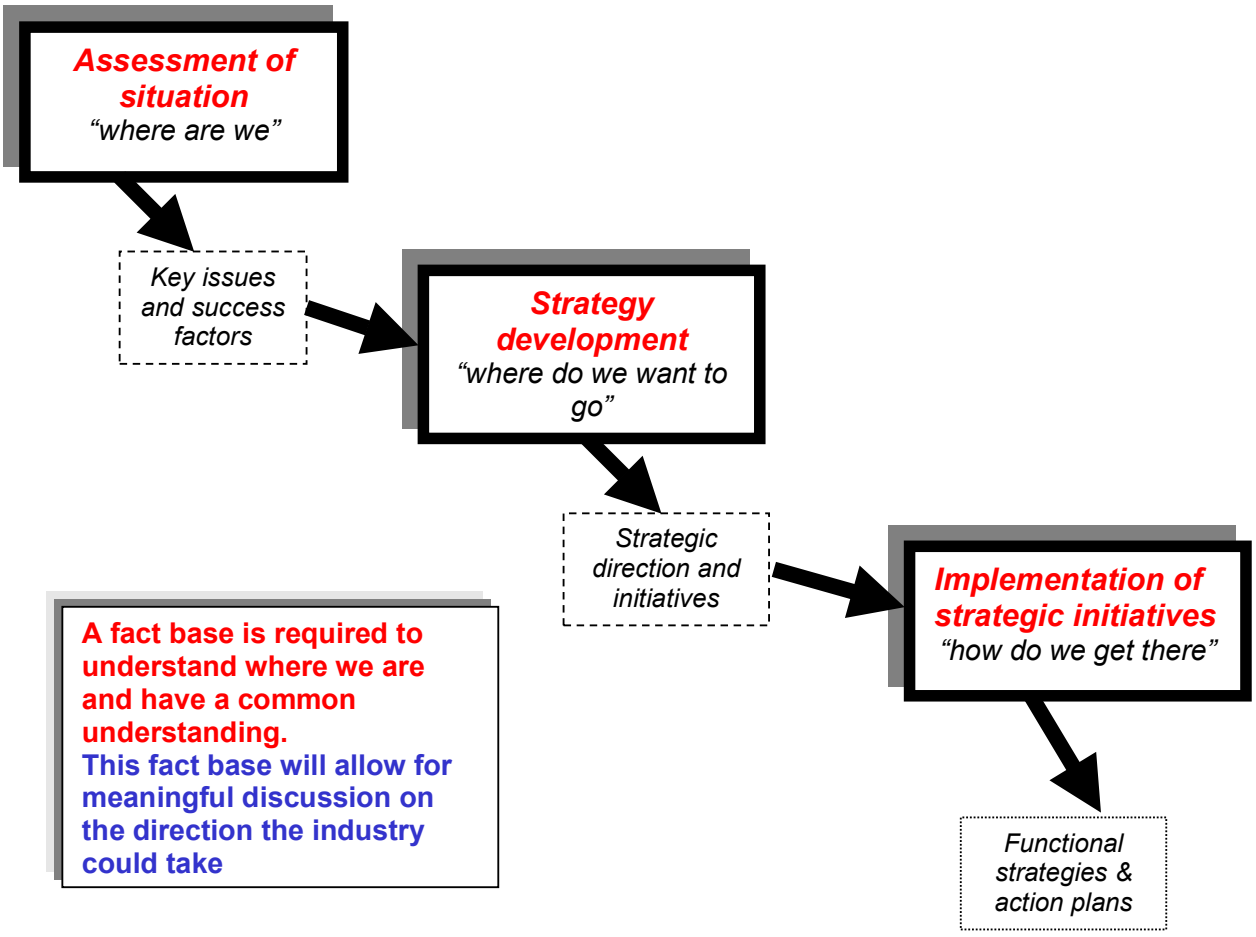
The agri-food sector has an opportunity to respond to these challenges and key issues. Findings from the first phase of this project indicate that some repositioning of the agri-food sector may be required. Development of a vision in support of any repositioning is critical to provide clarity on a future destination and focus for the agri-food sector[3].

[1] The findings and key issues that were identified as part of the first phase of this project, along with the situational assessment are summarized in a Synthesis Report titled *"Factors Affecting Current and Future Farm Income Prospects"*, which is available on CAPI's website at www.capi-icpa.ca.
[2] These findings and key issues are listed in Annex I.
[3] See also the paper titled *"Vision and Strategic Direction Options for the Canadian Agricultural Sector"* on CAPI's website for additional information.

Developing a vision for the agri-food sector is a process that involves analysis, insight, perspective and reflection. This process is part of an overall strategy development process, which is highlighted in Figure 1.1 The situational assessment, which was summarized in the Phase I report,[4] leads to the identification of key issues and success factors for the sector. The associated implications of these findings and key success factors are the focus of this report, including the start of a process to develop a working vision and associated strategies for the agri-food sector.

This document, the February 2006 CAPI Forum, and the associated discussion and feedback is part of the process that will allow CAPI to work with the rest of the agri-food industry in developing this vision, which will provide clarity on where the agri-food sector strives to be in the future.

Figure 1.1 CAPI Farm Income Project in A Strategic Context



As part of this process for highlighting the implications and beginning discussions on a new direction for the agri-food sector, CAPI held a workshop (in Toronto on September 22, 2005) with a number of CAPI Board members, members of the CAPI Advisory Committee, and other stakeholders was held to discuss the implications of the key issues and findings (as highlighted in Annex I)[5].

[4] Referred to above as Synthesis Report *"Factors Affecting Current and Future Farm Income Prospects"*,
[5] The attendees at the workshop are listed in Annex II.

This discussion was guided by elements of the integrating framework[6] designed for this project. These elements are as follows:

1. Markets for farm based products, and related demand conditions;
2. Processing and manufacturing;
3. Farm production;
4. Strategy, rivalry and collaboration in the supply chain;
5. Returns to resources and to farmers;
6. The natural resource base used by the farm sector;
7. Supply of input and factors of production;
8. Related and supporting industries (including R&D);
9. Government regulations and policy; and
10. Overall strategy and strategic direction for the agri-food sector

The implications of our findings on factors affecting farm income prospects on policy are organized under the following headings:

- Global Forces;
- Government Programs and Regulations;
- Aggregate Farm Income;
- Farm Level Context;
- The Agri-Food Supply Chain; and
- Innovation and Continued Success.

A draft of these implications was shared with CAPI Board members and the CAPI Advisory Committee. CAPI Board members and the majority of the CAPI Advisory Committee members provided feedback, with this feedback incorporated into this working document.

The following section (2.0) of this working document highlights the implications using the categories listed immediately above. The following section (3.0) provides a listing of these identified policy implications using the themes of: (1) focus of government policy; (2) access to markets; (3) policy, farm incomes and support; (4) innovation; and (5) regulations. Section 4.0 starts the discussion on vision and strategic direction for the agri-food sector.

As noted in the preface, this discussion paper is offered for response and input from stakeholders. Please submit your comments to CAPI before the end of February 2006. After this date CAPI will be proceeding with its work on developing a potential vision for the agri-food sector, developing the associated high-level strategies, and testing some of these through pilot projects.

[6] This is an extension of the competitive advantage of nations framework provided by Michael Porter, and is highlighted in Annex III.

2.0 Implications of these Findings

In this section, the implications that arise by each grouping of key findings are provided. These groupings are:

- Global Forces;
- Government Programs and Regulations;
- Aggregate Farm Income;
- Farm Level Context;
- The Agri-Food Supply Chain; and
- Innovation and Continued Success:

In each sub-section the findings for the above grouping are listed. This is followed by a discussion of some related issues. Following this discussion the implications for government policy and regulations are listed, followed by any implications for developing a vision for the agri-food sector.

