

The Evolution of Agricultural Support Policy in Canada

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Agricultural support programs have come under increasing scrutiny over the past two decades as successive attempts in trade negotiations have been made to curtail levels of support and to better identify (and subsequently reduce) those programs yielding the greatest distorting effects on trade. Support programs in Canada have gone through very substantial change over the past 50 years in response to these broad ranging economic, international, and social objectives and pressures. Indeed, the evolution in producer support dates back to the beginnings of the 20th century. In attempting to understand the significant turning points and pressures for change, this paper examines the origins of support policies for Canadian agriculture from the late 1800s to the present time. The paper is written with the understanding that policy changes are path dependent, that is, policies in place at any point in time condition both the nature of policy change in the future as well as the pace and direction of change.

The paper is limited to an examination of the support and stabilization policies for Canadian agriculture. One closely related issue is the emergence of marketing arrangements within Canada, some of which involve support for prices or incomes for farmers. As well, the historic role of cooperatives, initially in the western Canada grains industry and subsequently in the Canadian dairy industry, has overtones of price stability and support in some cases. However, while these topics are noted throughout the paper where they specifically involve stability or support or relate to the determination of federal and provincial powers, their history is not detailed in this paper.

The paper begins with an outline of the origins of agricultural and immigration policy in Canada, two highly interdependent mandates in the early years following Confederation in 1867. Subsequently, the initial policy directions and the great national debates which deeply involved agricultural policy are examined. The paper details each of the major policy shifts in the several attempts to establish the safety net policy for Canadian agriculture, concluding with an outline of the Agricultural Policy Framework and its successor frameworks, Growing Forward I and Growing Forward II in place today, and the issues ahead in support and stabilization policies.

FROM COLONY TO INDEPENDENT DOMINION: 1867 TO 1945

Agricultural and Immigration Policy

From the time of Confederation in 1867, agriculture was paired with immigration in policy as well as the Constitution. Section 95 of the Constitution² was prepared on the understanding that

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² Section 95 of the Constitution Act 1867 reads: "In each Province the Legislature may make Laws in relation to Agriculture in the Province, and to Immigration into the Province; and it is hereby declared that the Parliament of Canada may from Time to Time make Laws in relation to Agriculture in all or any of the Provinces, and to Immigration into all or any of the Provinces; and any Law of the Legislature of a Province relative to Agriculture or to Immigration shall have effect in and for the Province as long and as far only as it is not repugnant to any Act of the Parliament of Canada."

the principle issue in agricultural policy was achieving a high rate of quality immigrants to take up the vast areas of unpopulated and under-populated farm lands in the new Dominion, particularly in western Canada. It also established the concurrent relationship or joint responsibility among federal and provincial governments for the administration of agriculture. In policy, identifying and attracting quality immigrants dominated national policy for agriculture for at least the first 40 years and was a significant feature of policy until the 1930s. Immigration policy was in response to the need to populate Canada as well as a response to the demands in the UK and northwestern Europe for out-migration of those unable to be absorbed into the economies of Europe as the industrial revolution effects were felt or recession and depression years occurred.³ Indeed, Fowke recalls that the inclusion of what is now western Canada in the Dominion as a region for immigration was a significant driver in the creation of Canada, since the lands in eastern Canada suitable for agriculture were largely occupied.⁴

Political Economy of Early Agricultural Policy

In support of the immigration policy for agriculture, the Experimental Farm Stations Act, 1887 was designed to strengthen research on new crops and technologies adapted to Canada's resource base. It was recognized as a necessary component of immigration policy for the livelihoods of settlers after arrival. There was the strong feeling among policy makers in Canada that the USA and other emerging nations (Australia and New Zealand, Argentina, for examples) were winning more and higher quality immigrants because of the limited agricultural technologies and crops adapted to the Canadian soils and climates, particularly in western Canada (Smith, 1920; Sifton, 1906).

In the period before the First World War, there was little taste for direct intervention in agriculture, or commerce of any kind by government. John Stuart Mill captured the sentiment of governments accurately with the comment:

“government ought to confine themselves to affording protection against force and fraud: that these two things apart, people should be free agents, able to take care of themselves and that so long as a person practices no violence or deception to the injury of others in person or property, legislatures and governments are in no way called upon to concern themselves about him.” (Mill, 1892).

This philosophy of assuring fairness among economic participants appears to be rationale for the establishment of the Crows Nest Pass Agreement 1897 for fixing the maximum charge for grain transportation west of Thunder Bay, and the General Inspection Act 1896, the Manitoba Grain Act 1900 and the Canada Grain Act 1912 for setting grain quality standards and assuring fairness in grain trading.⁵ The grain transportation legislation effectively prevented railways from charging excessively for grain movements where a farmer had no effective recourse to

³ See, for example, Sifton, 1906; Smith, 1920; Cowan, 1928; Report of the Saskatchewan Royal Commission on Immigration and Settlement, 1930.

⁴ See Vernon C. Fowke, 1946. **Canadian Agricultural Policy: The Historical Pattern**. University of Toronto Press, Toronto, Canada. (Reprinted 1978, University of Toronto Press.).

⁵ While the well-known Crows Nest Pass Agreement between the railways and the federal government set the maximum rate for grain movement at one-half cent per ton mile within western Canada, it also set the same rate for the movement of settlers' effects from eastern to western Canada. This provision remained in place until the 1980s.

other means of movement. Similarly, the grain grading and standards were put in place to assure that grain companies dealt fairly with grain growers on price, quality and quantity. As well, the initial legislation on food inspection and meat hygiene occurred during this period, based on the protection of consumers against fraud, food contamination and food borne pathogens. Before 1914, there was no form of direct support to farmers; support for immigration and assuring fairness in commerce formed the foundations for agricultural policy.

Another element in policy which emerged during the first few decades of Canada was the regional difference in setting policy directions and instruments. MacDonald's "National Policy" of protecting the development of an industrial base in eastern Canada while leaving western Canada in essentially an open trade situation as a source of raw material. This was largely a transfer of the original colonial policy of Great Britain (Great Britain as the source of industrial products, with colonies providing supplies and raw materials) to the new Canadian setting.⁶ That is, eastern Canada was to become the industrial base for the new Dominion while the west was to be the source of raw materials and supplies. It is not surprising then that the initial instruments of policy for agriculture were not only directed to western Canada but also exclusively for western Canada. The Crows Nest Pass Rates Agreement and the initial Board of Grain Commissioners were used for solving western Canadian problems, and not applied to eastern Canada. This separation in policy instruments and directions would persist for a century, covering not only the initial fairness and immigration issues, but subsequently in agricultural institutions and support mechanisms.

The Inter-War Period

The First World War strengthened agricultural prices as supplies were needed as part of the overall war effort. However, as soon as the war was over, there was a major collapse in grain prices. By this period, western Canada remained as a grain-dominated agriculture with substantial exportable surplus, mostly wheat. In eastern Canada, the rise of the dairy, poultry and hog industries by 1880 reduced or eliminated the exportable surpluses of grain and generated an export industry based on meat and dairy products.⁷ As a consequence, the low grain prices after the war hit the west substantially harder than eastern Canada. By the 1920s, many groups in western Canada were strongly questioning the federal government's persistence in encouraging migration of farm and other agricultural labour (See, for example, the United Farmers of Canada position paper in: Report of the Saskatchewan Royal Commission on Immigration and Settlement, 1930, p. 200).

The Canadian government remained reluctant to directly support agricultural incomes or prices. The one action taken was the creation of the Canadian Wheat Board, 1919, to offer a means to support the price of wheat and have government as buyer and subsequent seller. Even with considerable pressure to continue the operations of the Board, the Board was in place for only one year. The federal government offered legislation to continue the operation of the Canadian

⁶ See Vernon C. Fowke, 1946. **Canadian Agricultural Policy: The Historical Pattern**. University of Toronto Press, Toronto, Canada. (Reprinted 1978, University of Toronto Press.). This text has extensive detail on the rationale for the creation of Canada and the settlement and migratory policy considerations in adding western Canada to the new Dominion of Canada.

⁷ Grain exports from eastern Canada to England began as early as 1820, and largely ceased by 1875-80.

Wheat Board, but placed the onus on the western provinces for any losses by the Board and required provincial legislation to activate the federal powers. No province succeeded in initiating these powers after 1919.⁸

The federal government, as well as western Canadian farmers, was uncomfortable with having only private traders handling grains. The farm cooperatives emerged during this period, with United Grain Growers starting in 1917, and the three provincial pools, Alberta Wheat Pool, Saskatchewan Wheat Pool, and Manitoba Pool Elevators getting underway in the early 1920s. Because of the farmer distrust of markets, the cooperatives refused to use futures markets to protect inventory and price changes, and were essentially bankrupt by 1929.

In 1926, the federal government renewed and extended its commitment to the Crows Nest Pass rates. In 1927, the federal government passed the Canadian Farm Loan Act, creating a federal agency to lend on a first mortgage to farmers, up to a maximum of 50 percent of the appraised value of the property and on 20 percent of insured farm improvements, to a maximum of \$10,000. The province had to agree to the federal agency lending in the province before loans could be given. These were the only substantial actions taken in agricultural policy by governments until 1929.

With the collapse of the cooperative grain pools in western Canada, the federal government reluctantly took over these pools temporarily providing some modest support in doing so. This action was followed on the work of three successive Royal Commissions during the 1930s regarding grains in western Canada, looking for means of solving the chronic problems of low incomes and prices.⁹

The Three Debates

There were three critical issues facing Canada during the 1920s and 1930s. All three issues were closely linked and all three have had a significant influence on the development of policy for agriculture in Canada. These issues were:

- the role of government in society and the economy: John Stuart Mill's view of the role of government as opposed to the emerging Keynesian view;
- the division of powers between the federal and provincial governments: the powers to govern within Sections 91 and 92 of the Constitution Act; and
- the growing imbalance in provincial fiscal capacity and the associated provincial powers under the Constitution Act.

The "Keynesian" debates on macroeconomic policy fostered in the first three decades of the 20th century did little to change federal policy approaches to managing the economy before 1930, in agriculture as well as other sectors. In addition to this economic and philosophical

⁸ See, for example, the Canadian Wheat Board Act, 28 June 1922. The Act provided for power over all of Canada for the Board to buy, sell, store, transport and market grain, export quantities in excess of domestic requirements, and make advances to producers. However, Canada was not responsible for any deficits on the pool accounts, and the Act would not come into force until two or more provinces enacted legislation considered as adequate by Canada to provide the Board with the same powers as the 1919 Board. Finally, the powers under the Act terminated 15 August 1923.

⁹ See, for example, the Turgeon Commissions, and D.A. MacGibbon, 1952. **The Canadian Grain Trade, 1931-1951.** University of Toronto Press, Toronto, Canada.

debate about the role of government, Canada was still sorting out the nature and intent of the Founding Fathers regarding the division of powers between federal and provincial governments. Finally, the fiscal arrangements within the Constitution Act of 1867 were coming under massive pressure. All three of these issues were linked, and agricultural policy directions were clearly caught up in all three.

The debate on the Keynesian approach to the role of government began long before the book by John Maynard Keynes, *The General Theory of Employment, Interest and Money*, was published in 1935. Several earlier articles and books set out not only the difficulties of a minimalist role for government, but also presented the foundations of his *General Theory*. These debates were not exclusive to economists, but widely debated in society and governments, seeking to deal with the growing issues of unemployment, international trade, currency exchange and economic management in the economy. Throughout the 1920s and early 1930s, Canada was struggling to find ways of encouraging the development of the nation and the economy within the confines of the federal and provincial powers in the Constitution Act and political views of the appropriate role of government. The USA experienced the same debate in agricultural policy during the 1920s. Congress rejected an Act in the 1920s quite similar to the subsequent Agricultural Adjustment Act of 1933. By the 1930s, the USA government shifted sharply toward a much larger role for government in managing the economy with the election of F.D. Roosevelt in 1932. The New Deal legislation included a substantially larger role for government in agriculture, beginning with the Agricultural Adjustment Act, 1933.

