

La venue de M. Larry Martin  
a été rendue possible grâce au programme  
*Initiative d'appui aux conseillers agricoles (IACA)*  
selon les termes de l'entente Canada-Québec sur  
le Renouveau du Cadre stratégique agricole



Agriculture et  
Agroalimentaire Canada

Agriculture and  
Agri-Food Canada

Canada

**Agriculture, Pêcheries  
et Alimentation**

Québec



Centre de référence en agriculture  
et agroalimentaire du Québec

CRAAQ

Comité gestion de  
l'entreprise agricole





GEORGE MORRIS CENTRE

**International  
Risk Factors Facing Canadian  
Agri-Food**

**Larry Martin, PhD**

**Sr Research Fellow**

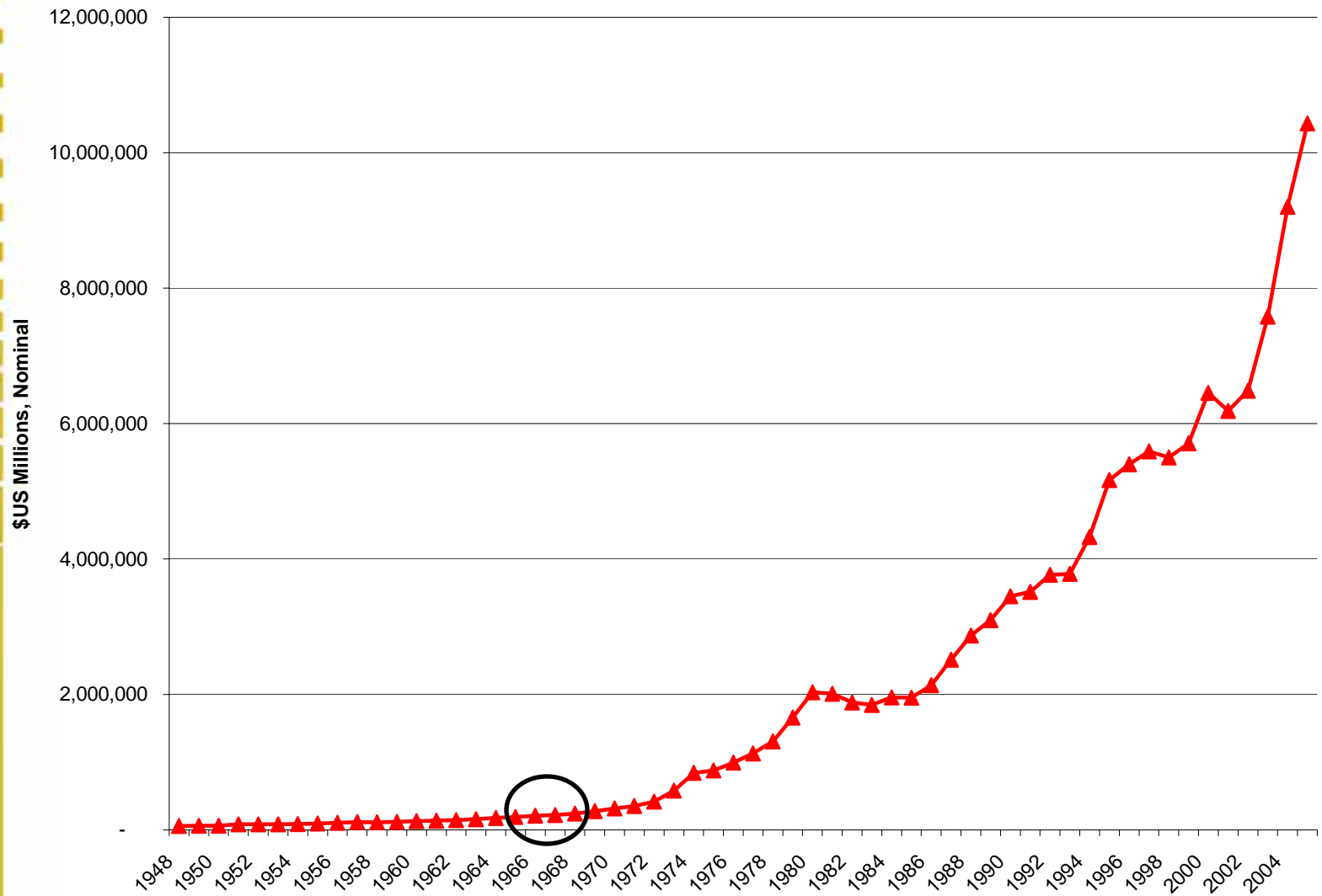
*Canada's Independent Agri-Food Think Tank*