2.1 Implications Arising - Global Forces

The key findings in the area of global forces included:

1. *The fundamental driver of farm income trends is the long-term decline in real commodity prices; for most commodities this is driven by global exportable supply increasing faster than demand;*
2. *Large increases in exportable supply from emerging low cost exporters such as Brazil and China are a fundamental force shaping the global agricultural sector today; growth in exports of major commodities comes from non-North American countries;*
3. *Prices for many commodities observed today can be considered equilibrium prices, reflecting the lower cost structure of emerging suppliers;*
4. *Many parts of Canadian agriculture are providing commodities into mature markets; competing in mature markets requires cost leadership and providing the needed critical mass for the marketplace;*

These findings indicate that a large part of Canadian agriculture is competing in commodity markets, where the marginal costs of the lowest cost supplier will affect the returns of all suppliers.

Implications for the agri-food sector include:

- If Canadian farmers want to continue exporting commodity products, production of these commodities needs to be competitive with suppliers of commodities from lower cost exporting nations;
- The need to conduct market specific and consumer specific research to allow all segments of the supply chain to understand what the market requires;
- There is a strong need to look for new markets, new uses and alternative uses for existing commodities, including the use of farm products in bio-processing and for use as renewable fuels;
- Develop new products for the market, such as was the case of canola and currently the case of flax;

- Differentiate products based on consumer driven attributes (food safety, traceability, micro-nutrients, etc),
- Addressing health concerns through the food supply chain is a large opportunity for the sector.
- Decreasing costs is imperative for producers in commodity markets, which can occur through cost saving technologies, and investing in new technologies which increase productivity and yield,
- Increase scale of operations to offset lower per unit margins (price - unit costs),
- Employ strategies in the supply chain to increase share of market returns, such as being part of buying groups, or part of marketing alliances,
- Enhance farm business management skills to successfully operate in the market environment,
- Some farm operations will not be able to survive,

There are opportunities for differentiation and for niche markets; however there may not be another success story like canola which allowed for a significant planted area before the market was saturated. The market size for many commodities is limited, with another 100,000 acres of supply causing market saturation. For example, with many pulse crops, prices swing widely each year based on production volumes available to the market. The success story of canola maybe harder to replicate since canola was a substitute for other oil product in a large existing edible oil market. As well, once a new product or technology is available and other suppliers are eager to adopt these new technologies.

Bio-processing of field crops and bio-mass for non-food uses has many positive implications for the agri-food sector and the rural economy. When addressed in the context of improving farm incomes and subsidy-free sustainability, bio-processing for ethanol and bio-diesel, for example, does not appear to be economical. However, when the larger impacts on resulting economic activity, impacts on jobs in rural areas and contribution to environmental goals, bio-processing can provide a positive contribution to overall society welfare. An implication is that continued tax-payer assistance may be required (unless, for example, energy prices are high in relation to the price and cost of producing bio-mass feedstock).

It should be noted that the existing and planned ethanol plants in the U.S. will require an amount of corn that equals the traditional export volume of U.S. corn. This will refocus the US corn market to domestic requirements versus the export market. In such an environment, the price of corn in Chicago may be different than today. Renewable fuel production can provide domestic markets for traditional export oriented commodity crops. For example, one commercial bio-diesel plant requires approximately 700,000 acres of canola production. A focus on renewable energy production in Canada can have major implications on markets for some farm products and on the focus of agricultural policy.

It should be noted that renewable fuels production has a net energy balance (not including the “free” solar energy for photosynthesis). A USDA study shows that corn ethanol has an energy output/input ratio of 1.67, implying a positive energy balance. The results for bio-diesel are somewhat higher at 3.2 units of fuel product energy for every unit of fossil energy used to create bio-diesel (according to a joint USDA and Department of Energy study). This compares to 0.83 units of fuel product energy for every unit of fossil fuel energy used to produce diesel fuel. New technologies published, and in use around the

world today, give biomass based fuel energy production even higher energy balances using technologies such as fermentation processes, enzyme use, molecular sieves and high starch crops.

Increases in post farm gate value added processing activity does not always result in improved farm gate returns. Additional processing is fundamental to the overall health of the agri-food sector supply chain and to the Canadian economy. Additional post farm-gate value added activity can improve the price basis (local price in relation to a reference price, such as an export "FOB" price or a futures market price) through an increase in local demand. This impact on farm prices is driven by the basic farm price for product established based on the world price for these crops and the costs associated to access this world market, or the costs associated with sourcing and importing these crops.

In other cases, new processing technologies and markets for processed products increase the demand for farm products and results in improved farm incomes through both price and volume effects. For example, through integrated supply chains that supply unique requirements to customers, farmers can share in the higher market values by being a part of these integrated supply chains that supply the unique attributes. As well, in the future with a viable bio-products processing sector, this sector can consume most of the biomass that is currently exported today as traditional commodities (e.g., cereals and oilseeds). This departure from past economics can have significant effects on the mix of products produced and farm income.

New niche markets which reflect health and wellness foods, such as high oleic canola and organics, which utilize the benefits of winter in controlling pests are opportunities. Some farm products are produced with specific attributes, such as omega-3 eggs and milk and low linolenic/high oleic canola oil. Farmers are paid more to produce these products based on the extra costs of production, or yield impacts. A debated issue is whether farmers are capturing their fair share of the value of the new technology; typically the major portions of the benefits of the new technology are captured by the owners of the technology. Technology developers would argue that the bulk of the extra profits should reside with them to offset the high costs of development and registration, and the uncertainty associated with research into new technologies.

Canada is facing a trillion dollar health bill. The agri-food sector can be part of the solution through providing the foods and food products that are healthy for Canadians and allow Canadians to receive appropriate nutrients for well-being and disease prevention. The solution is a multi-sectoral approach and much depends on consumer choice and behaviors. The agri-food sector needs to be able to supply foods that contribute to healthy Canadians. This begins on the farm with food safety, traceability, and recall programs.

Innovation is critical for the continued success of the agri-food sector. A substantial investment in basic R&D is required. Innovation is required to allow for productivity gains to result in lower costs to be able to compete with low cost exporters, and innovation is required to develop new products to meet market place requirements and demands. China and India are reported to have large public research programs, with a focus on bio-tech. Their regulatory structures also provide a more biotech friendly environment for commercial applications. This trend can have long term consequences for Canada.

The ***implications on government policy and associated regulations*** include:

1. Government expenditures on research and development have not kept pace with need, or with past expenditures levels. This trend must reverse to provide the needed substantial investment on behalf of the agri-food sector.
2. Government policy can facilitate innovation and commercialization of new technologies in the agri-food sector through mechanisms such as; direct expenditures on R&D, tax-policy for innovation, a regulatory environment that is conducive to innovation being registered in Canada; and programs that result in commercialization of these innovations within Canada;
3. The overall approach to innovation may require change to allow farmers to be larger beneficiaries of innovation. This could occur through farmers collectively contributing to R&D through innovation levies (a check-off), which would allow them to access technology at lower costs, with the technology owners being reimbursed through a national levy. The institutional design could also change, whereby farmer cooperatives would receive innovation funds through the check-off innovation levy, contract out research, and make resulting technologies available to members, or to the sector at minimal cost;
4. Government expenditure to support incomes, versus stabilize trends in incomes, is counterproductive, as these income support expenditures do not all remain in the farm sector; rather the net effect is that these benefits also accrue to input suppliers and users of the products – such income supporting measures raises the cost profile and potentially lowers returns;
5. A forward looking government policy is required to develop and support within Canada markets for non-food products such as renewable fuels;
6. Government policy and regulations should be supportive of innovation (adaptation of existing technologies and discovery through science) throughout the agri-food supply chain,
7. Innovation can result in improved farm incomes when the innovation can not be rapidly duplicated in other countries and when an innovation delivers benefits through the value chain to consumers,
8. Government policy needs to support basic R&D, applied R&D to solve farm specific production issues and boost productivity, and extension activities;
9. Government policy directed at the farm sector should be based on the business focused farmer, and their needs (infrastructure support, etc);
10. Government policy makers should separate farm policy (e.g., supporting innovation), from rural social policy (e.g., ensuring sufficient jobs and infrastructure are available in rural Canada), from broader economic and environmental policy (e.g., supporting bio-processing facilities in rural areas).
11. The costs of regulations on the farm sector needs to be more fully understood by policy makers;

Implications concerning a ***vision and strategic direction*** for the sector include:

- Vision of the sector is based on commercial business focused farmers;
- Innovation is an essential element to offset the impact of declining prices.
- Non-food markets and markets with a domestic market focus should be considered,
- A new vision is required to reposition the sector;
- A possible vision is the *agri-food sector contributes significantly to Canadians being the healthiest in the world*, or *the Agri-food sector; partnering with healthy Canadians*.