On the division of federal and provincial powers, Sections 91 and 92 of the Constitution Act set out the powers of each order of government. Within these powers, the federal government was provided with both specific and residual powers while the provinces were provided with specific powers only. In addition, the federal government could retrieve provincial powers by declaring any works within provincial jurisdiction for the general advantage of Canada or for the advantage of two or more of the provinces.¹⁰ On the surface at least, it seemed that the federal government held very substantial powers under the Constitution Act in directing and leading in agricultural policies and programs. However, the specific provincial powers included property and civil rights, among other powers, which have been interpreted by the courts quite extensively. Furthermore, the Court has held that Section 95 was limited to only “encouragement and support of agriculture” and not to concurrency respecting marketing the products of agriculture.¹¹ In general, while the original intent of the Constitution Act appears to have been designed to provide for a strong central government, the subsequent interpretations through Courts and particularly the Judicial Committee of the Privy Council in London until 1949, have strictly limited the federal powers, offering the provinces large scope in interpreting and protecting provincial powers.

¹⁰ The significant elements of the Section are: “Section 92. In each Province the Legislature may exclusively make Laws in relation to Matters coming within the Classes of Subjects next hereinafter enumerated; that is to say, ... (10). Local Works and Undertakings other than such as are of the following Classes:...(c) Such Works as, although wholly situate within the Province, are before or after their Execution declared by the Parliament of Canada to be for the general Advantage of Canada or for the Advantage of Two or more of the Provinces.”

¹¹ For an excellent review of the shaping of federal and provincial powers in agriculture, see: Robert S. Fuller and Donald E. Buckingham, 1999. **Agriculture Law in Canada**. Butterworths, Toronto. Pages 142-158.

As governments began to assume a more active role in the economy to address unemployment, economic dislocation, drought and grasshoppers, the difficulty in applying in a practical way the Sections 91 and 92 became apparent. In the 1920s, for example, a provincial marketing act, attempting to allow collective action by farmers to improve incomes, prices and fairness in marketing, was declared *ultra vires* the Constitution Act because it attempted to regulate product which could move inter-provincially, a power reserved to the federal government.¹² The experience in the first half of the 20th century, particularly with the Judicial Committee in place until 1949¹³ protecting and expansively interpreting provincial powers limited the options for the federal government to provide leadership and action in designing policies for agriculture. Three obvious routes could have been pursued. Clearly, invoking Section 92(10)(c) of the Constitution Act to place activities within federal jurisdiction was an option, used in the case of the Canadian Wheat Board (CWB) Act 1935. Another option was to challenge the interpretations of the Constitution and regain or re-establish very broad powers for the federal government in line with a strong central government. This option was clearly a long term endeavour with uncertainty of outcome and likely regarded as an attack on 'established' provincial powers. The third route was to cooperate with provinces through formal agreements on the understanding that where both parties joined in the agreement, the reality would be that provinces would be unlikely or less likely to challenge the actions taken in policy and programs. The federal government clearly chose the third, possibly as the path of least resistance, upon which subsequent marketing and support policies are based. Indeed, provinces encouraged the federal government to take a more active role in forming multilateral federal-provincial agreements to limit the competitive provincial subsidies which emerged in the 1970s.

With respect to the fiscal arrangements, the Constitution Act of 1867 attempted to balance powers and revenue sources assigned to the two orders of government at that time. Nonetheless, by the 1930s, the largely indirect revenue sources assigned to the provinces were essentially drying up while all residual and growing sources of revenue remained with the federal government. It can be noted that the fiscal arrangements in the Constitution Act were written with only the four initial provinces in mind and the nature of revenues which existed at that time. As the western provinces joined the confederation, the indirect taxation capabilities which existed in the initial four provinces had not been developed in the west. By the mid-1930s, the three western provinces, Alberta, Saskatchewan and Manitoba, had no fiscal capacity to even begin addressing the magnitude of the hardship throughout agriculture, even though many of the issues were within provincial jurisdiction.

¹² Produce Marketing Act of British Columbia, 1926.

¹³ The Supreme Court of Canada did not become the final legal arbiter in Canada until 1949. Prior to this, Supreme Court decisions in Canada could be appealed to the Privy Council in London, and heard by the Judicial Committee. One of the last verdicts of the Supreme Court of Canada appealed to the Judicial Committee involved a grain company whose inventories of oats and barley were taken over at the time oats and barley were placed under the Canadian Wheat Board. The prices paid for these grains taken over by the Canadian Wheat Board were substantially below market prices at that time. Interestingly, this Nolan case began before the references to the Privy Council were abolished in Fall, 1949. In doing so, it was excluded from the termination of references to the Judicial Committee of the Privy Council of the UK in 1949. Even though three courts in Canada, including the Supreme Court of Canada, found in favour of Nolan, the Judicial Committee found against Nolan in early 1951.

This imbalance in fiscal capacity and assigned powers, and the consequent forced fragility of the provinces eventually led to the Rowell-Sirois Commission, 1938-1940. While the Second World War intervened, the directions set out in this Commission and subsequent ones were pursued and implemented through agreements with the provinces in the late 1950s and 1960s. Effectively, the agreements gave provinces the right to income tax revenues, federal tax point sharing and equalization payments.¹⁴

The Great Depression of the 1930s and the simultaneous droughts and insect damage throughout the North American Great Plains finally led to action by the federal government, even though there was no clear resolution of the three debates. In Canada, Prime Minister Bennett announced in January 1935 an approach similar to the USA government under President Roosevelt regarding the role of government, calling it by the same name as the USA, that is, 'New Deal'. His announcement was "reform means Government intervention. It means Government control and regulation. It means the end of *laissez-faire*."¹⁵ Several Bills were brought forward and passed by Parliament including:

- a credit act for farmers (The Farmers' Creditors Arrangement Act, 1934)
- an agricultural marketing act (The Natural Products Marketing Act, 1934, 1935)
- three acts on labour standards
- two acts on unfair trade and competition
- one act for employment and social insurance funding, cost shared among government, employees and employers.

Immediately following the election of Prime Minister King in October 1935, all of these measures were referred to the Supreme Court of Canada. The basic issue was whether these measures were consistent with the division of powers set out in Sections 91 and 92 of the Constitution Act.

Saywell describes the conflict in the marketing act as follows:

"The...Act...attempted to locate a boundary between local (property and civil rights) and extra-provincial (trade and commerce) marketing regulation. The Dominion Marketing Board was given a broad authority to regulate the flow of products to markets, including withholding products from market and discouraging production or price-fixing. The constitutional incapacity of the federal government was to be overcome by the establishment of local or provincial producers['] boards under the laws of the province, which could exercise any or all of the powers of the Dominion Board, or the boards

¹⁴ The equalization payments were based on Section 36 of Schedule B of the Constitution Act: "Section 36. (1) Without altering the legislative authority of Parliament or of the provincial legislatures, or the rights of any of them with respect to the exercise of their legislative authority, Parliament and the legislatures, together with the government of Canada and the provincial governments, are committed to (a) promoting equal opportunities for the well-being of Canadians; (b) furthering economic development to reduce disparity in opportunities; and (c) providing essential public services of reasonable quality to all Canadians. (2) Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

¹⁵ John T. Saywell, 2002. *The Lawmakers: Judicial Power and the Shaping of Canadian Federalism*. Published for the Osgoode Society for Canadian Legal History by University of Toronto Press, Toronto. p. 203-205.

could act conjointly. Moreover, no marketing scheme could be approved unless ‘the principle market for the natural product is outside the province of production’ or ‘some part of the product may be exported’. Finally, in an obvious attempt to salvage something, section 26 provided that ‘if it be found that Parliament has exceeded its powers in enactment of one or more of the provisions, none of the other or remaining provisions of the Act shall therefore be held to be inoperative or *ultra vires*.’ Enabling legislation was passed by all of the provinces, and when the act went to court there were twenty-two marketing schemes in operation.”¹⁶

While the credit act for farmers was upheld by the Court on the basis that bankruptcy and insolvency were within federal jurisdiction, the marketing act in its entirety was unanimously rejected by the Supreme Court of Canada in early 1936. British Columbia appealed the ruling by the Supreme Court of Canada to the Judicial Committee in London, but failed to overturn the Court decision. It would be another eleven years before a federal marketing act would provide for the basis for the marketing of farm products in Canada. Almost all provisions in the other legislation failed as well.

The Canadian Wheat Board Act 1935 recreated the institution introduced in 1919, with initial prices for wheat guaranteed by the federal government, voluntary selling through the Board, common pricing adjusted for transport cost across the prairie region, and monopoly powers for import and export of wheat and wheat products for all of Canada. This is the first on-going support mechanism in Canadian agriculture, although clearly, the federal government expected that the initial price guarantees would be set to minimize costs to the federal treasury. The creation of the CWB under federal powers essentially invaded provincial jurisdiction as set out in Sections 92 and 95 of the Constitution Act. To do so, Section 92 (10) (c) of the Constitution Act was invoked, placing the marketing of wheat in the CWB area of western Canada under federal jurisdiction. While this Act was passed as part of the Bennett ‘New Deal’, it was not sent to the Supreme Court by Prime Minister King, because it contained the Section 92(10)(c) reference.

The continuing reluctance of the federal government to become more heavily involved in managing the agricultural economy was clearly evident in the effort to terminate the Canadian Wheat Board after the 1938 year. While the Board bought and sold grain in 1935, no grain was offered for sale by farmers to the CWB in 1936 and 1937. The high initial price established for 1938 in relation to grain market prices attracted a good deal of grain to the Board, causing a substantial loss in the account, and paid by the federal government. Based on Justice Turgeon’s recommendations and great political pressure from western Canada, the CWB was continued in 1939 and beyond, with considerably more modest initial prices.¹⁷ By 1943, the CWB took over the marketing of all wheat in the designated area of western Canada.

Other actions taken during the 1930s included the creation of the Prairie Farm Rehabilitation Administration, 1935, charged with consolidating the abandoned farm land in western Canada, rebuilding the capacity of this land, assisting with the infrastructure for adequate and sustainable water supplies for farms and rural communities, in short, trying to drought-proof the prairie area. The Prairie Farm Adjustment Act 1939 provided for federal assistance to farmers

¹⁶ Saywell, *op. cit.*, p. 215-216.

¹⁷ G.E. Britnell and V.C. Fowke, 1962. p.198.

for yield losses and crop failure in Alberta, Saskatchewan and Manitoba. The Act set out the conditions under which payments could be made, depending on the price of wheat, the area yield and the amount of cultivated acres. Farmers participating in the program were required to pay a levy of one percent of grain sales to the fund. The federal government was to serve as the backstop to any losses in the program. The Act was a rudimentary crop insurance arrangement, funded by the federal government as necessary, but included cost sharing with farmers.¹⁸

All three of these acts were exclusive to western Canada. No similar or related provisions were made for eastern Canadian agriculture.

REACHING FOR MATURITY: COMPREHENSIVE APPROACHES TO AGRICULTURAL SUPPORT POLICIES: 1945-1980

The Second World War and Its Aftermath

The number of farms in Canada peaked in 1939. The Second World War rapidly drew farmers and farm labour into military and industrial activities to support the war efforts. The reduction in available agricultural labour sharply accelerated the emerging mechanization of agriculture and the consolidation of farms into larger units of production. The federal government, under war time measures, provided for agricultural price supports for basic commodities through contractual arrangements, primarily with the UK, for dairy products, wheat and bacon.¹⁹ The Agricultural Prices Support Act 1944, for example, established the Agricultural Prices Support Board to prescribe prices for agricultural products at which the Board was authorized to buy products in the market,²⁰ to pay the difference between the prescribed price and the average market price, to sell, dispose, package, process, store, ship, transport, export and insure agricultural products, and to buy any agricultural products on behalf of other departments or agencies of the federal government when required.