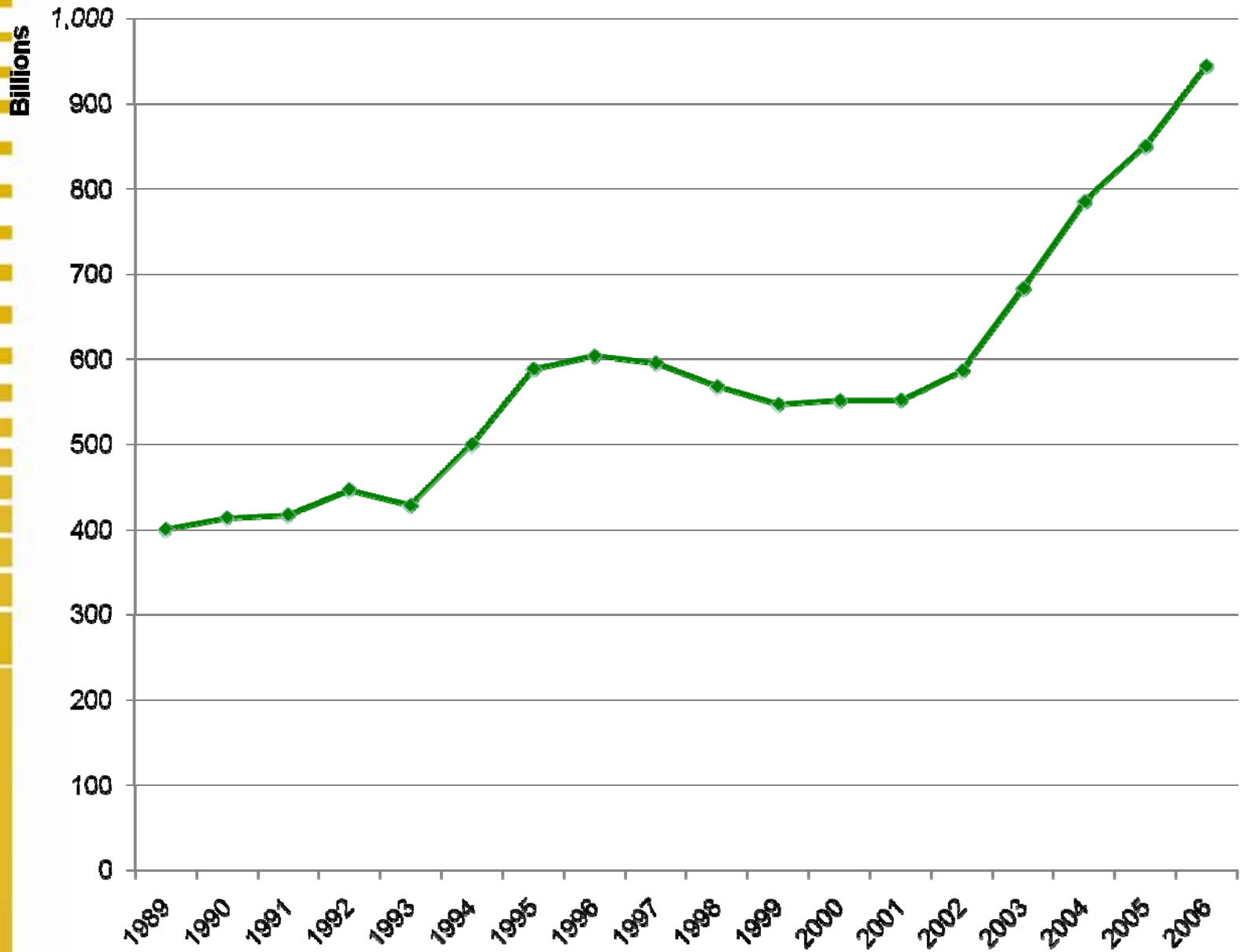
## Globalization is Growing and Increasingly Important to Canadian Agri-food

- Trade is increasing
- It is very important relative to domestic agriculture
- But affected whether we trade or not – eg exchange rates