2.2 Implications Arising - Government Programs and Regulations

The key findings in the area of government programs and regulations included:

5. *U.S. subsidy levels are considerable in grains and oilseeds; however, the net price impact of U.S. programs can be minimal due to the impact of acreage removal programs; when US subsidy rates are low the net effect on prices is negligible; with higher subsidy rates as observed in 2000-01 the net effect is an increase in production and somewhat lower prices; however, at the same time with U.S. producers receiving larger direct subsides than Canadian producers, the impact on Canadian farmers can include the effect of U.S. subsidies on Canadian input costs;*
6. *Across all commodities, Canadian producers receive a higher percentage of gross income from direct program payments when compared to the U.S.;*
7. *The U.S. spends significantly more on general services and support to agriculture, such as in agricultural education, research, infrastructure, and marketing;*
8. *Longstanding regulatory issues continue to remove value from the Canadian agri-food supply chain;*

U.S output subsides are more narrowly focused than in Canada. That is why with the U.S. having very high expenditures in grain and oilseed subsides, their overall spending on direct payments to all farmers is lower than in Canada. This occurs because in Canada government support through direct payments to farmers is provided to most commodity groups (e.g. the CAIS program).

U.S grains and oilseeds subsidies are significant, and as a result the net return (from the market and through government payments) to the typical grains and oilseed producer in Canada is a much lower return than the average US grains and oilseed producer receives.

The net impact of US subsidies directed at the grain and oilseed sector can be considered in two ways. At the macro level these subsidies have a much smaller impact on market prices than the large supply increases coming from emerging low cost exporters such as Brazil and Argentina. However, at the individual farm level, the impact is much different. These US subsidies provide a higher overall return to grain and oilseed production to individual US farmers, and the higher returns influence input prices paid by U.S. farmers. In the continental North American market, prices of inputs in one market can influence prices paid in another market. As a result, costs paid by Canadian farmers for some inputs can reflect the U.S price, which results in more margin pressure in Canada than in the US for the average grain and oilseed farmer.

It is also clear that an overall reduction in subsidies provided by the U.S. and the EU to its farmers will result in a more level playing field for the Canadian agri-food sector. Access to certain markets through a reduction in import tariffs and non-tariff barriers can provide opportunity to parts of the agri-food sector.

WTO negotiations are important to the Canadian agri-foods sector, as reductions in US and EU subsidies should level the competitive playing field, and ensuring all countries provide minimum levels of tariff-free access should provide more market place opportunity. The outcome of the WTO negotiations will not affect a number of the longer-term trends seen in global commodity markets.

From a long-term sustainability perspective, overall government program spending in the U.S. is more directed towards general services and support, with marketing and promotion an area with significant spending. U.S. spending levels on general support services to agriculture far exceed those in Canada when viewed as a percent of farm output. This can provide U.S. agriculture with a competitive edge over Canada. U.S. taxpayer dollars have been used by U.S. commodity groups to pay for cooperative advertising of U.S. produce in Canadian retail outlets, while Canadian fruit and vegetable growers receive few taxpayer dollars to defend against such tactics.

It appears that budgetary pressures in Canada have diverted funds from the traditional roles of government, which is the supply of public goods such as infrastructure, basic R&D, inspection services, etc.

Regulations have been identified in phase I (of the study) as a large detriment to a healthy agri-food sector. Regulations that affect the input side of agriculture are costly to farmers, while some output-based regulations can add value. Some regulations help differentiate the food-processing sector and provide consumer benefits which enable the sector to sell more product and also requires imports to meet Canadian health, safety, and consumer fraud standards. Enhancing regulations which leverage Canada's advantages and delivers needed consumer benefits will add more cost to competitors, which is in Canada's favour. Some output based regulations, such as not being able to have health claims on labels as in the U.S., can work against the overall health of the agri-food sector. The restrictiveness of what grain varieties can be registered in western Canada is an example of input based regulations that dramatically affect competitiveness and innovation.

Similarly, new regulations such as Bill C27, if not properly designed can have unintended consequences of ignoring "smart regulation" initiatives. The net result can be higher input costs and lost opportunities for production, products and marketing. This would result in a new regulation contributing to the decline in farm income.

The ***implications on government policy and associated regulations*** include:

1. Regulatory issues are critical and must be urgently addressed in a manner than is consistent with "smart regulations" and that does not destroy (reduce) farm income;
2. Government expenditures on the agri-food sector need to be rebalanced. More emphasis is required in those areas that provide for long-run competitiveness and sustainability in areas such as application of R&D to improve crop health and animal health. With rebalancing some form of programs may be required to assist in the transition process;
3. Expenditures on R&D need to be enhanced. Since R&D requires economies to scale, these funds need to be concentrated through centres of excellence and industry clusters;
4. The level of direct government payments to producers should be considered based on relief from disaster and fluctuations in income versus income support;
5. The Canadian government use forums, such as the WTO, to achieve a reduction in subsidies and improved market access;
6. Current and impending regulations prevent farmers from developing new crops and other innovations to supply market requirements;
7. The regulatory system can not be adding unnecessary costs, but needs to facilitate a competitive agri-food industry,

8. The regulatory system should facilitate development of new markets, and not restrict access to products and markets (e.g., through restriction on varieties and genetics, pesticide regulations, and un-harmonized regulations),

Implications concerning a ***vision and strategic direction*** for the sector include:

- The Canadian agri-food sector needs a new vision; with a specific focus,
- A vision provides for a destination and a focus; the repositioning of government activities and expenditures should flow from the vision;
- The regulatory system affecting the agri-food sector needs to be guided by a vision for the agri-food sector;
- The APF is a tool that can be used to implement a vision for the agri-food sector.

2.3 Implications Arising - Aggregate Farm Income

The key findings in the area of aggregate farm income included:

9. Growth in expenses exceeding market revenue growth negatively affects farm income;
10. Aggregate net farm income is not a measure of profitability for business focused farms;

A number of factors have contributed to costs increasing faster than incomes. Costs have increased in part due to (1) shift of technology development from public to private sectors (2) parts of Canada moving to a feed import basis, (3) energy based fertilizer and fuel prices, (4) regulations in transport policy, (5) general services (e.g., grading and inspection) that are now fee based costs, (6) the costs of complying with regulations, and (7) a general decline in the real (inflation adjusted) price for farm products.

With costs increasing and output prices not increasing, a way to maintain income is through gains in productivity in commodity markets. These productivity gains require significant amounts of R&D and innovation. Income can also be enhanced through creation on new market opportunities.

Aggregate net farm income is not a measure of profitability for farmers in the business of farming. Aggregate net farm income is a measure of returns to aggregate resources employed in farming. A better way to understand farm profitability is to monitor and measure specific sub-groups of farms, such as the upper two quartiles of producers with sales of over $500,000 by broad commodity area.