This Act set out for the first time the mechanism for agricultural price support. However, there is no specific direction in the Act identifying the methodology for establishing the prescribed prices. The only direction for the Board is contained in Section 9(2): "In prescribing prices...the Board shall endeavour to ensure adequate and stable returns for agriculture promoting orderly adjustment from war to peace conditions and shall endeavour to secure a fair relationship between the returns of agriculture and those from other occupations." The issue of "fairness" in the economy remained as a policy objective in this act, comparing agricultural and non-agricultural returns or incomes. Stability and adequacy of income/returns are also noted as policy objectives, although the 'stability' objective was in relation to the change from wartime to peacetime, not necessarily the stability of farm prices *per se*.

¹⁸ This Act continued in force until 1974, with levies collected from participating farmers. In the early 1980s, the remaining surplus in the fund was terminated and turned over to the Western Grain Research Foundation.

¹⁹ Frank Shefrin and Marjorie R. Cameron, 1946. The Wartime Subsidy Program of the Dominion Department of Agriculture. Economics Division, Canada Department of Agriculture, Ottawa.

²⁰ Wheat was excluded in the powers of the Agricultural Prices Support Board, since it was already under the Canadian Wheat Board Act 1935.

During the war, western Canada was expected to provide grains for export and for use in eastern Canada, while eastern Canada was expected to provide the pork, poultry and dairy products (butter, milk powder and cheese) for local domestic consumption and export. To encourage meat, poultry and milk production in eastern Canada and British Columbia, the federal government introduced the Feed Freight Assistance Act in 1941 to subsidize the movement of feed grains from Thunder Bay to parts of Ontario, and all of Quebec, Nova Scotia, New Brunswick and Prince Edward Island, and from Calgary and Edmonton into lower British Columbia, to stimulate and expand the livestock industries in these regions. This assistance was modified from time to time, limiting its applicability to parts of Ontario and Quebec, and extending the provisions to Newfoundland and Labrador, Yukon and Northwest Territories. The program was terminated in 1995. As well, feed storage subsidies were used to encourage timely purchase of grain supplies by eastern Canadian farmers.²¹

Following the war, the federal government pursued an immigration policy for “displaced persons” from European countries by allowing immigration of individuals on the condition they work on farms for one year, following which their families were allowed to join them as permanent settlers in Canada. The war had pulled a great deal of labour out of farming in Canada, and replaced agricultural labour with a massive surge in farm mechanization throughout the 1940s. In the post-war period, by encouraging labour to re-enter agriculture, either returning soldiers or immigrants, government was looking to agriculture to absorb the sharp growth in the available domestic workforce.²² This policy exacerbated the growing problem of excess labour in agriculture, eventually referred to as the “poverty problem” in Canadian and American agriculture.²³

The Agricultural Products Marketing Act 1947 finally laid the basis for collective action by farmers in the marketing of agricultural products. Coupled with provincial legislation, these federal and provincial Acts still form the basis for marketing arrangements in Canada. Additionally, the marketing of oats and barley in western Canada was placed under the Canadian Wheat Board on 17 March 1947, using the National Emergency Powers Act of 1945.²⁴

The Initial “Comprehensive” Support Arrangements in Canada: Post World War II

The contracts for delivery of agricultural products to the UK, begun during the war, continued until 1950. While initially, annual contracts for agricultural products in 1939 were negotiated, a five year agreement was initiated at the end of the war to terminate 1 July 1950. The expectation was that these contracts with the UK and others under Mutual Aid arrangements would continue well after 1950. The unforeseen and abrupt phasing out and termination of these contracts for wheat, cheese, bacon and butter led to an urgent debate on how to deal

²¹ D. Berthelet, 1984. “Agriculture Canada policy and expenditure patterns, 1868-1983”, **Canadian Farm Economics**, Vol. 19, No. 1.

²² The policy of encouraging agriculture to absorb excess labour during this period was reminiscent of similar policy directions in the 1920s and 1930s, where agriculture was expected and encouraged to absorb excess labour during the Great Depression.

²³ D.E. Hathaway, 1963. *Government and Agriculture: Economic Policy in a democratic Society*. The MacMillan Company, New York. pp. 253ff.

²⁴ In the original Canadian Wheat Board Act 1935, provision was made for the Governor in Council to add barley, oats, rye and flax under the powers of the Board, by regulation.

with the lower incomes and market access for these and other products. The first response was the Agricultural Products Board (APB) Act 1951 which provided the federal government with powers to:

- sell or deliver agricultural products to the government of any country,
- purchase or negotiate the contracts for the purchase of any agricultural products on behalf of the government of any country,
- buy, sell or import agricultural products, and
- store, transport or process agricultural products.

This Act reflected two significant changes in peacetime policy for agriculture. First, it was a rejection of the long-held view that governments should not be involved in commerce directly. It evolved from the experience initially with the CWB, and the Second World War where government effectively was managing some outputs of agriculture for the national good. Second, it was recognition that government had a role to play in supporting agricultural prices and incomes. Agriculture had played a key role in absorbing labour during the Great Depression, providing manpower during the war effort, delivering food for domestic and overseas use during the war, and serving as an instrument of immigration following the war. In peacetime, government could not ignore the hardship generated from the breakdown in the contractual arrangements begun during the war. Nonetheless, the design of the Act was to use the treasury to support the difference between the purchase price paid to farmers and the eventual sale price by government, with government free to establish the initial purchase prices. The financial terms in the Act provided that the Minister of Agriculture could enter into any arrangements so long as a loss was not expected on the sale of the product. In the case of an expected loss, Parliamentary appropriations and Governor in Council approvals were needed. With limited appropriations, the Act was limited in its ability to tackle the low price and income problems emerging in post-war agriculture.

In 1958, the federal government promulgated the Agricultural Stabilization Act (ASA), the first Act of its kind in Canada which foresaw direct payments caused by low prices to farmers with a specific formula for the support level.²⁵ Under this Act, the federal government provided statutory, direct subsidies for nine commodities ('named commodities') when the annual average price for any one of them dropped below 80 percent of the average price over the ten preceding years. The nine commodities were: cattle, hogs and sheep; butter, cheese and eggs; and wheat, oats and barley not produced in the designated area defined in the Canadian Wheat Board Act.²⁶ The level of support under the Act could be raised above 80 percent although Governor in Council and appropriation approval was required. As well, any other commodity or food product ('designated commodity') could also receive support under the Act for the purpose of stabilizing the price of an agricultural commodity, with approval of Governor in Council.²⁷

²⁵ The Prairie Farm Adjustment Act had provisions for triggering the national emergency provisions based on price, with Governor in Council approval, although the acreage payments were for yield reductions, not price support.

²⁶ In the first Diefenbaker minority government in 1957, a similar Act was tabled but not passed in Parliament covering 24 commodities.

²⁷ Any payments for named commodities at the support level of 80 percent of the preceding ten years were statutory payments under the Act; that is, Parliament had already approved these payments under the Act and did not need to

The preamble to the Act and some provisions reflect a good deal of the debate surrounding the passage of this Act. The preamble reads:

“Whereas it is expedient to enact a measure for the purpose of stabilizing the prices of agricultural commodities in order to assist the industry of agriculture to realize fair returns for its labour and investment, and to maintain a fair relationship between prices received by farmers and the costs of goods and services that they buy, thus to provide farmers with a fair share of the national income; therefore Her Majesty...”

The concept of “fairness” draws heavily on the earlier philosophical approaches of government regarding its role in the economy. The cost-price “fairness” relationship reflects the significant debate in Canada and the USA beginning in the 1930s and 40s about parity pricing.²⁸ The Act requires that the “...Governor in Council shall be guided by the estimated cost of production of the commodity, and such other factors as the Governor in Council considers to be relevant. Thus, the cost of production, as well as a parity concept of fairness, is embedded in the Act. Finally, the Act specifically refers to “stabilizing the prices” of commodities, not stabilizing incomes of farmers.

Two other Acts filled out the first fairly comprehensive support system for agriculture. The first was the Prairie Grain Advance Payments Act (PGAPA), 1959, to allow the Canadian Wheat Board to make advances to farmers for wheat, oats and barley stored on farms, in advance of delivery to the Board. Effectively, it provided cash flow for farmers through interest free loans against future delivery of the three grains, the only subsidy element being the foregone interest by the federal government. The rationale behind the Act was that deliveries to the CWB were controlled through permits, and in many cases, farmers were waiting long periods of time to gain access to the elevator system to deliver their farm-stored grains.

The second Act was the Crop Insurance Act, 1959, providing for federal funding to the provinces to operate subsidized crop insurance programs to farmers within each province. The initial funding arrangements were that the federal government would pay 50 percent of the administrative costs and the lesser of any amount of premiums paid by the province or 20 percent of the premiums. These arrangements were modified later to allow a province to sign up for the program by either (a) paying all of the administration cost while the federal government provided the insurance rate subsidy, or (b) the province could pay 25 percent of the total subsidy cost of the program within the province with the federal government paying the remainder of the subsidy. This is the first agricultural support program to introduce the concept of cost sharing between the federal and provincial governments. An earlier rudimentary crop insurance program in western Canada was operated under the Prairie Farm Adjustment Act (PFAA) with cost sharing between the federal government and the farmers.²⁹ Because crop

make annual appropriations for these expenditures. For support levels above 80 percent for the named commodities and for any designated commodities, annual appropriations were required for such expenditures.

²⁸ The Agricultural Adjustment Act 1933 in the USA was based on providing support to farmers to restore purchasing power of farmers to the 1910-1914 level. This Act was declared unconstitutional in 1936 and replaced with the Agricultural Adjustment Act 1938. Purchasing power parity meant that the relationship between prices of commodities sold by farmers and items purchased by farmers should be maintained constant over time.

²⁹ However, the federal expenditures were not a fixed share of the PFAA program cost. The federal government made payments to the fund only when the producer levies were insufficient to cover the program costs.

insurance was seen primarily as falling within provincial jurisdiction, the federal government stepped back from the lead role in providing for crop insurance under the 1959 Act, and in turn offered it to the provinces that wished to participate with federal assistance.

By 1959, the direct support arrangements were covered under five Acts: Canadian Wheat Board Act, Prairie Grain Advance Payments Act, Agricultural Products Board Act, Agricultural Stabilization Act, and the Crop Insurance Act. While providing some statutory support for agricultural prices (and thereby, incomes), much of the support remained discretionary for the federal government. The initial prices for the CWB were set by the federal government, usually with an eye on minimizing the risk of any treasury cost. The advance payments for Board grains were relatively low cost while providing a substantial cash flow advantage for farmers. The APB operations were entirely discretionary, and only nine, albeit major, commodities had statutory support under the ASA. Finally, the federal government had budgetary and actuarial control over the provincially-operated crop insurance programs.

Dairy and Poultry

A large share of the ASA payments after 1958 were paid to the dairy industry for deficiency payments for industrial milk, the milk used for processing into butter, milk powders and cheese. Industrial milk was treated under federal jurisdiction while fluid milk was managed by provinces. The distinction comes from the fact that industrial milk products could be stored, and consequently traded inter-provincially, a federal responsibility. Fluid milk was primarily a local industry during the 1950s and 1960s.

The continuing low prices for milk during the 1960s as well as the difficulties in marketing led to the Canadian Dairy Commission Act of 1967. Under this Act, the Canadian Dairy Commission was created to assist in managing prices and quantities of industrial milk, as well as administering the on-going and growing subsidy under the ASA. The powers to limit production, through joint action with the provincially-based Boards established under provincial legislation, began in 1974. At that time, the subsidy under the ASA was fixed at \$2.66/cwt (\$6.03/hl) and continued on all in-quota industrial milk until terminated on 31 January 1997.³⁰

Egg and chicken producers faced many of the same marketing conditions as the milk industry in Canada. The National Farm Products Marketing Agencies Act 1972 (now the Farm Products Agencies Act) set out the mechanisms under which tobacco, poultry and egg products could be marketed. To avoid the earlier pitfalls in marketing legislation, both this Act and the Canadian Dairy Commission Act relied on depositing federal and provincial powers in provincial and national boards separated from government to manage supply and set prices.³¹

These two Acts placed dairy and poultry products in an entirely different category for income stabilization and marketing than the remaining agricultural products. The Farm Products Agencies Act specifically denies stabilization payments for commodities under the Act for which

³⁰ Note that the fluid and industrial milk quotas had been merged long before 1997, although the subsidy was provided on that portion considered to be industrial milk with fixed provincial shares of production.