# Total Value of World Exports in Goods and Merchandise

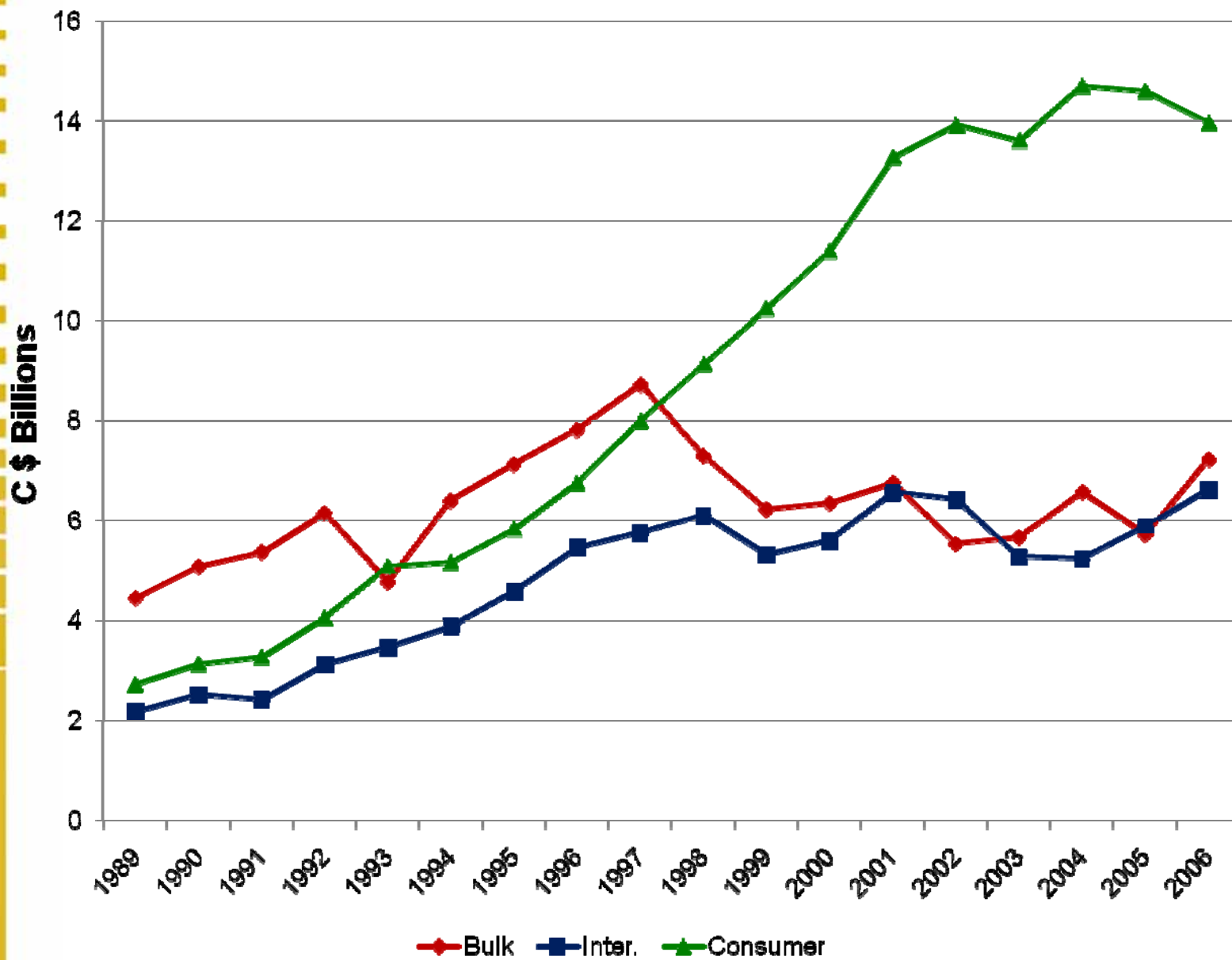


## World Trade in Agricultural Products



Source: WTO Statistics, 2007

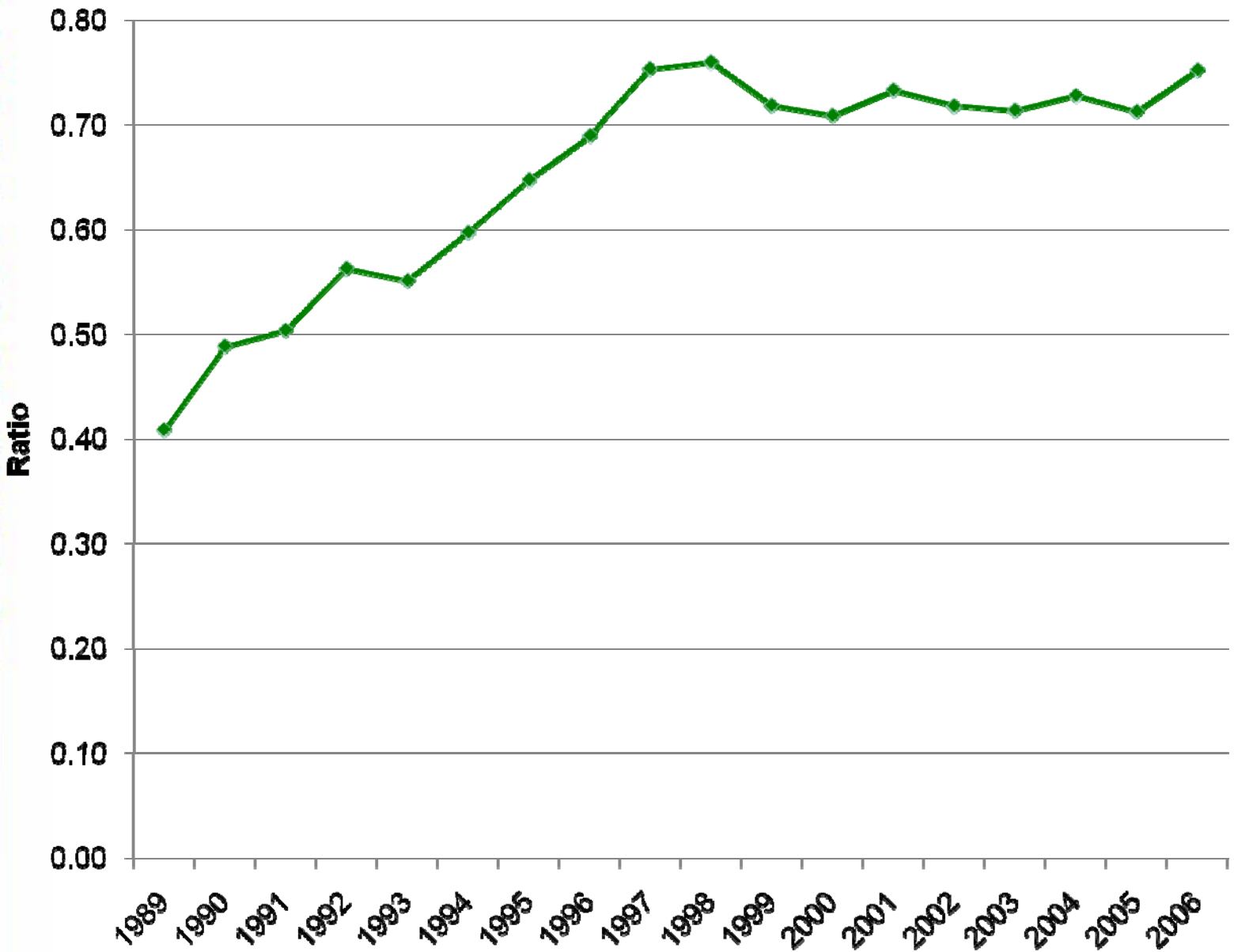
## Canadian Agricultural Exports to the World