The ***implications on government policy and associated regulations*** include:

1. Government policy and expenditures are required to increase the productivity of the agri-food sector.
2. Alternative measures to aggregate farm income should be used when formulating policy;
3. Measures of farm profitability are required to assist in policy decision making,

Implications concerning a ***vision and strategic direction*** for the sector include:

- A strategic direction for the sector must focus on enhancing productivity;

2.4 Implications Arising - Farm Level Context

The key findings in the area of farm level context included:

11. *Canada has many top-notch farm operators, who know how to operate their business and make a profit using necessary business skills;*
12. *Business management capability is a fundamental driver of success at the farm level;*
13. *There are two general types of farm enterprises, those with a business focus and those that farm for other reasons; while overall farm number are declining; the number of very large business-focused farms is growing, with many of these successful;*

Some general implications of these findings are that some farmers are successful, which was shown in some of the work commissioned by CAPI. At the same time there are a number of farmers who can be classified as lifestyle and part-time farmers. Part of the operating environment is that there are business-focused farmers operating commercial farms and there are many non-business focused farms. This results in considerable complexity in understanding returns to farming and farm profitability.

A decline in overall farm numbers should be expected to continue as consolidation continues in the farm sector. The ongoing adjustment of fewer farms that are larger is necessary for the sector to be competitive in an environment with tighter per unit operating margins. The adjustment process can obscure the ongoing trends as part of the adjustment process is for some farmers to lease our their land and hold the land as part of their retirement income, or transfer the asset to the next generation. Other farmers decide to maintain their way of rural life through seeking off-farm employment and scaling back operations, or not expanding operations.

Integrated supply chains, which link producers with consumers through product attributes and production protocols, will become more commonplace in the agri-food sector. Integrated farm management systems are required at the farm level to effectively implement these integrated farm-to-consumer supply chains. These systems include food safety protocols, traceability; recall capability, production protocols, and environmental footprint and sustainability considerations. These systems can help differentiate Canadian food products and provide a Canadian advantage in many markets.

The entire agri-food supply chain can benefit when effective integrated supply chains are operational, and a challenge is to ensure that the costs incurred by producers do not exceed the benefits realized at the farm gate. To ease in this transition, government programming may be required to facilitate adoption of these integrated supply chain systems by producers.

Business management capability is fundamental to the success of farmers. However, there is less public support for this capability than in the past, with few resources directed to extension type activities. At the same time, the private sector is providing extension type services through sales staff of input suppliers and through technical specialist (e.g., field crop specialists). As well, many technology solutions being made available to farmers are simplified, resulting in less need for specific technical skills on the farm (e.g., computer aided monitoring devices). Some farms that are large enough are purchasing the needed expertise in farm business management.

The ***implications on government policy and associated regulations*** include:

1. Government resources should benefit commercial business focused farmers and not provide assistance to lifestyle farmers (unless this is an explicit rural development/social policy);
2. Government programs may be required to assist farmers in the transition to the new management systems (with food safety protocols, traceability, environmental considerations) that provide for marketplace differentiation (a Canadian advantage) through integrated supply chains that deliver specified product attributes and information to end-users;
3. Government should revisit the issue of whether certain extension type services are required that are not being supplied through the market, and where should government invest in supporting the needs of business focused farmers;
4. Official measurements and reporting of farms should be based on a more meaningful minimum size criteria than the current >$10,000 in sales.

Implications concerning a ***vision and strategic direction*** for the sector include:

- A viable agri-food sector requires a successful and sustainable farm level sector.
- Should Canada have a goal to maintain the medium size farm, or any size group of farmers?

2.5 Implications Arising - The Agri-Food Supply Chain

14. *A viable non-farm sector that processes and distributes farm products into food, feed, bio-processing and bio-medical markets, and supplies farmers with inputs, is essential for long term success of the farm sector;*
15. *Some opportunities for additional market power can be earned by being responsive to market requirements including offering competitively priced products and delivering on buyer requirements such as freshness, quality, reliability, logistics requirements, etc.; market power is also available through organizing to achieve efficiencies associated with group buying to lower input costs;*
16. *The agri-food sector is influenced by some overarching factors that are not specific to agriculture and food (e.g., environmental policy, bilateral and multilateral trade agreements, regulatory approaches) and that are not controlled within the sector;*

Farming is one part of the overall agri-food supply chain, and the other parts of the supply are required for a successful farm sector. Food processing can be considered very strategic to Canada as it provides for food security (safe foods, high quality foods), generates significant economic activity, is a means for employments for many Canadians, and processing creates a demand pull environment for farm products. Without processing, the only market opportunity is the export market, and local processing provides for more marketing opportunities fro farmers.

There are many new opportunities for processing, such as in the areas of functional foods, and extracting parts of the basic commodity for high value uses. This offers significant value to the Canadian economy and to the overall agri-food industry; however in the aggregate it does not always result in higher net farm incomes. This is because the demand pull will not have a large impact on local prices in relation to the export (or import) value for these basic commodities, and in many cases the extra value is created and

captured by the processing activity and/or suppliers of technology and not by the primary production of commodity product. There are other examples, however, when additional processing that is satisfying a growing market, or a new export market, has large demand pull for additional farm level products that in turn enhances aggregate net farm income.

One implication in this area is that some regulations are hurting the food-processing sector in Canada. This also applies to processing of farm products for non-food uses. If this issue is not addressed, more processing will occur in the U.S. if Canada's regulations do not become more conducive to processing and marketing in Canada. Some regulations are not within the control of the sector and are imposed for environmental reasons.

With many multi-national companies supplying food products to Canadians, Canadian farm product is not necessarily consumed by Canadians. For example, dry pasta on retail shelves can be manufactured in U.S. locations. This highlights the trend of a larger percentage of food products are manufactured based on continental and global mandates. In this environment, Canada must be a place to do business to have a strong and growing food-manufacturing sector in Canada. These decisions are based on factors which include: (1) the overall business environment, including tax levels cost of labour etc, (2) the regulatory environment, and (3) access to the necessary inputs and raw materials. The level of supporting R&D is less of an issue for the location of manufacturing for multi-national food companies as they can access necessary R&D from a variety of sources.
Market power, or bargaining power, is a complex issues with the balance of such power residing in the hands of buyers or sellers based on numerous factors, such as many sellers and few buyers, globalization, importance of the product to the overall cost structure etc. There are mechanisms available to increase market power. On the selling side this includes being responsive to buyer needs, and delivering on buyer attributes. For example if buyer requires 12-month supply of fresh produce, then a solution is to become a supplier of not only local product but also imported product to deliver on the attributes. Also, if buyers require an on-farm food safety program, then farmers should invest in this capability to allow for proper positioning. Market power can also increase when entering into a strategic alliance with a supply chain partner that is based on mutual need. Buying groups are another way of increasing market power. Such cooperative buying groups have been operating successfully for farmers in areas such as buying energy for greenhouses, buying generic crop protection materials from low costs suppliers, etc.

The balance of market power in the agri-food supply chain between farmers, input suppliers, and buyers of farm products is due in part to asymmetry in market access. Multi-national companies can access commodity product from North America, South America, Europe, Australia, and Asia. Grain farmers, for example, do not have the same opportunity to supply product from a variety of locations; individually they do not have the same reach and depend on multi-national companies to access global markets. This can result in the few buyers, with a number of supply sources, having the balance of market power. This issue is not unique to Canadian farmers; rather it is a worldwide reality of many farmers and few buyers. Global approaches by farmers are one way to countervail some of this market place power of global buyers.

Access to export markets can be frustrated through the importing country using trade restricting practices. The outcomes of the WTO negotiations and Canada's use of bilateral trade arrangements can affect the set of marketplace opportunities available to Canada.