³¹ The Constitution does not allow the federal government to delegate its powers to a provincial government, nor can a province delegate its powers to the federal government. The only way of pooling the federal and provincial powers to negotiate through the jurisdictional maze was to have each order of government deposit the required administrative powers in a separate agency for the establishment of these marketing arrangements.

boards have been created. As a result, these commodities are dropped from further consideration in this paper.

Rebuilding the Safety Net System

By the 1970s, the five Acts establishing the comprehensive safety net needed to be reworked. Grain prices had been declining through the 1960s as many grain markets were depressed from the large volumes of grains sold through foreign aid. The 1964 USA Food for Peace Act provided for the international movement of farm products under soft/local currency loans, reducing or eliminating in some cases, the commercial markets for grain. By the end of the 1960s, surpluses in Canada were growing and in an attempt to limit the continued build up of inventory on farms, the Lower Inventories for Tomorrow Program (LIFT) 1970 was established to lower wheat acreage from over 20 million acres to about 12.5 million acres, with farmers paid for the acreages not planted compared to a historical base. Almost immediately, the USSR began purchasing grains from the USA and caused a sudden and sharp rise in grain prices in fall 1972 and throughout 1973. With LIFT, Canadian inventories were low, and the benefits from the much stronger prices were denied until future crop years could rebuild supplies. The frustration with low inventories caused by LIFT and the subsequently higher prices have built into Canadian policy views at farm, provincial and federal level, a very strong rejection of acreage or production limitations in grains, oilseeds and livestock.

The rebalancing of fiscal powers and constitutional responsibilities through the agreements between the federal and provincial governments starting in the late-1950s, opened the way for the provinces and the federal government to substantially build the social safety nets within Canada - Old Age Security, the national and provincial health systems and the Canada Pension Plan. This fiscal capability of the provinces also led to some provinces attempting province-only stabilization plans in agriculture in the early 1970s, in part because the federal guarantees under the ASA were regarded as insufficient. One of the pressures among provinces which these provincial plans created was considerable antagonism with adjacent provinces. The higher supports offered in one province were regarded as an attempt to encourage production and draw production away from neighbouring provinces. This concern for competitive provincial programming has persisted in provincial governments since that time and has been expressed in a number of ways. The provincial expenditure limits on commodities contained in the Tripartite Agreements in the 1980's, the paper by Quebec in 1989 entitled "A Question of Equity", negotiated provincial shares of federal money in several programs from Canadian Special Grains to the Canadian Farm Income Protection Program, all demonstrate this persistent and nagging concern of provinces about regional and provincial fairness and competitive provincial programming.

In eastern Canada, grain corn demonstrated a very substantial increase in acreage with the earlier maturing varieties, and soybeans expanded to be a significant oilseed crop. The area in which both of these crops were grown expanded substantially, with grain corn and soybeans moving into the northern counties of southern Ontario, the Montreal plain and eastern Ontario, particularly after 1970. This initially led to export movements of these products, and subsequently provided a source of growth for animal agriculture in Ontario and Quebec. In Quebec, for example, the availability of local grain supplies, the closure of quota in 1974 for

milk, and a farm community skilled in livestock production, moved Quebec from a relatively small hog producing province in the 1960s, to the largest producer of hogs in Canada during the 1970s, even though little or no on-going support was provided by Quebec during this growth period.

Even though grain supplies were burdensome through the late-1960s and early 1970s, the fear of significant food shortages captured international attention by 1974. The entry of the USSR into grain markets placed considerable demand on wheat and corn markets, not previously felt. While Canada had opened grain sales to the USSR during the 1950s, the USA had denied movements to the USSR until the early 1970s. Agricultural policy within the USSR forced large changes in animal inventories whenever feed grain supplies were short. Canada and other suppliers could not make up these variations in supply within the USSR. As USSR domestic supplies and some imports became available, animal inventories were rebuilt each time the animal inventories had been run down. With the opening of USA sales of grain to the USSR, this policy was reversed, allowing imports to more fully offset the variations in USSR domestic feed grain supplies. This had the effect of adding to the demand for grain on a continuous basis as well as leading to greater expansion within the animal feed demand in the USSR, combined with greater volatility in world markets.

Inflation was rising in the general economy. With the ASA guarantee on the nine named commodities of 80 percent of the preceding ten years, inflation was rapidly eroding the support offered under the Act. As well, wheat, oats and barley in the CWB designated area did not have similar support to grains outside the CWB area. The initial price guarantee under the CWB was not used as a price support mechanism, but rather the initial price was set annually based on forecasts of what the market was expected to return for each of the Board grains. Similarly, the PGAPA provided for advance payments for the Board grains in western Canada, while no similar arrangement existed for storable commodities outside the CWB area or for the growing number of crops in western Canada outside Board jurisdiction. Clearly regional tensions were growing between eastern and western Canada based on the regional differences in policy and program treatment.

The Crows Nest Pass Agreement was also coming under considerable pressure. The fixed rate on grain movement did not allow for inflation and the railways and others in the grain movement industry were increasingly reluctant to invest in movement infrastructure with rising costs and fixed rail tariffs for grain. The result was a growing set of federal programs to rebuild the grain rail system in western Canada, add to the infrastructure with the purchase of modern grain hopper cars, double track parts of the system (Kicking Horse Pass), and build export and inland terminals for grain.

In the rebuilding of the safety net during the 1970s, five Acts were created or modified. First, the Agricultural Stabilization Act was amended in 1975 to provide for guarantees for named commodities of 90 percent of the average market price for the five preceding years. The named commodities were changed to: cattle, hogs and sheep; industrial milk and cream, corn and soybeans, oats and barley outside the CWB designated area. Dropped from the named list were eggs and poultry (because of their inclusion under the National Farm Products Marketing Agencies Act), wheat outside the CWB designated area (because of the marketing arrangements

in Ontario under the Agricultural Products Cooperative Marketing Act), and butter and cheese (replaced by industrial milk and cream). The Governor in Council was enabled, as before, to prescribe support prices above the minimum for named commodities and at any level for designated commodities.

In establishing the support level, the Governor in Council was to “reflect the estimated costs of production” in the year compared to the average of production costs in the five preceding years. As well, an addition to the Act was that a support price could be set for a region of Canada, not necessarily for the entire country.

The ASA amendments also responded to the growing concerns of provinces about the equity of treatment by the federal government and levels of spending by adjacent provinces. Section 10 of the revised Act stated:

“Where provinces or producers or provinces and producers desire a greater prescribed price...the Governor in Council may authorize the Board to enter into an agreement with these provinces or producers or provinces and producers to provide for a greater prescribed price unless the agreement:

- (a) would give the producers of the commodity a financial advantage in the production or marketing of the commodity not enjoyed by other producers of the commodity in Canada;
- (b) would be an incentive to the producers ...to overproduce the commodity”

This was the first recognition of potential joint operations of the support programs between federal and provincial governments. It began the slow process of movement toward defined cost shares, and the role of the federal government in managing the equity among participants in agricultural supports across Canada.

Second, to parallel these amended ASA levels of support, the Western Grain Stabilization Act (WGSA) was passed in 1976 to provide stability for the western grains and oilseeds. This exceedingly detailed and technical Act defined support for grains and oilseeds in the CWB designated area as 90 percent of the five year area average net income (revenues minus named expenditures) for specified grains and oilseeds for producers in the program in comparison to the current year. A Fund was created in the Consolidated Revenue Fund (CRF) into which was paid a two percent levy by producers on eligible grain sales and effectively a four percent levy paid by the federal government.

The WGSA was the first attempt at a price/income support program with fixed producer-federal-government shares, and a composite of commodities, not support for each specific commodity individually. However, even though the Act was the first to prescribe support as a “net” concept (gross revenues minus specified costs), the ASA had begun operating commodity specific programs with the support level specified as “margin” (price minus selected costs) a few years earlier, for example, hogs in 1973.

The WGSA had specific limits on the maximum eligible sales per farm operation covered under the Act, i.e., \$25,000. The Governor in Council was enabled to raise this amount and to specify a higher support level than 90 percent. While the ASA had no specific limits, limits on sales eligible

for subsidy were common place. In hogs, for example, in the early 1970s, the limit was 200 hogs per farm operation for the year. The economic rationale for these limits was that the stabilization was intended for the “family farm”, not the large corporate farms, even though large corporate farms had a very small share of production. As well, the political concern with the “large cheque” under these programs was an on-going worry, when the political rationale was based on the support for the struggling family farm community.

Third, the Prairie Grain Advance Payments Act, originating in 1959, was amended in 1975 to update the amounts of the advances for stored wheat, oats and barley in the CWB designated area. Fourth, with the considerable expansion of grains in eastern Canada, an arrangement parallel to the PGAPA was made for storable commodities, other than the three Board grains. The Advance Payments for Crops Act (APCA) was passed in 1977 offering advances for storable commodities throughout Canada, except the CWB grains in the CWB designated area of western Canada. The terms of the advances were essentially identical to those of the PGAPA. The PGAPA continued to be operated within the CWB, while the APCA was operated federally, through many farm organizations.³²

The changes in the 1970s continued the distinction between eastern and western Canadian agricultural support, more specifically, support for western grains compared to all other commodities. Nonetheless, significant changes were underway:

- responding to a group of commodities, rather than commodity-by-commodity support (WGSA);
- cost sharing between federal government and producers (WGSA);
- enabling federal-provincial, federal-producer and federal-provincial-producer stabilization programs (ASA);
- support based on “net” returns, i.e., price or total sales minus relevant expenditures (ASA and WGSA);
- a fund within the CRF created to even out the anticipated variation in annual expenditures by the federal government (WGSA);
- recognizing the regional tensions between provinces and between the federal and provincial governments on equity of treatment (ASA); and
- crop insurance remained as area average coverage, not based on the individual farmer’s experience.

The fifth program was the APB Act. In operational terms, the APB was still available as a support mechanism in agriculture. However, through experience, the APB performed well, better than the designation for support of a commodity under the ASA, under certain circumstances. In cherries, for example, a bumper crop could substantially lower prices, almost to zero, if unchecked. By offering to purchase some product from farms through the APB, the price could be maintained at a level, that when combined with the large volume, provided reasonable

³² The administration of these two Acts created very considerable difficulty in western Canada. Because the CWB was a creation by government, any advance made by the PGAPA had to be repaid before repayments under the APCA. For an advance under PGAPA, a producer approached the elevator operator, working under arrangements with the CWB. For an advance on another crop, the Canola growers association became the program delivery agent. Even when canola was delivered to an elevator, the payment to the producer was applied against the PGAPA advance until exhausted before being applied to the APCA advance.

support for the commodity. The alternative would be a complete price collapse with deficiency payments made on a very large share of the crop. The product purchased by government could be processed, held off the market for a period of time, or sold into markets on a commercial basis not usually serviced by that commodity.

From a political perspective in the mid-1970s, the separation between western grain support policies and support for the rest of agriculture was continuing and growing. One historic reason for this was that the Canadian Wheat Board at its origins was not placed under the Minister of Agriculture. Technically, it was under the Minister of External Affairs and the Wheat Committee of Cabinet at its inception. Until the early 1990s, there were only two occasions when the CWB had been placed under the Minister of Agriculture: the Hon. Alvin Hamilton in the 1958 government of the Right Honourable John Diefenbaker, and under the Hon. Charles Mayer during 1993 in the Mulroney government. The Hon. Otto Lang, Minister of Justice, was responsible for the CWB following the 1974 general election while the Hon. Eugene Whelan was Minister of Agriculture. It was clear that Whelan was disappointed at not getting responsibility for the CWB following the election, leading to some competition between Whelan and Lang for leading agriculture in western Canada.³³ By maintaining the separation within the Cabinet, and the resulting competition between the two Ministers, the separation between western grains policy and policy for the rest of the sector deepened considerably. The separate Acts for support measures, ASA and WGSA, and the separate advance payments acts, PGAPA and APCA, were the results.