Source: AAFC



### Total Agricultural Food Exports/Total Cash Receipts



Sources: Statistics Canada and Agriculture and Agri-Food Canada, 2007



# Globalization = Risk plus Opportunity

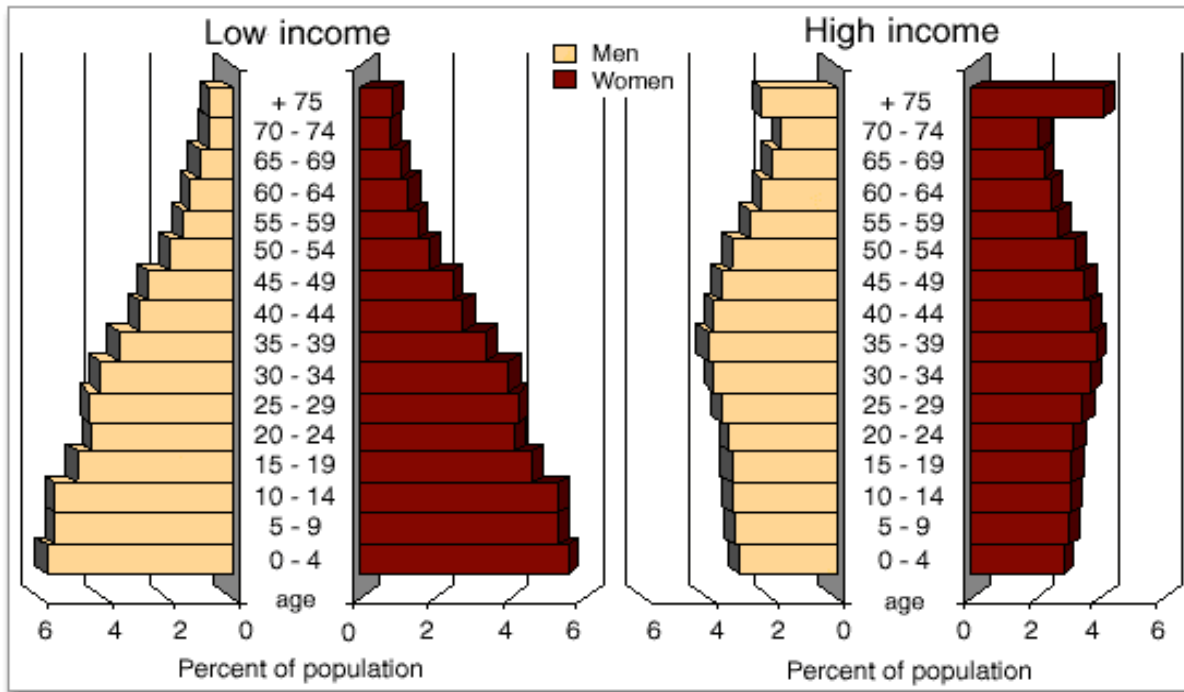
- Understand the nature of risks and opportunities that come with it
- Understand the management challenges it brings
- Address how to mitigate the risks
- Meld public policy to reflect the new situation





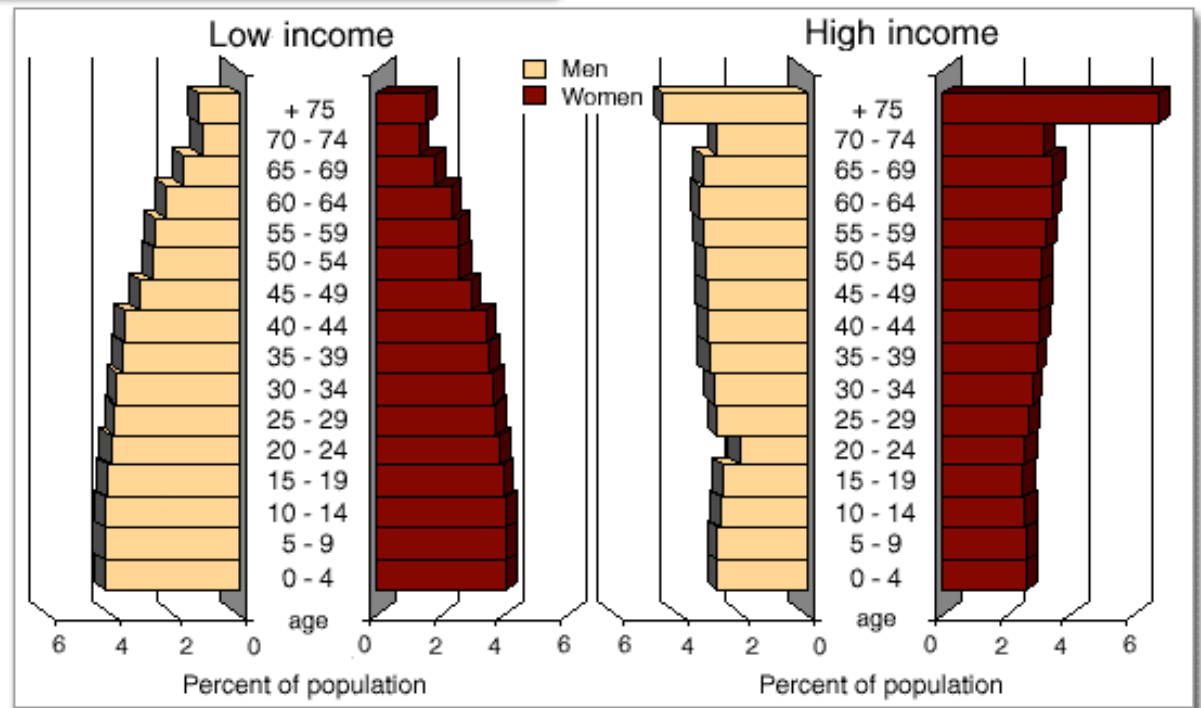
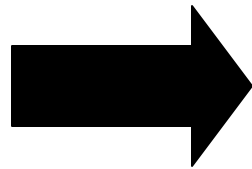
## Opportunity/Risk 1 New Markets/New Competitors

- Rapidly growing demand for food in developing countries
  - Young populations
  - Fast income growth
  - Relatively low levels of consumption