The ***implications on government policy and associated regulations*** include:

1. Domestic market opportunities include processed foods that are imported and not manufactured in Canada;
2. Government attention and support should be for the entire agri-food supply chain to achieve the full benefits of a healthy agri-food supply chain;
3. Some regulations are damaging the processing sector and removing value from the agri-food supply chain, while other regulations add value by helping the sector differentiate food products;
4. The regulatory system needs to accommodate opportunities available to the agri-food industry (e.g., regulations regarding labeling, health claims, market access);
5. Regulations impose costs throughout the agri-food supply chain, from input suppliers to primary production through to food manufacturing;
6. Post farm gate innovation is extremely important for the overall agri-food sector,
7. Placing more emphasis on bilateral trade arrangements as a means of opening up markets to Canadian agri-food exporters,
8. Farm income prospects depend on a healthy Canadian food processing and manufacturing sector;
9. Government support for value chain initiatives should continue as they bring segments of the supply chain together to discuss and resolve industry issues and collaborate on initiatives;
10. Countervailing market power of farmers within the supply chain can increase through being part of integrated value chains which respond to end-user requirements, and through global farmer initiatives; and
11. Access to markets can be enhanced through government supported initiatives that support formation of joint ventures and second generation cooperatives to provide producers with critical mass to enter into arrangements (e.g., strategic alliances) with buyers to deliver on market requirements and/or value added activities (e.g., processing, ethanol production).

Implications concerning a ***vision and strategic direction*** for the sector include:

- The vision needs to recognize where sustainable value can be built and sustained,
- A vision requires close alignment of farmers with consumer needs and wants,
- The vision should include the complete agri-food sector supply chain,
- The vision should be broader than a singular farm income focus.

2.6 Implications Arising - Innovation and Continued Success

17. *Innovation, productivity, and management capability are essential to provide for continued efficiency gains to compete on costs in mature markets; and*
18. *Innovation is fundamental to allow the sector to supply new and differentiated products into new growth markets (whether food, feed, bio-processing, or bio-medical).*

Research and related institutions are an integral part of the agri-food supply chain. Without these activities the sector would dwindle as more and more food products would be supplied by foreigners. R&D is essential for Canada to compete in global markets in traditional farm products such as grains and oilseeds. Without productivity gains, Canada will lose out to low cost suppliers such as India, China, Turkey , Russia, and Brazil.

R&D is the engine that creates new opportunities through new farm products and new uses for farm products. Innovation is important to the overall health of the economy. Innovations with more direct application beyond the farm gate, such as at the processing level, can raise farm incomes. Examples include innovations at the processing level that requires differentiated products supplied by the production sector. Such innovations allow for value capture by all parties in the supply chain. More downstream innovation can only help create more opportunities for the suppliers of raw products.

The agri-food sector through innovations has the opportunity to be part of the solution for the emerging disease (lack of good health) problem in Canada. By being closely connected to consumers, and delivering on consumer requirements and health needs, the farm production sector can build a true alliance with consumers, with food processors, input suppliers, food retailers and food service operators, and Canadian consumers.

A sustained advantage for parts of the Canadian agri-food sector can be based on exploiting Canada's natural factors such as climate, ability to have isolation zones, distance to markets, crop and animal health, which can not be replicated by competitors.

The fact that agriculture is a life science industry and requires a longer term planning time horizon should be underscored. New markets and opportunities are often times slow in coming as new technologies/uses are a move from the status quo. It did take some years to impress upon regulators the need to support development of an ethanol industry.

The ***implications on government policy and associated regulations*** include:

1. Government policy and regulations should be supportive of innovation (adaptation of existing technologies and discovery through science) throughout the agri-food supply chain,
2. Government expenditures should increase on basic R&D and applied R&D on areas that support agri-food sector supply strategies;

Implications concerning a ***vision and strategic direction*** for the sector include:

- The sector needs a long term life science strategy,
- Innovation needs to a fundamental part of the vision for the sector,
- The vision requires focus
- Vision needs to focus on Canada's climate and other unique features used to a sustained advantage,

3.0 Summary of Policy Implications

The prior section clearly suggests that the operating environment for the agri-food sector will look much different than it does today. A new vision will assist in that process. To assist in the process of developing a new vision, the implications on government policy and associated regulations, which were noted in the prior sub-sections are categorized and summarized around themes of:

- Focus of government policy;
- Access to markets;
- Policy, farm incomes and support;
- Innovation; and
- Regulations.

Focus of government policy;

- Government attention and support should be for the entire agri-food supply chain to achieve the full benefits of a healthy agri-food supply chain;
- Government policy and regulations should be supportive of innovation (adaptation of existing technologies and discovery through science) throughout the agri-food supply chain;
- Government policy needs to support basic R&D, applied R&D to solve farm specific production issues and boost productivity, and extension activities;
- Government expenditures on the agri-food sector need to be rebalanced. More emphasis is required in those areas that provide for long-run competitiveness and sustainability in areas such as application of R&D to improve crop health and animal health. With rebalancing some form of programs may be required to assist in the transition process;
- A forward looking government policy is required to develop and support within Canada markets for non-food products such as renewable fuels;
- Government policy makers should consider separating farm policy (e.g., supporting innovation), from rural social policy (e.g., ensuring sufficient jobs and infrastructure are available in rural Canada), and from broader economic and environmental policy (e.g., supporting bio-processing facilities in rural areas);
- Government resources provided as part of farm policy should benefit commercial business focused farmers and not provide assistance to lifestyle farmers (unless this is an explicit rural development/social policy);
- Government consider revisiting the issue of whether certain extension type services are required that are not being supplied through the market, and where should government invest in supporting the needs of business focused farmers.

Access to markets:

- Domestic market opportunities include processed foods that are imported and not manufactured in Canada;
- Government consider placing more emphasis on bilateral trade arrangements as a means of opening up markets to Canadian agri-food exporters;
- The Canadian government use forums such as the WTO to achieve a reduction in subsidies and improved market access;
- The regulatory system should facilitate development of new markets, and not restrict access to products and markets (e.g., through restriction on varieties and genetics, pesticide regulations, and un-harmonized regulations);

- Government programs may be required to assist farmers in the transition to the new management systems (with food safety protocols, traceability, environmental considerations) that provide for marketplace differentiation (a Canadian advantage) through integrated supply chains that deliver specified product attributes and information to end-users;
- Government support for value chain initiatives should continue as they bring segments of the supply chain together to discuss and resolve industry issues and collaborate on initiatives;
- Access to markets can be enhanced through government supported initiatives that support formation of joint ventures and second generation cooperatives to provide producers with critical mass to enter into arrangements (e.g., strategic alliances) with buyers to deliver on market requirements and/or value added activities (e.g., processing, ethanol production).

Policy, farm incomes and support;

- Farm income prospects depend on a healthy Canadian food processing and manufacturing sector;
- Government policy directed at the farm sector be based on the business focused farmer and their needs (infrastructure support, etc);
- Government expenditures to support incomes, versus stabilize incomes, is counterproductive, as these income support expenditures do not all remain in the farm sector; rather the net effect is that these benefits accrue with input suppliers and users of the products – such income supporting measures raises the cost profile and potentially lowers returns;
- The level of direct government payments to producers should reflect the need for relief from disaster and fluctuations in income;
- Countervailing market power of farmers within the supply chain can increase through being part of integrated value chains which respond to end-user requirements, and through global farmer initiatives;
- Alternative measures to aggregate farm income should be considered when formulating policy;
- Measures of farm profitability are required to assist in policy decision making,
- Official measurements and reporting of farms should be based on a more meaningful minimum size criteria than the current >$10,000 in sales.

Innovation;

- Innovation can result in improved farm incomes when the innovation can not be rapidly duplicated in other countries and when an innovation delivers benefits through the value chain to consumers;
- Post farm gate innovation is extremely important for the overall agri-food sector,
- Government expenditures on research and development have not kept pace with need, or with past expenditures levels. This trend must reverse to provide the needed substantial investment on behalf of the agri-food sector;
- Government expenditures should increase on basic R&D and applied R&D on areas that support agri-food sector supply strategies;
- R&D requires economies to scale and such activity and funding by government should be concentrated through centers of excellence and industry clusters;
- Government policy can facilitate innovation and commercialization of new technologies in the agri-food sector through mechanisms such as (1) direct

expenditures on R&D, (2) tax-policy for innovation, (3) a regulatory environment that is conducive to innovation being registered in Canada; and (4) programs that result in commercialization of these innovations within Canada;

- The overall approach to innovation may require change to allow farmers to be larger beneficiaries of innovation. This could occur through farmers collectively contributing to R&D through innovation levies (a check-off), which would allow them to access technology at lower costs, with the technology owners being reimbursed through a national levy. The institutional design could also change, whereby farmer cooperatives would receive innovation funds through the check-off innovation levy, contract out research, and make resulting technologies available to members, or to the sector at minimal cost.