Domestic feed grain policies were also adding to the emerging conflict. The CWB held responsibility for assuring adequate feed grain supplies within Canada, based on its monopoly position for export and import throughout Canada for wheat, oats and barley, or their products.³⁴ In the early 1970s, there was the strong belief that the CWB was selling feed grain to overseas customers well below the selling price for feed grain sold into eastern Canada. This generated considerable concern in eastern Canada leading eventually to formula pricing for barley and feed wheat (corn equivalent pricing based on nutrition, basis Toledo, with transport to Montreal). In doing so, the program indirectly stabilized local feed prices in relation to the larger North American markets for grains. Additionally, when Ontario, with a barley surplus in the early 1980s, attempted to sell barley overseas, the CWB initially denied the export permit, realizing that western grains may have to backfill any shortage that the export movement from Ontario might cause. The export eventually took place, but not without considerable acrimony between Ministers and regions, with a small payment from the federal government to the CWB to compensate for any additional costs or losses the CWB may have incurred.

³³ Eugene Whelan, 1986. **Whelan: The Man in the Green Stetson**. Irwin Publishing, Toronto, Canada. p. 209-214.

³⁴ The Canada-wide monopoly on import and export of CWB grains extended to any product which contained 25 percent or more of these grains.

GLOBALIZATION: NEW TRADE OBLIGATIONS AND MARKET PRESSURES ON STABILITY POLICIES AND PROGRAMS, 1980-2000

The Troubled 1980s

The 1980s opened with three major events deeply affecting agriculture. The first was the USSR invasion of Afghanistan in December 1979, resulting in the USSR grain embargo by the USA, Australia, European Community, Argentina and Canada. Because sales to the USSR were restricted for a period of time, a small compensation payment was made to western grain growers, based on an estimate of the declines in prices caused by the embargo. However, this event meant that food supply and its trade were being used as a political instrument in the Cold War. This followed a few export embargoes by the USA during the 1970s based on assuring adequate domestic USA supply (soybeans to Japan, for example) which greatly concerned importing nations, both developed and developing, much more so than the economic effects of the embargoes seemed to warrant.

Second, the US Federal Reserve had grown increasingly uncomfortable with the rising level of inflation in the economy and, under Volker's leadership, sharply tightened money supply in 1979. Interest rates soared, reaching over 20 percent, hitting agricultural production and mortgage credit very hard.

Third, the 1981 Farm Bill under President Reagan was based on the expectation of strong and rising grain and oilseed prices for the foreseeable future. Built into the Bill were rising support prices for the following four years, with the USA government standing ready to purchase grain to maintain these prices.³⁵ With growing US government inventories unable to be sold without export subsidy, the other exporters had less difficulty in exporting grain. The 1985 Farm Bill changed this arrangement dramatically, allowing prices to find market clearing levels with deficiency payments and loans as the mechanisms for price supports, and an export subsidy for grains to assure market penetration abroad. The result was relatively strong prices for grains and oilseeds in the early 1980s followed by a sharp reduction in prices in 1986.

With the strong prices after the early-1970s, the WGSA fund was building up rapidly. However, following the trauma of high interest rates and rising farm input costs, western grain farmers demanded access to "their money", since levies had been paid by farmers into the account. By raising the level of support above 90 percent to respond in part to the drought conditions of 1985, substantial funds were paid out leaving the fund in deficit by the time of the 1985 US Farm Bill effects a year later. The result was a growing demand by western provincial governments and grain farmers for additional federal assistance. Rather than rebuilding the funding within the WGSA, *ad hoc* drought funding for the crop and livestock industry in western Canada in 1985 and the Special Canadian Grains Program (SCGP I) were initiated, the latter providing \$1 billion in assistance for 1986. The funds were divided somewhat arbitrarily between eastern and western Canada rather than having a uniform national program, again maintaining the difference between programming in eastern and western Canada. This program

³⁵ The US government began buying up to 4 million tonnes of grain with the announcement of the USSR embargo in January 1979, in part to support prices, but also to take ownership of grain in transit to the Gulf coast terminals, originally destined for the USSR. Without this action, the Gulf terminals would have been plugged slowing other private movements of export grains.

was followed by the second Special Canadian Grains Program (SCGP II) in 1987, with \$1.2 billion paid to grain and oilseed producers, again divided somewhat arbitrarily between eastern and western Canada.

For 1988, there was another drought in western Canada, and another *ad hoc* program of \$750 million for income support and green feed. For 1989, the Farm Support and Adjustment Measures (FSAM) program provided about \$1 billion to the Canadian grain and oilseed industry compensating for the continuing low incomes and prices. This was followed by a second FSAM providing about \$800 million divided between the horticulture industry and the grains and oilseed industry.³⁶ Throughout this period, the loudest cries for additional federal assistance were coming from the provinces.

Under the revised Agricultural Stabilization Act, the tripartite programs emerged in the 1980s. These programs, particularly in hogs and cattle, were stimulated by pressures to prevent individual provinces from creating programs which provided a competitive advantage to one province, in relation to adjacent provinces. By joining forces across federal and provincial governments, common programming eliminated the competitive nature of provincial-only programs. Embedded in the programs was a provision for the federal government to withhold funding in a province which exceeded a predefined level of support for a program commodity. While exceeded in a few cases, no action was taken by the federal government to discipline provincial spending on a commodity. Simply, the political pressure to treat all farmers in a plan equitably with federal funds forestalled the federal government from exercising this provision. The commodities in the tripartite programs were: hogs, lambs, beef, honey, apples, white beans, onions and cow-calf. All three partners (producers, federal and provincial governments) contributed to the schemes. While the arrangements were open to all commodities, the time and effort to make arrangements for the tripartite agreements commodity-by-commodity were complex and time consuming.

The successful countervail action by the USA against the import of live hogs from Canada in 1984 created the first significant external pressure on commodity specific programming in Canada. Clearly the hog industry in Canada had expanded substantially in the 1970s and 1980s, and with limited slaughter capacity, live hogs were going to the USA in increasing numbers. Equally, the beef industry was expanding and becoming increasingly reliant on the USA for both meat and live cattle exports (feeder cattle and cattle for immediate slaughter). The hog countervail action by the USA forced growing concern in Canadian safety net development regarding commodity specific programming and triggered the search for means to avoid countervail action in the future. The beef industry in western Canada was sufficiently concerned about countervail action that the Alberta and British Columbia beef industries withdrew from the National Income Stabilization Account (NISA)³⁷ in its initial years, even though this was a

³⁶ Even though the safety net legislation was in place for specific programs, these Acts did not have the flexibility in most cases to provide legislated authority for these *ad hoc* programs. As a result, the Department of Agriculture Act was used in many cases. Section 5 of the Act reads: "The Governor in Council may assign any other power or duty to the Minister." This section, while criticized by the Auditor General on a number of occasions for its scope and breadth, offers very wide powers to the Minister of Agriculture and Agri-food so long as the Cabinet can be convinced of the actions.

³⁷ For origins and design of NISA, see pages 24 and 27.

“whole farm” program, and less subject to countervail threat than commodity specific programming. Allied with this was the emerging text within the Uruguay Round of negotiations regarding the “green” box programming, indicating that commodity specific programs could never be excluded from countervail action, while “generally available” programming appeared to be a less threatened path to pursue.

The Canada-USA Trade Agreement in 1988-89 opened the way for the integration of production and processing within the North American economy for agriculture. Long established east-west trade within Canada had started to give way to Canada-USA trade and an integration of some industries, hogs and cattle/beef particularly, generating the pressures which resulted in the USA countervail action against Canadian hogs. With the agreement, trade in both raw and processed products between the two countries expanded very considerably. The huge USA market for both raw and processed products became the destination of preference for the growing exportable surpluses of Canadian products, which hitherto were faced with off-shore markets or tariff barriers into the USA. Canada, on the other hand, was a relatively small market, already in surplus in many temperate products, and offered little trade gain for the USA in temperate agriculture and food products. The result was that Canada faced growing political and economic threats of countervail from the USA as markets in the USA began adjusting to the integration of production and processing across the two countries. The threat of countervail by the USA against Canadian agricultural products appears to be stronger and more consistent than against any other trading partner of the USA throughout the period. The NAFTA agreement did not change this emerging threat to Canada, but deepened the search in Canada for programs designed to avoid or minimize the threat.

The *ad hoc* programs for grains, oilseeds and horticulture in the mid- to late-1980s captured much of the public attention and debate in agriculture. However, a very wide range of programs emerged in the 1970s and 1980s responding to specific climatic and economic events, at both national and regional level. Livestock feed assistance because of drought in many locations and years, payments due to regional flooding which prevented planting or destroyed existing crops not covered by crop insurance in many regions and years, assistance because of closure of processing plants, winterkill in apples, and strawberries, interest rebates, purchase or lease of hopper cars, box car rehabilitation, rail rehabilitation in western Canada, all of these programs and more, clearly left the perception that the safety nets in place were not adequately offering either income stability or protection against catastrophic events.³⁸ The programs exacerbated federal-provincial relations since the federal government was often called upon to respond to these regional events, even though in many cases, the apparent responsibility lay with the provinces. As a practical and political matter, once responses by the federal government began,

³⁸ For the spending detail on these programs, see Marcel Huot, 1984. Federal Agri-food Expenditures: 1970-71 to 1982-83. Working Paper, Agriculture and Agri-food Canada, Ottawa. See also, Monique Rodier, 1985. Federal Agri-food Expenditures: 1982-83 and 1983-84. Working Paper, Agriculture and Agri-food Canada, Ottawa. The policy directions surrounding these issues were debated on a number of occasions. See for examples, W.M. Drummond, W.J. Anderson and T.C. Kerr, 1966. A Review of Agricultural Policy in Canada. Agricultural Economics Research Council, Ottawa; Federal Task Force on Agriculture, 1969. Canadian Agriculture in the Seventies. Government of Canada, Ottawa; Task Force on Agriculture, 1977. Orientation of Canadian Agriculture. Agriculture Canada, Ottawa.

there was little recourse by the federal government to deny future involvement. As a result, the requests and the responses accumulated and grew over time.

The emerging trade concerns, the administrative experience with tripartite programming, along with the myriad *ad hoc* arrangements during the mid- to late 1980s for grains and horticulture led to strong pressures to renew and rebuild the safety nets for agriculture in Canada.

Rebuilding the Safety Nets Once Again

With several years of *ad hoc* programming experience and little improvement foreseen by industry or governments, the federal government along with the provinces' participation began a major policy review in 1989, starting with the "Growing Together" Conference in December 1989. Several task forces were established with industry, federal and provincial representatives. One involved grains and oilseeds safety nets, and another was examining safety nets for the horticultural industry. The economic difficulty felt by governments was that farmers in the crops sector were increasingly making planting and crop choice decisions based on governmental programming rather than allowing farmers to adjust to changing market signals. While the hog and cattle industry representatives were involved from time to time throughout these task forces, there was very great reluctance in both of these industries to consider long term industry subsidies or support which could attract trade action by the USA. The hog industry was already facing countervail duties for movement of hogs into the USA following the successful USA case for CVD brought in 1984, while the Canadian cattle industry felt considerable threat from the USA for similar treatment.

The products of the grains and oilseed safety net task force were the Gross Revenue Insurance Program (GRIP) and the Net Income Stabilization Account (NISA). The former applied to the crops industry, while the latter applied to the "whole farm". To implement these programs, a new Act was created, the Farm Income Protection Act (FIPA), which consolidated the Agricultural Stabilization Act thereby terminating commodity specific stabilization programs, the Crop Insurance Act but excluding the specific cost sharing arrangements, and repealed the Western Grain Stabilization Act following the 1990-1991 crop year. The Act allowed for a crop insurance program, a legislated NISA-type program and set out guidelines for a revenue insurance program. It also allowed for special programming under certain conditions approved by Governor in Council. Industry representatives and the federal and provincial governments spent considerable time debating the principles under which the new Act would operate. These principles, incorporated into the Act, were:³⁹

"(2) In negotiating an agreement authorized under subsection (1), the Minister shall take into consideration the following principles in respect of any program to be established under the agreement:

(a) the program should not unduly influence the decisions of producers of agricultural products with respect to production or marketing, and should encourage adjustments with respect to production or marketing so as to

³⁹ Farm Income Protection Act, 1991, Section 4 (2).

improve the effectiveness of the responses of producers to market opportunities;

(b) the level of protection to be provided by, and the relative share of governmental contributions to be provided to, the program in relation to particular agricultural products or classes of agricultural products should be equitable and reasonably consistent with all other agreements, taking into account regional diversity;

(c) the program should encourage the long-term social and economic sustainability of farm families and communities;

(d) the program should be compatible with Canada's international obligations; and

(e) the program should encourage long-term environmental and economic sustainability.”