← 2000

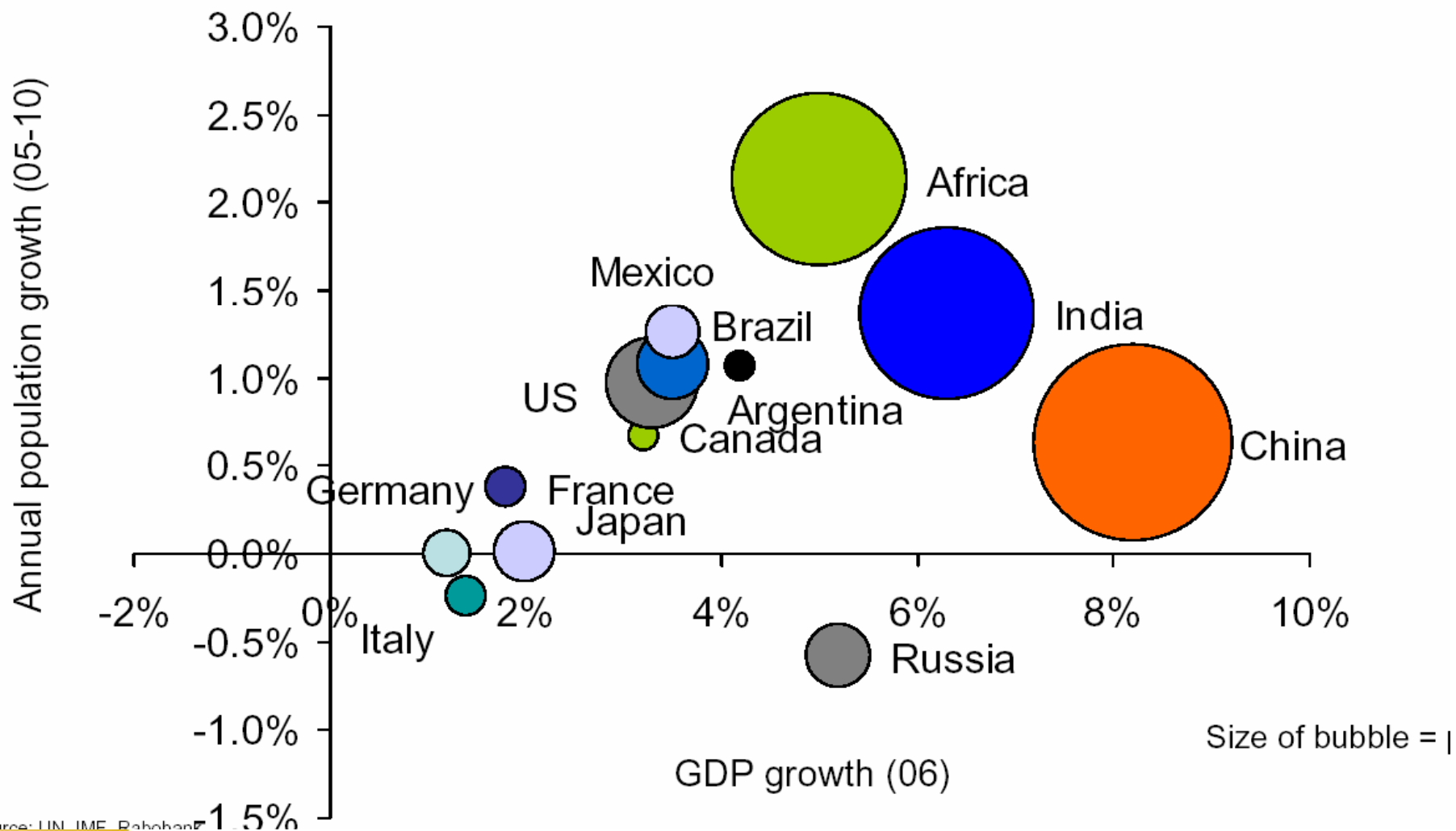
2030



Source: World Bank Group, 2006

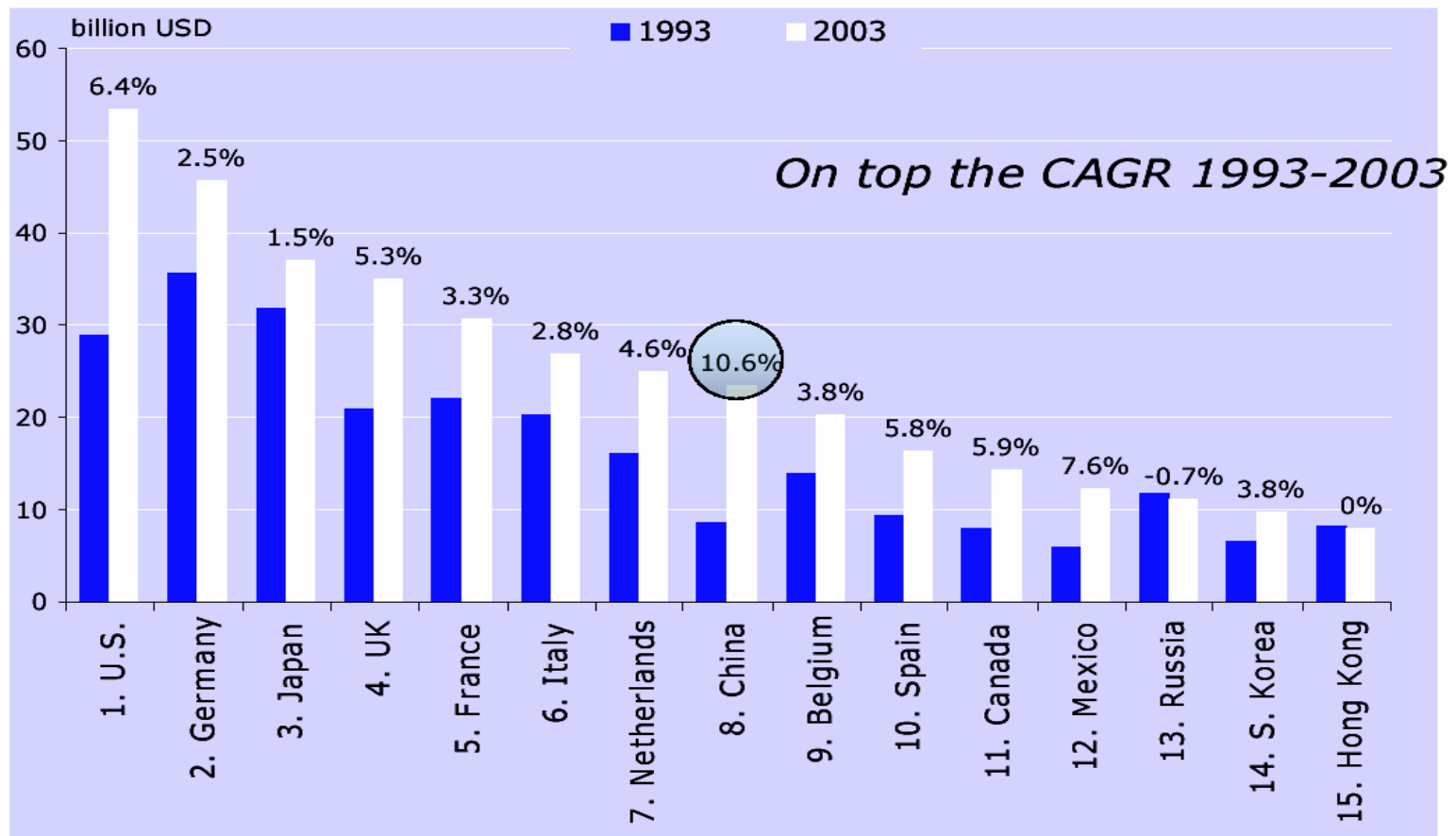
# consumption growth

Income & population growth in selected countries



# Major Food Importers

US and China boost food & agri imports





## Opportunity/Risk 1 New Markets/New Competitors

- But also as incomes rise, there is growing opportunity for differentiation
  - Local food
  - “slow” food
  - traceability