Regulations.

- Regulatory issues are critical and must be urgently addressed in a manner than is consistent with "smart regulations" and that does not destroy (reduce) farm income;
- Current and impending regulations prevent farmers from developing new crops and other innovations to supply market requirements;
- The regulatory system needs to accommodate opportunities available to the agri-food industry (e.g., regulations regarding labeling, health claims, market access);
- The regulatory system can not be adding unnecessary costs throughout the agri-food supply chain (from input suppliers to primary production through to food manufacturing), but needs to facilitate a competitive agri-food industry;
- Some regulations are damaging the processing sector and removing value from the agri-food supply chain, while other regulations add value by helping the sector differentiate food products;
- The costs of regulations on the farm sector needs to be more fully understood by policy makers.

The above listing highlights the fact that there are a number of policy implications that should be considered by organizations operating in the agri-food supply chain and by policy decision-makers inside government.

The list of policy related implications also underscores the realization that a repositioning of the agri-food sector is required. The CAPI initiated process of developing a vision for consideration by the agri-food sector can assist this repositioning. This is addressed in the next section of the report.

4.0 Vision and Direction for the Agri-Food Sector

A vision is a statement that indicates a desired future state for an organization or industry; that is where does the agri-food sector want to be and head toward. A vision statement provides the needed focus and clarity to stakeholders in the agri-food supply chain and those deciding to partner with the agri-food sector.

This section of the report starts the process of developing a vision and associated high-level strategies to help reposition the Canadian agri-food sector. The suggested vision statements are preliminary and are designed to generate discussion and dialogue, and to obtain feedback on vision and execution through high-level strategies.

4.1 Workshop Input on Vision and Strategic Direction

In the September 22nd workshop, input was provided on vision and strategic direction for the sector as each key issue/finding was discussed. These comments and the implications on a vision and strategic direction for the agri-food sector can be organized around the areas of:

- Why a vision;
- The vision *"Where do we want to go";*
- Elements of the vision;
- Scope of the vision; and
- Implementation of the vision.

Why a vision

- A new vision is required to reposition the sector;
- The Canadian agri-food sector needs a new vision; with a specific focus;
- A vision provides for a destination and a focus; the repositioning of government activities and expenditures should flow from the vision;
- The regulatory system affecting the agri-food sector needs to be guided by a vision for the agri-food sector;

The vision *"Where do we want to go";*

- A possible vision is "*the agri-food sector contributes significantly to Canadians being the healthiest in the world Canadians are the healthiest in the world",* or the *"Agri-food sector; partnering for a healthier Canada".*

Elements of the vision;

- Innovation is an essential element to offset the impact of declining prices;
- A strategic direction for the sector should include enhancing productivity to maintain cost competitiveness;
- Innovation needs to support the vision for the sector;
- A viable agri-food sector requires a successful and sustainable farm level sector.
- The vision should be broader than a singular farm income focus;
- Should there be a goal to maintain the medium size farm, or any farm size group?
- The vision needs to recognize where sustainable value can be built and sustained,

- Vision needs to focus on Canada's climate and other unique features used to a sustained advantage,
- The sector strategy should include long term science-based initiatives,
- Non-food markets and markets with a domestic focus should be considered,

Scope of the vision;

- Vision of the sector is based on commercial business focused farmers and the importance of many other farms to rural Canada;
- A vision requires close alignment of farmers with consumer needs and wants through well-functioning value chains,
- The vision should include the complete agri-food sector supply chain;

Implementation of the vision.

- The APF is a tool that can be used to implement a vision for the agri-food sector.

In our September 22nd workshop discussion on vision and strategic direction for the agri-food industry a few themes evolved around the future direction of the industry. These included:

1. *Costs need to decrease to compete in mature markets characterized by supplies available through low cost exporters,*
2. *Agriculture is a solution provider to the rest of society, with immediate opportunities in the areas of health and the environment,*
3. *An improved linkage and collaboration between producers, food manufacturers, and consumers in the agri-food supply chain.*
4. *The strategic directions require focus and economic pragmatism.*

A few of these themes place more weight on tactics than on overall vision for the sector.

4.2 Vision Achieved Through High Level Strategies

Once a vision is developed, then high-level strategies can be developed around major themes[7]. Oftentimes an overarching strategic direction is formulated to achieve the vision. Implementation is through strategies and supporting initiatives, and through functional strategies and/ or action plans[8].

For example, if a vision for the sector is *Agri-food sector; partnering for a healthier Canada".* This can provide for the focus and destination required and can guide actions by food manufacturers, farmers, scientists, and government policy makers.

High-level strategies are a key component of implementing the vision. A supporting strategy can be to substantially increase basic R&D by government to support agriculture and food processing contributing to the health of Canadians. Another supporting strategy

[7] Strategies can include goals and objectives around these themes.

[8] A common vocabulary and working definitions is not the norm in this area of establishing a vision (and strategic direction) and strategies for an organization or industry. The logic is more important, which is that a vision is first established of where you want to be, then a few high level strategies are established. This follows with operational goals and actions to achieve those ends (goals). In many organizations performance goals and measurement are then instituted in relation to the goals established.

can be enhanced innovation to allow for the agri-food sector to contribute to even more economic activity in areas such as producing biomass to create renewable energy.

4.3 Building the Vision

The vision that is developed for the Canadian agri-food sector should be brief, memorable, pragmatic, establish a direction, address current issues, be forward looking, as well as inspiring to all segments of the diverse supply chain. This can be a complex task, and to assist in this process Figure 4.1 is provided to help build the vision.

The vision can be defensive in nature, such as using R&D and innovation to allow Canada to compete with low cost south America in commodities; or the vision can be very offensive in nature which differentiates and builds on strengths and opportunities, such as being a solution provider for consumer's health and well being.