These principles summarize much of the concern and debate within governments and industry. First, the worry about programs driving farmers’ planting decisions rather than responding to market signals was incorporated into the first principle. There was a wide range of emerging specialty crops, particularly in western Canada. The fear was that with long term erosion of real grain and oilseed prices, programs could be locking farmers into a few large crops.

The second principle reflected the regional equity debates, coming from the arbitrary division in some of the 1980s *ad hoc* programs between eastern and western Canada, between and within horticulture and the grains and oilseed sectors, and between provinces. It also was an up-dating of the concerns which stimulated Section 10 in the Agricultural Stabilization Act as amended in 1975. The difficulty was that equity was defined differently across regions and sectors. For some, clearly in the case of Quebec, for example, equity was defined as the same number of federal dollars flowing to the province per dollar of farm cash receipts, regardless of the income levels, prices, or natural events in the province. Other sectors regarded equity in the use of federal spending as responding to the level of “hurt” in each sector and region, without any acceptable definition of “hurt”. The principle was an attempt to respond to these pressures and jealousies. It also began the slow process of bringing support policies back to national uniformity after decades of separation between eastern and western grains support policies and programs.

The third principle regarding the long term social and economic sustainability of farm families and communities captured the view that farm families and their communities were being threatened by a progression of natural events as well as growing competition from abroad. It placed responsibility for the health of agricultural communities within agricultural policy and programs, even though few rural communities relied on primary agriculture for more than 20 percent of their economic activity.

The fourth principle is the first clear enunciation of the growing concern for potential US trade action against Canadian agriculture. Following the countervail action on hogs by the USA in the mid-1980s, the livestock sector in particular was wary of any long term support programs, however they were designed. As well, the texts regarding treatment of agricultural subsidies in the WTO were being drafted, with a view toward some types of support that might avoid trade action.

The fifth principle responded to the growing concern within agriculture as well as at the consumer and citizen level of the impacts of agriculture on the environment. This principle and other parts of the FIPA provided the first significant link between agricultural support funding and the protection of the environment.⁴⁰ Other more general environmental legislation was underway at the time. By placing specific reference within the FIPA, the attempt was to allow the Minister of Agriculture to establish environmental guidance for agriculture rather than relying on the more general legislation. The belief in the farm sector was that the Minister of Agriculture would be more responsive to their concerns than a Minister of the Environment.

The Gross Revenue Insurance Program was intended to bring yield insurance together with gross income insurance. The original idea was that price times yield aggregated across all crops on the farm provided more effective stabilization of the whole farm than support programs for individual crops, and it would direct government funding to those suffering substantial losses. Under the individual crop approach, such as crop insurance, the gross income of the farmer could be above normal and the farmer could still receive payments for the yield or price loss on one of the crops. Under the original concept for GRIP, the variation in gross revenue for the farmer would be the measure signaling payment.

As the program was implemented, Crop Insurance effectively remained as a separate program, and GRIP was to supplement the incomes of farmers in years with lower than normal gross incomes. During the development of the program, many variations were modeled in aggregate and for individual farms. The historic period against which current incomes would be measured was selected as the preceding 15 years, long enough to capture the high price levels of the 1970s within the average, providing, initially at least, substantial levels of support. Both Crop Insurance and GRIP were required under the Act to have premiums to assure the funding arrangements were self-sustaining.

The Net Income Stabilization Program, designed by a small group of farmers, was a significant departure from earlier programming. It was a whole farm program, that is, all commodities were included automatically in the program unless specifically excluded. As well, it was based on the premise that farmers should take greater responsibility for stabilizing their own operation by

⁴⁰ FIPA, Section 5 (2). "An agreement respecting any program shall, subject to any applicable laws of Canada or a province, (a) provide for the circumstances and conditions under which insurance may be withheld, restricted or enhanced for the purpose of protecting the environment and of encouraging sound management practices to ensure environmental sustainability; and (b) require an environmental assessment of the program to be conducted within two years after the coming into force of the agreement and every five years thereafter, and provide for the manner in which the assessment is to be conducted." No actions have been undertaken to restrict programming under the Act as a result of Section 5 (2) (a).

choosing when and how to access funding available through the program. Essentially, governments and the farmer would bank funds each year in an account for the individual farmer, and allow the withdrawal of these funds under certain circumstances, although the farmer was not required to withdraw funds when triggered. Once triggered, it was the farmer's decision to withdraw the funds or to leave the funds until a future date when they were triggered again. Each farmer was allowed to draw funds out of his/her account whenever the net income in a year was below the preceding five year average. Also, the farmer could withdraw funds from the account if the farm family household income was below \$25,000 or an individual's income was below \$15,000. These levels were subsequently raised to \$35,000 and \$20,000 respectively.

This program received surprisingly little debate among farm groups at the time of its initiation. While the cattle industry requested that cattle not be included in the program, the decision was left to the individual provinces to choose. As well, it was relatively low cost in relation to the emerging GRIP program where the debates on regional and commodity equity, support levels, and cost sharing were being played out. Finally, this program had fixed cost sharing arrangements among farmers, federal and provincial governments on a long term basis, the first of its kind outside of crop insurance programming in Canada.

The cost shares for NISA were set at three percent of eligible net sales for the producer, two percent for the federal government and one percent for the provincial government. However, at the initiation of the program, the federal government paid some of the provincial shares and "topped up" the accounts for farmers. The rationale was that until accounts could be built up, there would be very limited stabilizing capability within the program. With the urgency by grain and oilseed farmers for relief from low prices, GRIP represented a far more important and immediate program than NISA because of this delay in NISA account build up. This funding arrangement in NISA resolved temporarily part of the equity debate. Within the program, every participant received money in their account every year regardless of need, region or commodities produced. In doing so, the program generated very little emotion in the equity debate. By funding the program for each participating farmer, the participation level in each province established the provincial shares of the federal funding.

Another feature of the NISA program was that the federal and provincial governments provided for a three percent interest rate bonus on individual farmer NISA accounts. Farmers could hold their funds in their own account in an institution of their own choosing, and earn interest on the full balance within the account. While the program was initially touted as tax-free funds on withdrawal, governments were unwilling to provide this tax break. To compensate for retracting the initial program design, governments agreed to provide a three percent interest bonus on balances in the individual farmer NISA accounts. With market interests running about 9-11 percent at the time, the three percent was regarded as roughly equivalent to the value of the tax-free option. As interest rates fell in subsequent years, the three percent interest bonus became a much larger proportion of the overall interest income earned on the account. Indeed, the return on account balances exceeded returns on any related money market

accounts, and significantly more than the cost of borrowing for farmers. Borrowing when money was needed, rather than taking money out of the NISA accounts, was the preferred farm management option.

NISA faced an additional design problem for governments. The amount of funds provided by governments was clearly arbitrary at two percent of net farm sales for each producer in the program. The program was not targeted to a specific income risk, although the common understanding emerged that it provided coverage for shallow losses in net income...although “shallow loss” remained undefined. Without a defined risk target it was impossible to calculate the amount of funding that would be required of governments. This was a persistent thorn in program design each time governments had to go to their treasuries for funding renewal.

With the FIPA in 1991, the overall safety net included:

- National programs
 - Crop Insurance Program
 - Gross Revenue Insurance Program
 - Net Income Stabilization Account
- Provisions for *ad hoc* programs
 - Agricultural Products Board Act (largely inactive, powers consolidated into the Agricultural Marketing Programs Act (AMPA), 1997)
 - Provisions for special measures (Section 12, FIPA)
 - Department of Agriculture and Agri-food Act (discretionary powers under Section 5)
- Cash flow enhancement and price pooling programs for storable crops
 - Prairie Grain Advance Payments Act
 - Advance Payments for Crops Act
 - Agricultural Products Cooperative Marketing Act
 - Canadian Wheat Board Act

With this package of instruments, the federal government felt for the first time in several years that there was a defensible set of programs domestically and internationally. Domestically, governments could deflect requests for *ad hoc* or special interest group funding by pointing to equitable programs available to all (who wanted access). The added fiscal burden in the provinces sat heavily on some, Saskatchewan in particular. However, the principle of cost sharing between federal and provincial governments had been clearly established across the on-going programs. The original expectation was that with prescribed cost sharing in programs, provinces would be less willing to lead the calls for additional assistance from the federal government. From an international perspective, the NISA program as “whole farm” fit some but not all of the criteria in Annex II of the WTO for a “green” program, exempt from countervail. Subsidy levels were falling in line with expectations in the WTO, and there were upper limits on “amber” subsidies for all countries providing some protection from continuously rising subsidies by other competitors.

One other element emerged from this program set in 1995. Federal funds were allocated by province according to provincial receipts in agriculture. Provinces agreed to pay two-thirds of their federal allocation, giving a federal-provincial cost sharing of 60:40. The funds were to be used to pay for the programs costs of GRIP, NISA, Crop Insurance and advance payments. With all of these programs available but voluntary, participation rates within provinces varied. In some cases, provinces used all of their funding allocations for the programs, while others had surplus funds after paying for the program costs. In other cases, provinces used any surplus funds to pay part of the producers' cost share of Crop Insurance.

With specific cost sharing arrangements in place for NISA and GRIP but no longer for crop insurance, each province's allocation of funding left some funding for other uses. That is, NISA and GRIP funds with specific cost shares built into each program (neither of which was 60-40), provinces could adjust crop insurance cost shares independently across provinces, top-up the national programs or use the funds for other province specific programs so long as the overall 60-40 cost sharing relationship was maintained. As a result, "companion programs" were developed in most provinces to fully utilize the federal funding. A very wide range of programs was initiated through the 1990s designed in some cases to add to existing support measures and in others to strengthen agricultural adaptation and adjustment.

As expected, GRIP began its first year with very large payments to grain and oilseed producers. Every year thereafter, the fifteen year average on which support was based continued to weaken as the years in the 1970s and early 1980s were eliminated from the averaging period. As prices rose in 1994 and 1995, and the support levels weakened, surpluses in the GRIP accounts built. By 1995, Saskatchewan had withdrawn from the program with a large remaining program surplus, leading to the effective termination of the program in 1996 across Canada. Only Ontario continued the program for corn under the label of the Market Revenue Program.

The concern with federal budget deficits began to grow in the late 1980s and early 1990s. In 1995, the Program Review by the federal government sharply cut program spending. For safety nets, the total costs were to be reduced from about \$850 million annually to a maximum of \$600 million annually by 1997. The Western Grain Transportation Act payments were eliminated with a final payment of \$1.6 billion for farmers and \$600 million for infrastructure. The dairy payments were phased out beginning in 1995-96 and terminating in 1997-98 fiscal years. The Feed Freight Assistance Program was terminated with a final payment of \$64 million to affected producers.

In 1995, Alberta withdrew from the NISA program. Its withdrawal was based on concerns that government funding was going every year to every farmer regardless of need, the continuing antipathy of the Alberta and BC cattle industries to support measures, and that accounts were not being drawn down necessarily in response to low

returns on farms. The federal government used its allocation for the province to pay the entire NISA costs in the province, on the agreement that Alberta would operate support programs which would qualify for inclusion in the cost sharing arrangement to meet the 60-40 requirement. In doing so, Alberta (and later Prince Edward Island) began crafting a program that would become the design basis of the Agricultural Income Disaster Assistance (AIDA) and Canadian Farm Income Protection (CFIP) programs a few years later.