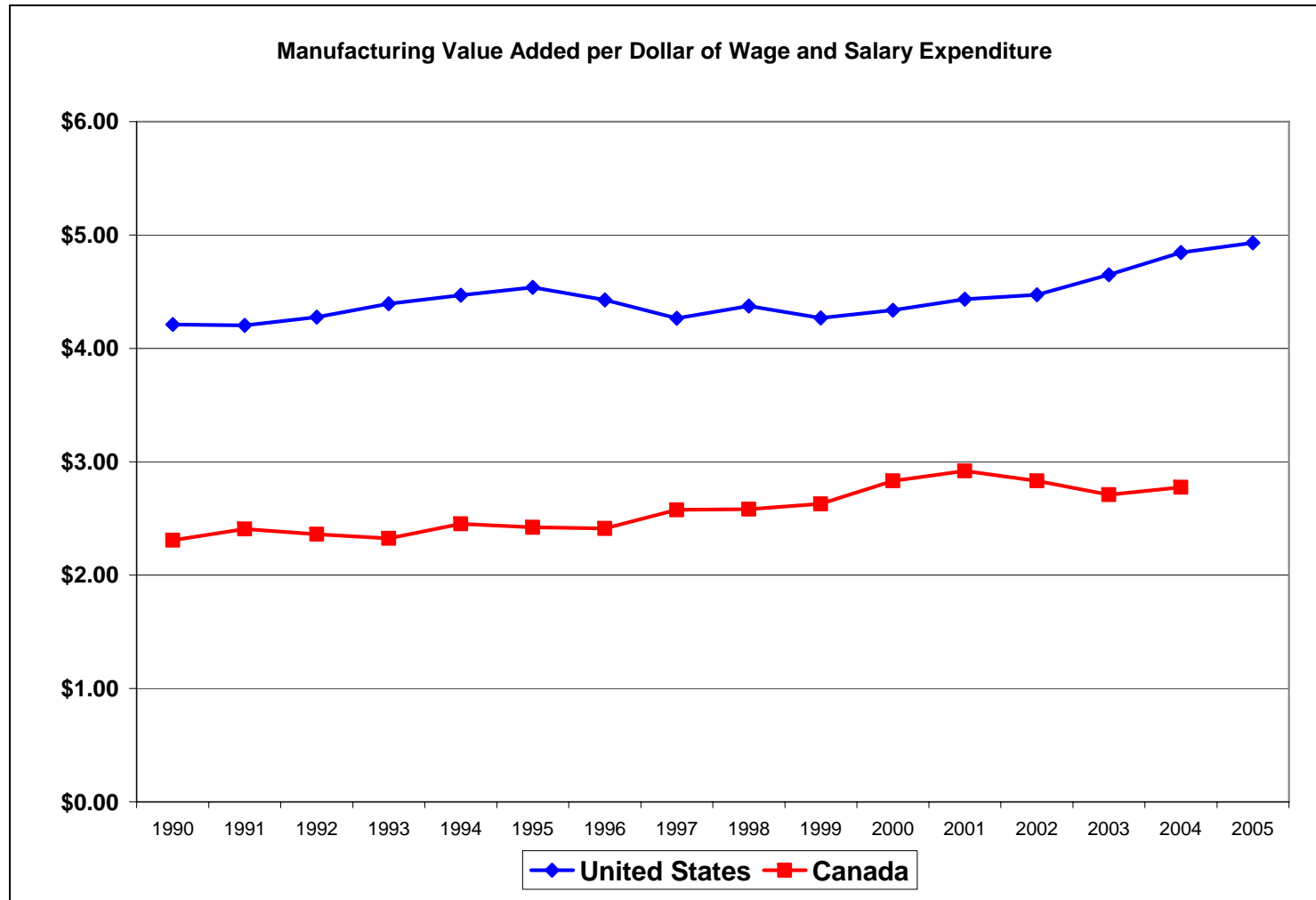


## Opportunity/Risk 1

### New Markets/New Competitors

- But ....
- Other countries have lower labour costs
- Other countries have much lower regulatory costs
- Other countries have higher labour productivity – creating a major problem with a strong currency
- Some of the importers (China) are also fast growing exporters of some products
- Most (except Brazil) have less currency appreciation