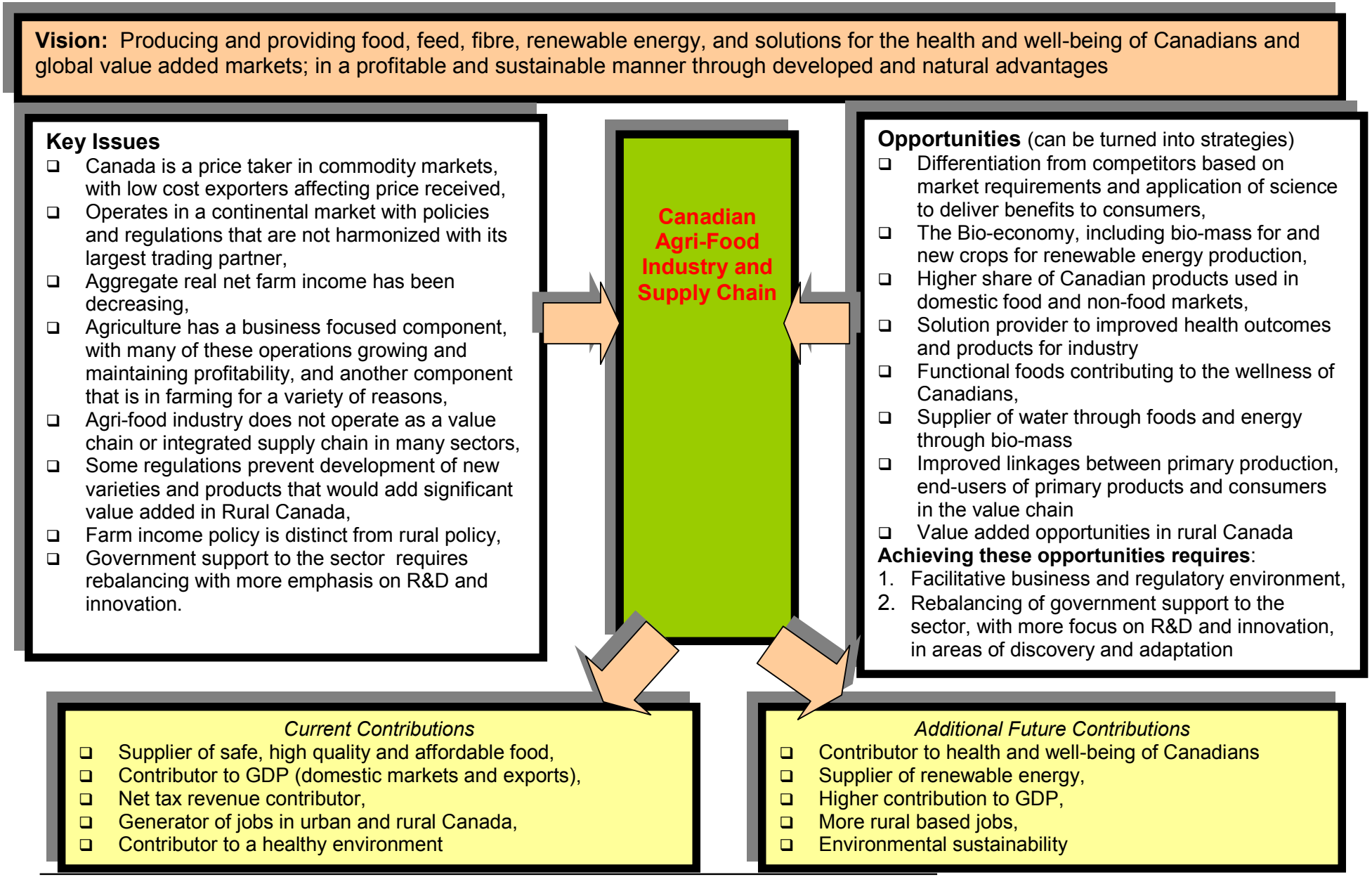
The top part of Figure 4.1 provides an example of a vision statement: *"Producing and providing food, feed, fibre, renewable energy, and solutions for the health and well-being of Canadians and global value added markets; in a profitable and sustainable manner through developed and natural advantages"*.

The left hand side of the Figure shows how the vision must relate to a few of the key[9] issues faced by the agri-food sector. At the same time the vision should be built on the opportunities that are available to the agri-food sector, and some opportunities are identified in the right-hand side of Figure 4.1. The right hand side of the Figure also notes that achieving opportunities is based on some changes in the focus of government policies and regulations. As well, any vision should account for a number of the policy implications listed in the prior section.

The lower portion of the figure highlights the current contributions of the agri-food sector, as well as additional future contributions that result from the implementation of the vision.

[9] Or possible the three or four critical issues.

Figure 4.1 Building the Vision for the Canadian Food Industry



4.4 The Future and the Vision Statement

A vision statement signals where the agri-food sector strives to be. Where the sector would like to be is based in part on what the future holds in store for the Canadian agri-food sector. A number of scenarios can unfold around some key trends that will dictate the future. The vision and the associated strategies should account for key trends.

Some factors that should be considered include:

- Water availability in some Asian countries and the resulting ability of these countries to produce internal food requirements;
- Global population trends;
- Energy requirements, technologies to provide energy, and resulting energy sources (feedstock);
- Canadian population demographics, including longevity and food requirements of seniors;
- Health and well-being of Canadians;
- The regulatory system that affects all aspects of the well-being of Canadians;
- The overall attractiveness of Canada as a place to do business;
- Urbanization trends and demographics of rural residents;
- Innovations on the horizon and the resulting demand for primary agricultural products;
- Innovations and the global supply potential of basic food commodities;
- Integrated supply chains delivering specified product attributes and information to end-users and consumers;
- Agri-food value chains with profitable farms businesses;
- Balance of market power throughout the supply chain;
- Impact of Canadian agricultural production and practices on the environment;
- Role of Canada's rural areas;
- Canada's natural and comparative advantage over the next 20 years;
- Government expenditure obligations in areas such as health, care for senior citizens, security, and implications on expenditures available for the agri-food sector;

The above suggests that there are a number of forces and opportunities that can affect the future of the Canadian agri-food sector. Scenarios analysis can be used to develop plausible outcomes for each of these forces. From these outcomes a few likely scenarios for the future can be developed. An understanding of these possible scenarios, and their implications, can help in the development of a vision for the agri-food sector, and the development of the strategies that need to be implemented to achieve the vision.

Examples of vision statements are provided below. A vision statement is usually brief, memorable, pragmatic, as well as inspiring. The following potential visions are presently under review by CAPI. We would like to develop up to three vision statements, and supporting high-level strategies that CAPI can eventually test with subject matter experts and industry stakeholders. Your comments and insights are requested.

4.5 Example # 1 – University of Guelph Visioning Process

One example of a vision statement can be: *Agriculture: A fundamental pillar for a healthy Canada*[10].

Statements supporting the vision included: *"in the year 2015 Canada is a world leader in the enhancement of human, animal and environmental health through the application of research, technology, and social innovations in agriculture and the bioscience industry. As a solution provider to society, agriculture can help reduce the burgeoning health deficit, improve quality of life, and embrace environmental sustainability".*

4.6 Example # 2 Vision and Supporting High-Level Strategies

Another example of a vision statement, which is a consolidation of input received by CAPI could be: *"Producing and providing food, feed, fibre, renewable energy, and solutions for the health and well-being of Canadians and global value added markets; in a profitable and sustainable manner through developed and natural advantages"*.

Strategies that could be used to implement this vision include:

1. Create a business, regulatory, and innovation climate that makes Canada an attractive place to invest in the processing and manufacturing of value added products which are based on agriculture products, and which increases the share of food products manufactured in Canada;
2. Create a business and regulatory environment that allows the commercial farm sector to profitably respond to market opportunities;
3. Build value chains and integrated supply chains that connect end-users with producers, and provide specified product attributes to end-users and consumers;
4. Differentiate Canadian food products through new product development, innovation, assurance systems, and unique contribution to health and well-being;
5. Align research and development activities, innovation, and adaptation of existing technologies with value chains needs in areas that will build a Canadian advantage and reinforce natural advantages;
6. Develop government sponsored and supported innovation initiatives which that provides the necessary expertise for scientific discovery and adaptation and capital for the application of new and adapted technologies and processes by companies transforming agricultural products to meet the health and well-being needs of Canadians;
7. Facilitate development of Canadian markets for farm products, which reduces the dependency of the farm sector on commodity exports;
8. Provide for 10% of Canada's energy needs through wind and bio-mass;
9. Develop sustainable advantage in a number of farm products (crop and livestock) through Canada's natural advantages (climate, density of production, segregation of production, location relative to population density, etc).
10. Establish new world standards for crop health, animal health, employee conditions, supply assurance systems, and the environmental footprint which creates an advantage for Canada and higher cost production for many exporters,

[10] This statement was developed at a University of Guelph hosted visioning process in 2004.

Associated with each strategy there can be performance measures, organizational responsibilities, and timeframes for milestones. By doing so, accountabilities and progress towards achieving the vision can be assured.

The above vision and associated strategies are designed to differentiate the Canadian agri-food sector from low costs commodity suppliers. This is an example of an overall sector strategy that offensive in nature, rather than one that is defensive in nature, such as being cost competitive in commodity markets, which can be a race to the bottom.