The WTO Agreement and its agricultural provisions were signed in 1994 and took effect in 1995. There was the clear expectation that domestic subsidies would be curtailed in the developed countries. With the 1995 Farm Bill in the USA, the general expectation in Canada was that USA subsidies for the “program crops” would sharply decline, bringing the USA subsidy levels into line with Canadian levels emerging from the re-establishment of safety nets in the early 1990s and the Program Review in 1995. However, as droughts and some low commodity prices emerged, it became clear that there was not wide and continuing support in the USA for market oriented, limited responses.

In 1997, a number of Acts were consolidated. The Advance Payments for Crops Act, the Prairie Grain Advance Payments Act, The Agricultural Products Board Act and the Agricultural Products Cooperative Marketing Act together became the Agricultural Marketing Programs Act. The powers under the Agricultural Products Board Act became Section III of the new Act entitled the Government Purchases Program, and the Cooperative Marketing Act became Section II of the Act entitled Price Pooling Program. However, the two advance payments Acts were rolled together as a single program, with the exception that the Canadian Wheat Board continued to operate an advance for Board grains in western Canada. All other program operations are carried out through arrangements with farm organizations. With this Act in 1997, a common set of programs for agricultural safety nets had been achieved, the first nation-wide commonality in a century, at least in legislation, with the exception of the Canadian Wheat Board Act.

The stronger grain and oilseed prices after 1992 eased considerably the pressure on governments for *ad hoc* programming. Nonetheless, small regional events continued to create pressures for some redress both federally and provincially. But the new programs, NISA and GRIP, coupled with higher grains and oilseed prices, and the Crop Insurance and Advance Payments appeared to satisfy the needs of the grains and oilseed industries. The reduction of safety net funding to \$600 million annually by the federal government through the Program Review in 1995 did not stimulate major concern within the industry at the time. Even the termination of GRIP in all but Ontario in the mid-1990s, while difficult, did not force a reconsideration of the overall safety net package.

The decline of hog prices, starting in spring 1998, and their collapse in fall 1998, led to a new round of consideration of federal and provincial responses to this event and others of similar nature. The hog industry was still adamant that commodity specific programming should not be

used so that a commodity specific response to hogs was unacceptable. As well, grains prices had declined in 1997 followed by oilseed prices in 1998. The NISA and Crop Insurance programs were regarded in the industry as insufficient to deal with the sustained downturn experienced at the time, coupled with a forecast of continued low prices in these commodities for some time.

Alberta, upon withdrawing provincial funding from the NISA program in 1995, began an innovative program designed to deal with shortfalls in net income of farmers. Prince Edward Island followed suit soon after. This program essentially supplemented net income of farmers when the current year net income fell below the 70 percent of the average for the preceding five years. With the urgent pressure for action by the federal government and provinces to respond to the sudden collapse in hog prices and the run down in grains and oilseed prices, a slightly modified Alberta style program, AIDA, was adopted for the 1998 and 1999 years. It was “whole farm”, designed to meet the criteria of the WTO Annex II Paragraph 7 for “green box” to ensure it was not countervailable,⁴¹ cost shared between federal and provincial governments on a 60:40 basis respectively, and with payments based on individual experience of the farm operator rather than all farmers receiving payments regardless of need or experience. Even though provinces had agreed to the 60:40 overall cost sharing in the safety net arrangements in the mid-1990s, some provinces were extremely reluctant to join this new program. Two paramount considerations by the provinces were involved. First, Saskatchewan, in particular, felt that the fiscal burden of an additional program was unfair to the province because of the very large proportion of the economy represented by the agricultural sector in the province. Second, the problems causing the income issues in agriculture were claimed to be international (particularly the extremely high grain/oilseed subsidies in the USA) and hence the responsibility/jurisdiction of the federal government alone. Nonetheless, all provinces eventually joined the federal government in delivering the new program.

The new AIDA program was clearly targeted at severe drops in net income for the farm as a whole, providing partial relief by governments for losses greater than 30 percent of net income in a year compared to either the immediately preceding three years or the Olympic average of the preceding five years (three of the past five years, removing the highest and lowest years, as specified in the conditions for green programming in paragraph 7 of the WTO Annex II Agriculture Agreement). Since this program was outside of the cost shared safety net envelope established in 1995, efforts began immediately with industry and federal and provincial government to determine a new safety net arrangement starting in the 2000 year. The new three year agreement reached in July 2000, called for NISA, Crop Insurance, CFIP, the federal advance payments programs and the continuing companion programs to be funded from a single federal envelope of \$1 billion matched 60:40 by the provinces. Provincial shares were established for the federal funding based on shares of gross farm receipts in each of the provinces.

⁴¹ At least while the “peace clause” was in place. This clause in the WTO denying countervail action on “green programs” expired at the end of 2003.

WIDENING THE SCOPE OF FEDERAL-PROVINCIAL-TERRITORIAL POLICY FOR AGRICULTURE AND FOOD

Once again, federal and provincial governments felt that a comprehensive set of safety nets had been established with the agreement in July 2000. Within a few months however, the federal government announced an *ad hoc* program of \$240 million based on intense political pressure from Saskatchewan to assist grain and oilseed producers because of the combined changes of transportation subsidies in 1995-96 and the change in CWB pooling practices. The funds were distributed based on the producer's nearest elevator and the change in basis caused by the two changes. One year later in March 2002, again from political pressure, the federal government announced \$500 million to be cost shared with the provinces on a 60:40 basis, to be distributed to all farmers within the NISA program and to any others wishing to provide equivalent data or sign up for the program. Clearly, the programs put in place along with the financial cost sharing arrangements with the provinces were insufficient to deflect the pressures for additional income assistance.

By the late-1990s, there was growing discontent among federal-provincial-territorial (FPT) Ministers of Agriculture with the endless nature of negotiations and funding for safety nets. Despite meeting more frequently throughout the 1990s, safety nets for agriculture dominated the policy and program detail discussions and largely crowded out discussion of broader issues in joint policy work among the governments. So as soon as the three year framework agreement was signed for safety nets in mid-2000 for the 2000-2002 period, FPT Ministers began to construct a more comprehensive approach to agriculture and agri-food policy for Canada. By June of 2001, FPT Ministers had signed the Whitehorse Accord covering the goals, objectives and performance measures for five broad areas of policy:

- risk management
- renewal
- environment
- food safety and quality, and
- science.

By mid-2002, a Framework Agreement was signed outlining the parameters within which programming in each of these areas would be arranged by both orders of government, as well as the federal funding commitment of \$1.1 billion annually. During 2003, provinces and the federal government signed implementation and program agreements covering all areas of the Agricultural Policy Framework (APF) including risk management (safety nets). However, in achieving the arrangement, an additional \$1.2 billion of *ad hoc* assistance was provided by the federal government (not cost shared with the provinces), \$600 million attributed to each of the years, 2002 and 2003. The money was distributed across all farmers based on their gross sales.

Because of the low aggregate net income in agriculture in 2003, additional federal funds were made available to farmers in winter/spring 2004. However, even though these funds went directly to all farmers, the payments were counted as revenue in the Canadian Agricultural Income Stabilization (CAIS) Program. In doing so, these *ad hoc* payments reduced the payments under the CAIS program, specifically for those farmers claiming CAIS Program payments. Where

no payment under CAIS is made to a farmer for that year, the *ad hoc* payment essentially provides cash to a farmer who has not experienced a loss. Where federal only (not cost shared with the provinces) *ad hoc* funding is provided, provinces' cost under CAIS are reduced by this offset. As a result, provinces still had an incentive to press for federal only *ad hoc* funding.

The original AIDA program announced in Fall 1997 became the basis for a number of subsequent programs based on the AIDA design. The WTO Agreement on Agriculture, Annex II, provided that certain payments to farmers would meet the "green box" criteria and exempt from countervail action through 2003. AIDA and subsequent programs of similar design were designed specifically within the limitations of Annex II wherein three conditions needed to be met:⁴²

The two conditions set out in "Paragraph 1 ...all measures for which exemption is claimed shall conform to the following basic criteria:

- (a) the support in question shall be provided through a publicly-funded government programme (including government revenue foregone) not involving transfers from consumers; and,
- (b) the support in question shall not have the effect of providing price support to producers;

plus policy-specific criteria and conditions as set out below."

The third set of criteria was drawn from Paragraph 7:

"(a) Eligibility for such payments shall be determined by an income loss, taking into account only income derived from agriculture, which exceeds 30 per cent of average gross income or the equivalent in net income terms (excluding any payments from the same or similar schemes) in the preceding three-year period or a three-year average based on the preceding five-year period, excluding the highest and the lowest entry. Any producer meeting this condition shall be eligible to receive the payments.

(b) The amount of such payments shall compensate for less than 70 per cent of the producer's income loss in the year the producer becomes eligible to receive this assistance.

(c) The amount of any such payments shall relate solely to income; it shall not relate to the type or volume of production (including livestock units) undertaken by the producer; or to the prices, domestic or international, applying to such production; or to the factors of production employed.

(d) Where a producer receives in the same year payments under this paragraph and under paragraph 8 (relief from natural disasters), the total of such payments shall be less than 100 per cent of the producer's total loss."

⁴² See: http://www.wto.org/english/docs_e/legal_e/14-ag_02_e.htm for the text of the WTO Agricultural Agreement and Annex II. Accessed 24 September 2013.

These basic rules were maintained throughout the progression from AIDA to FIDP to CAIS and AgriStability. Additionally, all other direct payments, such as ad hoc programs, would be included as revenue prior to the calculation of payments. As well, to protect the integrity of the Production Insurance Program, any indemnities under the program were included prior to calculation of payments. Where a producer does not have Production Insurance, an estimate of the Production Insurance indemnity is calculated and added to the revenue of the producer before payments were calculated under the CAIS and AgriStability programs. While the levels of coverage have changed with each renewal of the program, all of these basic rules and features have remained in place.

Since no payment can exceed 70 percent of the loss to qualify as a “green box” payment under the WTO, any payments in excess of 70 percent of the loss, within the CFIP, CAIS and AgriStability I programs are reported to the WTO as “amber box” payments.

The NISA program begun in 1990 was terminated at the end of the 2002 program year, with a total value accumulated in the individual accounts of over \$4 billion. Producers were given until end of March 2009 to progressively reduce and eliminate the balances in their accounts. Each individual NISA account was held in a financial institution chosen by the producer, and segregated into two types. Fund 1 represented funds placed in the account by the farmer, and Fund 2 represented funds given to the account by government including the interest payments by the financial institutions as well as the governments’ bonus interest payments. The rationale for segregation was that the government funds and interest amounts were regarded as taxable investment income (not farm income), while Fund 1 were not taxable upon withdrawal.

Tier of Loss	Government:Producer Share of Margin Loss				
	AIDA 1998-1999	CFIP 2000-2002	CAIS 2003-2006	AgriStability I 2007-2012	AgriStability II 2013-2017
Loss of 0% - 15% of margin	np	np	50:50	np	np
Loss of 15% - 30% of margin	np	np	70:30	70:30	np
Loss of 100% - 30% of margin	100:0	100:0	80:20	80:20	70:30
Loss within negative margin	70:30	70:30	60:40	60:40	70:30
Notes:					
1. For all programs, no payment can exceed 70 percent of the loss incurred.					
2. For AgriStability II, no payment can exceed the expenses in the reference years.					
3. For an individual producer, the maximum payment was \$175,000 for AIDA and CFIP					
4. For any individual producer, the maximum payment is \$3 million for AgriStability I and II					
5. Federal:provincial cost shares of the governmental payment are 60:40					
6. For AIDA, the federal government provided its 60 percent share of negative margin losses whether or not the province provided its 40 percent share.					
7. For CFIP, the federal government provided its 60 percent share of negative margin losses only if the province provided its 40 percent share for negative margin losses.					
8. np = no program payments					

A program similar to NISA was started in 2007 named AgriInvest, to replace the Tier 1 coverage (margin losses of 0 to 15 percent) provided by CAIS but discontinued in AgriStability I. The federal provincial government provided 1 percent of the eligible net sales to the AgriInvest account in a financial institution held by the farmer so long as it was matched by the producer.