# Total Food Manufacturing Productivity (NAICS 31)

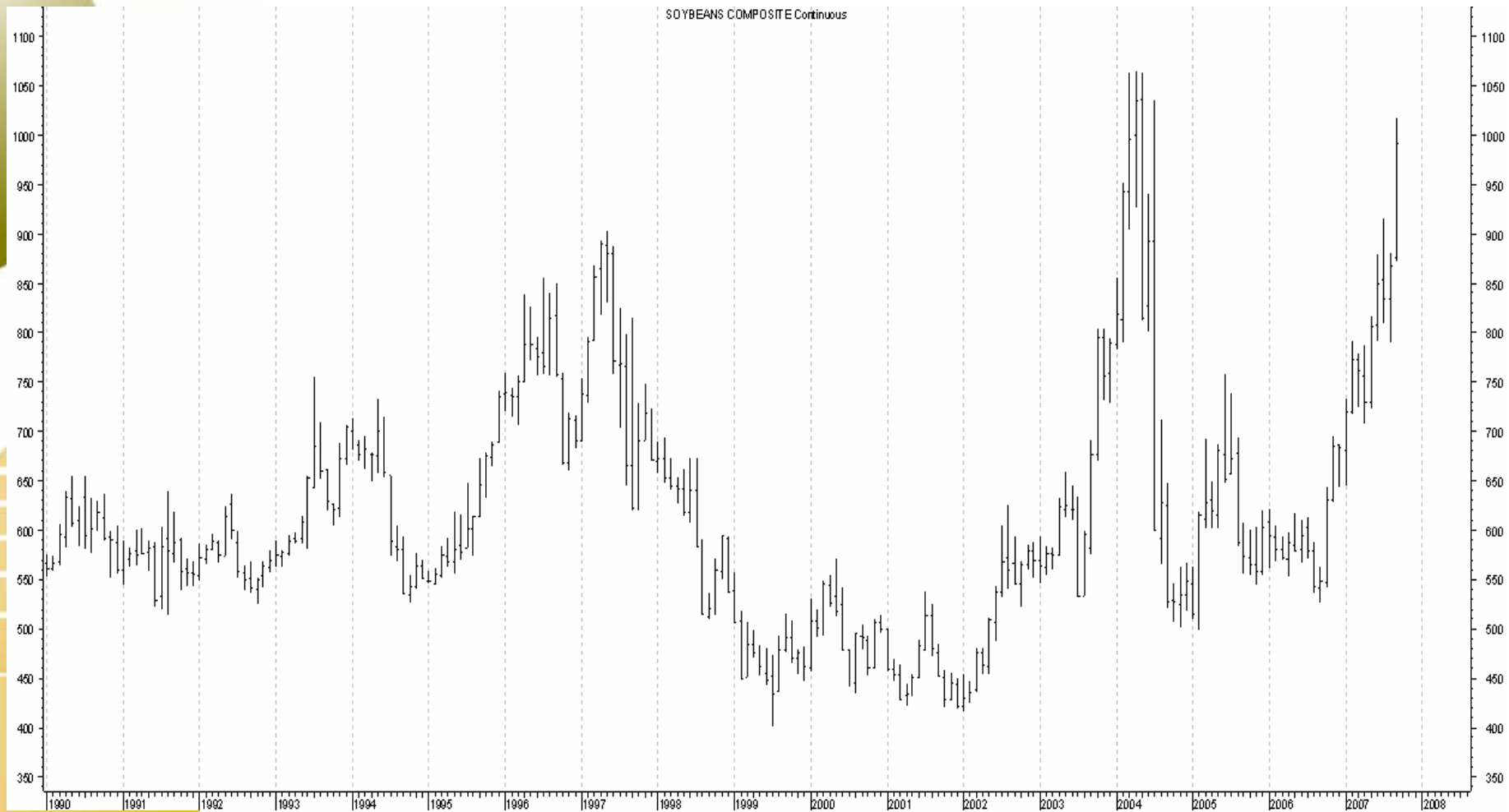
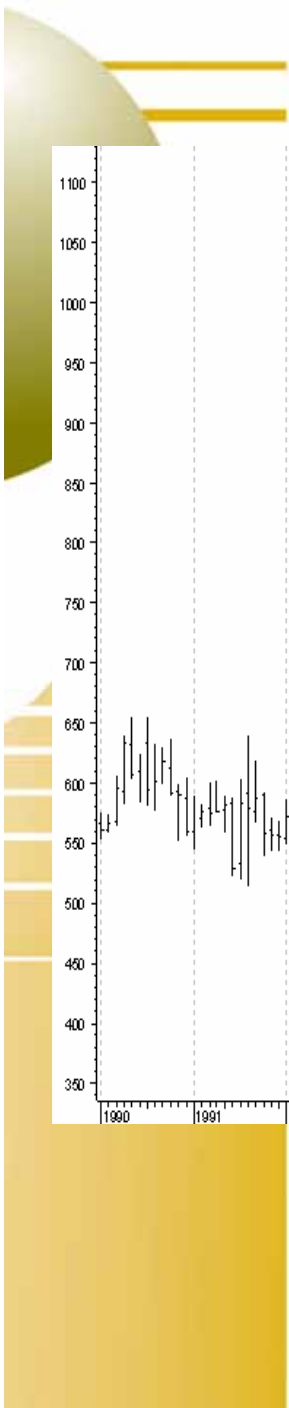