Suggestions and comments are encouraged on (1) the policy implications noted in section 3.0, (2) a statement of vision and overarching strategic direction that can be further tested.
The next steps are to fine-tune and possibly consolidate some of the policy implications in section 3.0, and once completed to develop a few possible visions and strategic directions for the agri-food sector. To assist in the process, comments and suggests are requested.

Annex I - Factors Affecting Farm Income – Key Issues and Findings

Global Forces:

1. The fundamental driver of farm income trends is the long-term decline in real commodity prices; for most commodities this is driven by global exportable supply increasing faster than demand;
2. Large increases in exportable supply from emerging low cost exporters such as Brazil and China are a fundamental force shaping the global agricultural sector today; growth in exports of major commodities comes from non-North American countries;
3. Prices for many commodities observed today can be considered equilibrium prices, reflecting the lower cost structure of emerging suppliers;
4. Many parts of Canadian agriculture are providing commodities into mature markets; competing in mature markets requires cost leadership and providing the needed critical mass for the marketplace;

Government Programs and Regulations:

5. U.S. subsidy levels are considerable in grains and oilseeds; however, the net price impact of U.S. programs can be minimal due to the impact of acreage removal programs; when US subsidy rates are low the net effect on prices is negligible; with higher subsidy rates as observed in 2000-01 the net effect is an increase in production and somewhat lower prices; at the same time, with U.S. producers receiving larger direct subsides than Canadian producers, the impact on Canadian farmers can include the effect of U.S. subsidies on Canadian input costs;
6. Across all commodities, Canadian producers receive a higher percentage of gross income from direct program payments when compared to the U.S.;
7. The U.S. spends significantly more on general services and support to agriculture, such as in agricultural education, research, infrastructure, and marketing;
8. Longstanding regulatory issues continue to remove value from the Canadian agri-food supply chain;

Aggregate Farm Income:

9. Growth in expenses exceeding market revenue growth negatively affects farm income;
10. Aggregate net farm income is not a measure of profitability for business focused farms;

Farm Level Context:

11. Canada has many top-notch farm operators, who know how to operate their business and make a profit using necessary business skills;
12. Business management capability is a fundamental driver of success at the farm level;
13. There are two general types of farm enterprises, those with a business focus and those that farm for other reasons; while overall farm number are declining; the number of very large business-focused farms is growing, with many of these successful;

The Agri-Food Supply Chain:

14. A viable non-farm sector that processes and distributes farm products into food, feed, bio-processing and bio-medical markets, and supplies farmers with inputs, is essential for long term success of the farm sector;
15. Some opportunities for additional market power can be earned by being responsive to market requirements including offering competitively priced products and delivering on buyer requirements such as freshness, quality, reliability, logistics requirements, etc.; market power is also available through organizing to achieve efficiencies associated with group buying to lower input costs;

16. The agri-food sector is influenced by some overarching factors that are not specific to agriculture and food (e.g., environmental policy, bilateral and multilateral trade agreements, regulatory approaches) and that are not controlled within the sector;

Innovation and Continued Success:

17. Innovation, productivity, and management capability are essential to provide for continued efficiency gains to compete on costs in mature markets; and
18. Innovation is fundamental to allow the sector to supply new and differentiated products into new growth markets (whether food, feed, bio-processing, or bio-medical).

Annex II - CAPI's Working Group – September 22, 2005

(List of Attendees)

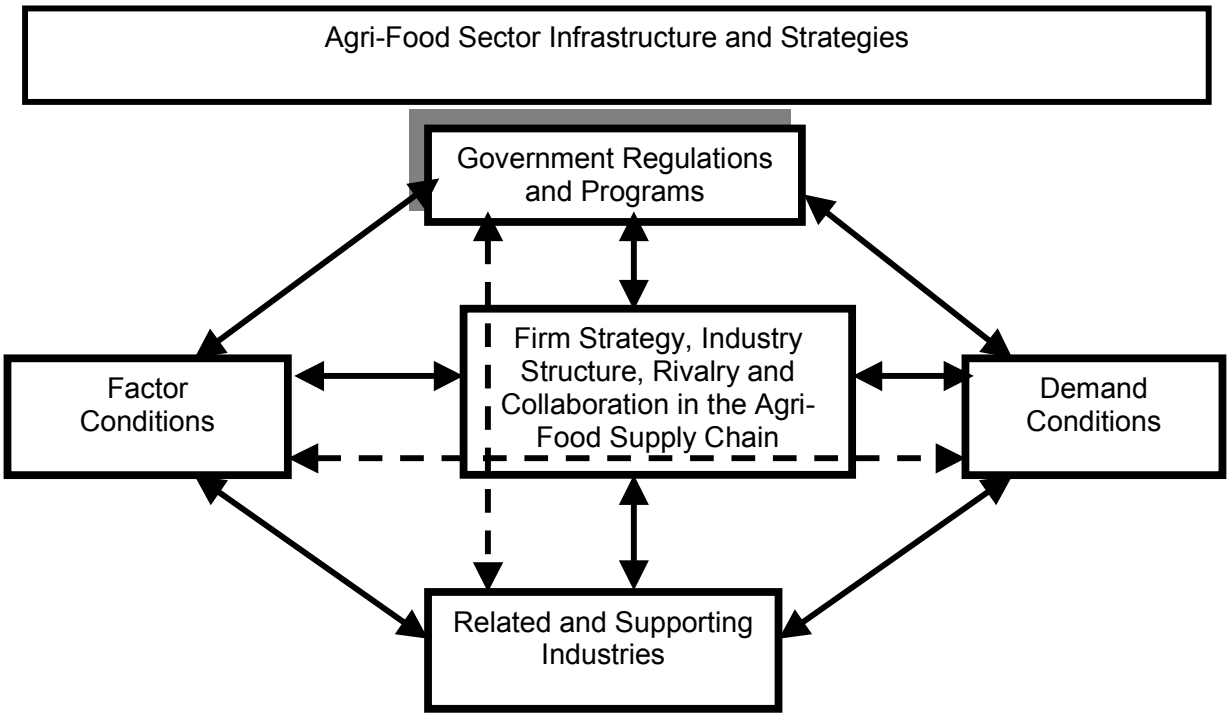
1. Gaëtan Lussier, Chair, Board of Directors, CAPI
2. Garth Coffin, Chair, Farm Income Project Steering Committee
3. Doug Stewart, CAPI Board Member
4. George Fleischmann, CAPI Board Member
5. Ken Knox, CAPI Board Member
6. Yvan Jacques, A/President, CAPI
7. John Groenewegen, JRG Consulting Group, - CAPI Farm Income Project Manager
8. Justin To – Alternate for Bob Friesen, CFA - CAPI Advisory Committee
9. John Oliver, Maple Leaf Bio-Concepts - CAPI Advisory Committee
10. Gilbert Lavoie – Alternate for Laurent Pellerin, UPA - CAPI Advisory Committee
11. Karl Meilke, University of Guelph (network leader)
12. Richard Gray, University of Saskatchewan (network leader)
13. Jim Unterschultz, University of Alberta (network leader)
14. Tulay Yildirim (Director, Economic and Industry Analysis – AAFC)
15. Bruce Archibald, (DM, Ontario Agriculture, Food and Rural Affairs)
16. Adele Pelland, Quarry Communications
17. Dawn Levesque (Guelph Regional Office, AAFC)

Annex III - Integrating Framework

The elements that are considered important to help shape competitive advantage include:

- Factor conditions, which refers inputs used in the production processes in the sector and the resulting productive capacity,
- Demand conditions, which refers to the nature of demand (domestic and export)
- Related and supporting industries, which provide know how and advantage to the agri-food sector
- Firm strategy, structure, rivalry and collaboration in the agri-food supply chain, and
- Government regulations and programs.

Figure I.1 Determinants of Competitive Advantage in the Agri-Food Sector



An expanded version of this framework is shown on the following page.

Integrating Framework