Producers were able to place up to an additional 99 percent of eligible net sales into the account in any year unmatched by governments. The account balances could not exceed 400 percent of eligible net sales. While the NISA program restricted the amounts withdrawn by producers to losses in a given year, under AgriInvest producers could withdraw funds at any time whether or not a loss was incurred. The Fund 1 and Fund 2 arrangements on taxation mirrored those of NISA. To get the program underway, \$600 million was provided by the governments in 2006 to start building up the accounts.

For both the AgriStability and AgriInvest program, individual farm data are collected by the Canada Revenue Agency (CRA) through the income tax forms and the supplemental information forms required to operate the programs. The data needed for program delivery, excluding any information collected by CRA not essential for program delivery is then transferred to the program delivery agencies. Some provinces will be receiving the data for program calculations directly from producers.

A new program, AgriRecovery, was introduced to the BRM suite in 2006, to deal with regional or national disaster situations which can occur in production agriculture. Essentially, the program responds when the AgriStability, AgriInvest and Production Insurance (now AgriInsurance) programs cannot respond adequately to weather, disease or similar events affecting producers' ability to recover farm operations. The program provides a common framework across governments to deal with the *ad hoc* requests for assistance, rather than the divisive and competitive nature of such events in FPT relations in the past.

Finally, the advance payments program operated by the federal government has been continued, providing assistance in annual cash flow to producers. It provides for spring advances coupled with AgriInsurance, as well as fall advances based on product in storage prior to marketing.

The current suite of programs going forward is:

- AgriStability: a variant of the family of programs from the series of programs, AIDA, CFIP, and CAIS
- AgriInvest: a variant of the former NISA program, with fewer restrictions on withdrawals, and no interest bonus
- AgriInsurance: the former Crop Insurance Program
- AgriRecovery: a program designed to respond to crises and events beyond the reach of the AgriStability, AgriInvest and AgriInsurance programs, and
- Advance Payments Program: cash advances to farmers in the Spring (with a lien on any AgriInsurance indemnities) and in the Fall (with a lien on stored commodity).

Conclusion

Support for agricultural producers has evolved steadily over the last century, from piecemeal and reluctant support by government, driven by a wide range of events and conditions within and well beyond the agricultural sector. Drought, flood, insect damage, wartime needs, poverty, excess labour in agriculture, climate and disease, the role of governments in managing the economy and the rise of provincial fiscal power have all played a role in shaping support policy

over the decades. The most significant changes began to occur in the late 1980s with the recognition of the major divide in policies and programs for production agriculture between eastern and western Canada. This evolution to a common framework for all of Canada, along with joint policy and program development, operational delivery and funding by federal, provincial and territorial government represents the removal of the last vestiges of the National Policy established in the late 1800s. Of additional significance is that the common approach to policy and programs across federal, provincial and territorial governments has been extended beyond producer support to include the environment, science and technology, food safety and innovation throughout the agri-food system.

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Annex

Many means have been used in support to the agricultural sector over the past decades. Program design in each case has been a major consideration throughout the development of support programs at political level, with considerable evolution in the forms which the programs have taken. This annex attempts to relate program design to the underlying economic arguments and theory as well as the delivery capacity at the time the programs were designed. Two forms of program design are examined: floor pricing with government purchase programs to maintain the floor prices and deficiency payments based on area and national average prices.

Deficiency Payments

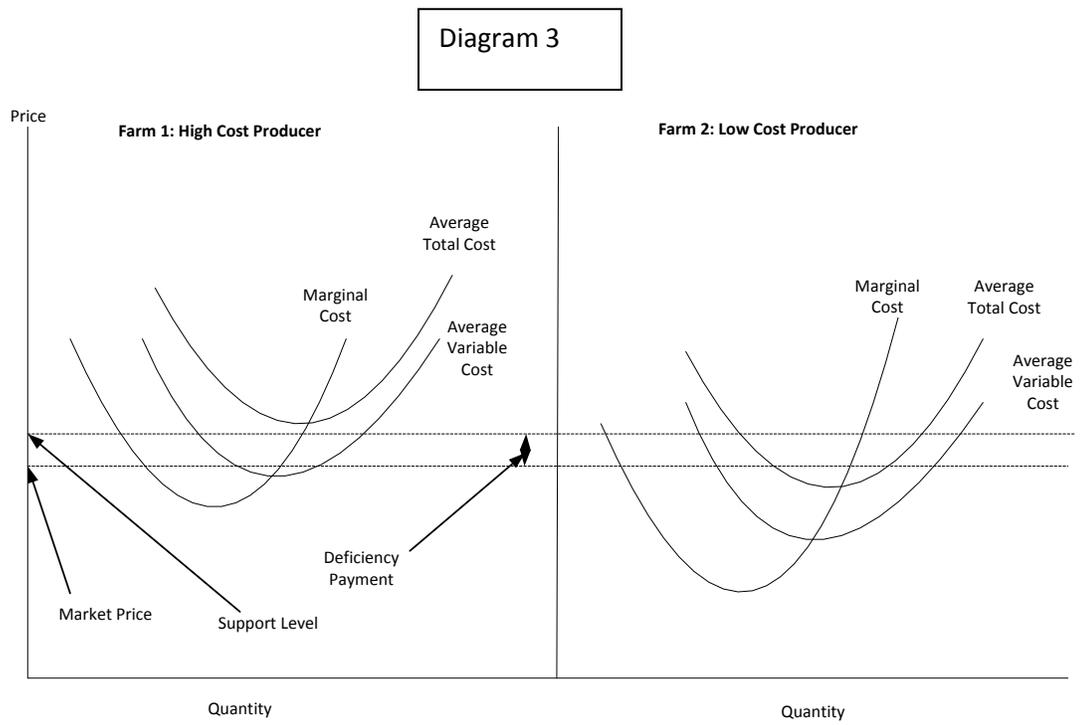
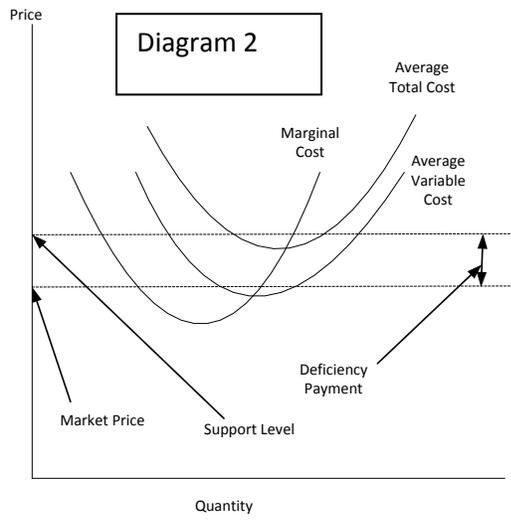
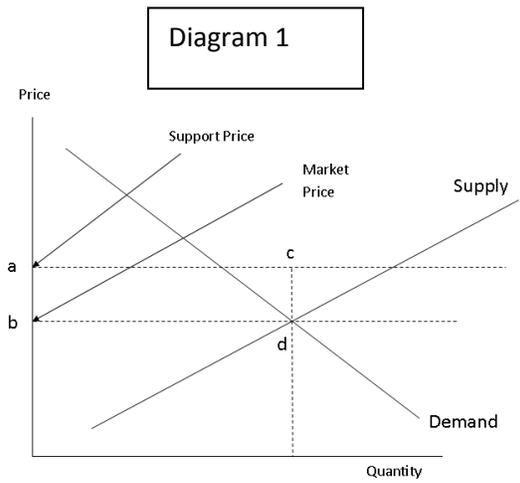
Deficiency payments provide for cash payments to farmers for a commodity whenever the average market price falls below some established value for a period of time. This method was first used under the Agricultural Stabilization Act (ASA) of 1958. For some commodities, the established value for support payments was mandatory and calculated as some percentage of the average price over the preceding years. In other commodities, the choice of the established value was arbitrary and not mandatory under the Act.

All producers of the commodity are invited to submit details on the quantity of the commodity sold. The payment is calculated simply as the difference between the establish price support and the current program period price, multiplied by the amount the producer had sold. A limit per farm on the maximum amount of product covered by the program often accompanied this program design.

Diagram 1 shows the commodity market problem with market price below the support price. The maximum program cost to government is the area abdc. Diagram 2 demonstrates the cost curves of a hypothetical producer, showing the market price, the support price and the deficiency payment.

Diagram 3 shows one of the problems with the deficiency payment program. High cost producers and low cost producers receive the same payment, even though the low cost producer did not suffer a loss, and the high cost producer remains in a loss position. In response to this issue, the rationale used by government was that it would be unfair to efficient producers to pay only those producers suffering a loss.

The program design works well for limited program delivery capacity with relatively low cost and paperwork for farmers. However, in periods of high inflation in input costs and/or long term declines in commodity prices, the use of support prices based on some percentage of preceding years' average prices erodes the support offered under the program.



Floor Pricing

Floor pricing was used during the Second World War and thereafter with the passage of the Agricultural Stabilization Board (ASB) Act in 1951. The powers in the Act are still available for use under the Agricultural Marketing Programs Act (AMPA). This approach was used from time to time until the mid-1980s, with no use in the past two decades.

Essentially, the government sets a floor price for a commodity and stands ready to buy product to defend the floor price in the open market. In turn, the government can store the commodity in raw or processed form and sell it back into the market at a later date or export the commodity to remove it from the domestic market. It does not require detailed information from each affected producer, and on government's part, it requires an agency of government

ready to buy in the market place and arrange for disposal of the product.

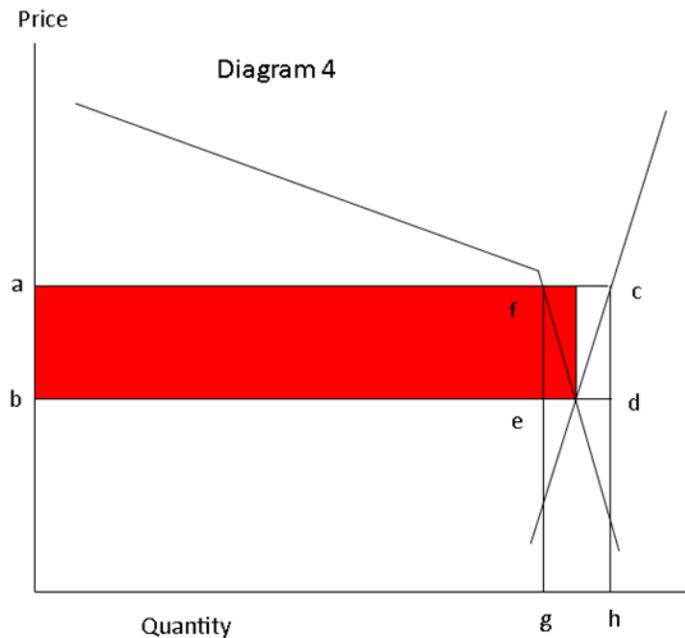


Diagram 4 outlines how the floor price operates. In some markets, the demand can be quite elastic through a range of prices, but becomes sharply inelastic when processing capacity, storage or market demand becomes limiting factor for buyers of the product. If a deficiency payment is envisaged in these circumstances, the cost to government would be the area shaded in red. A purchase program to defend a floor price is a great deal less costly for government with the same impact on the industry. Cost to government to maintain the

floor price would be purchases of quantity gh, at a cost shown by area fg_hc, part of which may be recovered from the subsequent sale or export of the purchased product.

In general, the floor price program offers advantages over a deficiency payment program in the case of an inelastic demand curve, and a vertical or highly inelastic supply curve. These conditions were often met for commodities such a perishable tree fruits that require some processing for storage at harvest, and have a short harvest period during the year. Attempts to use a floor price program for products such as beef or hogs which display more elastic demand and supply curves and continuous marketing throughout the year would prove more costly to government than alternative measures and send conflicting market signals to producers.