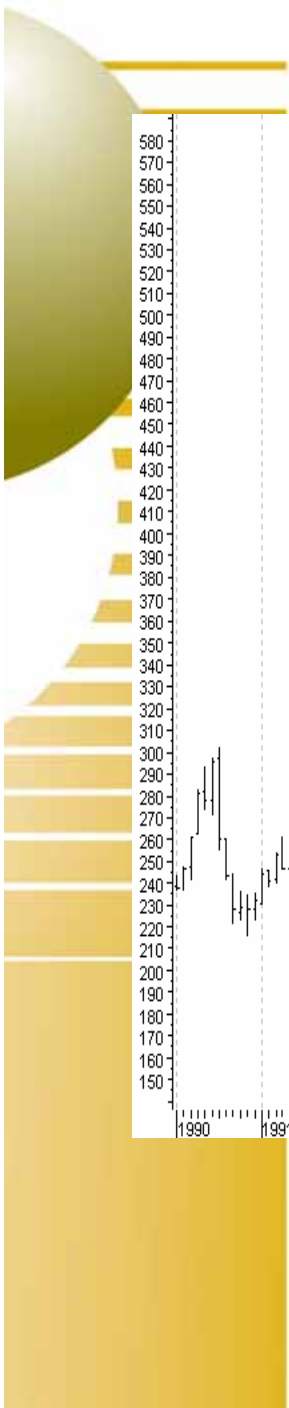


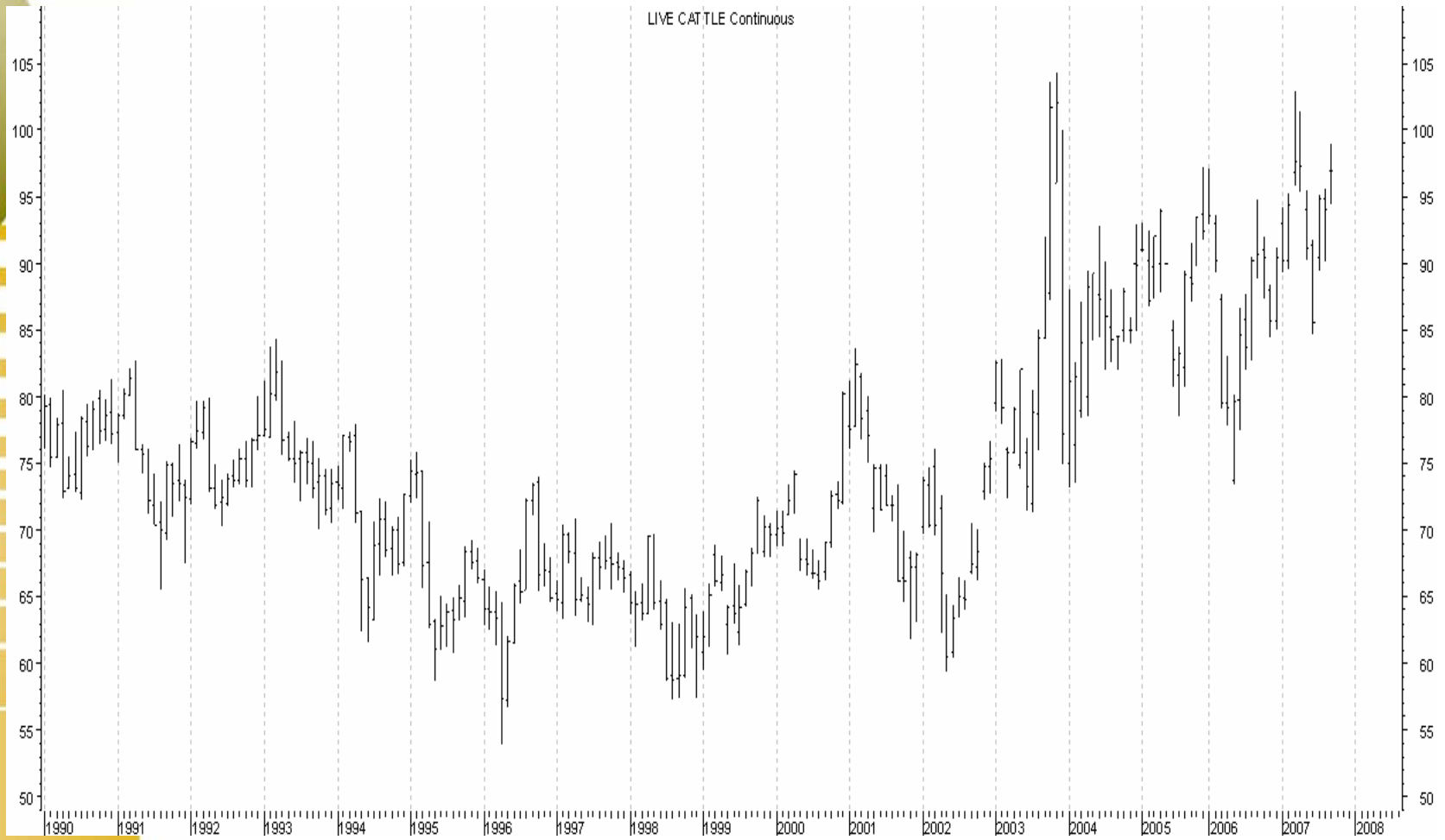
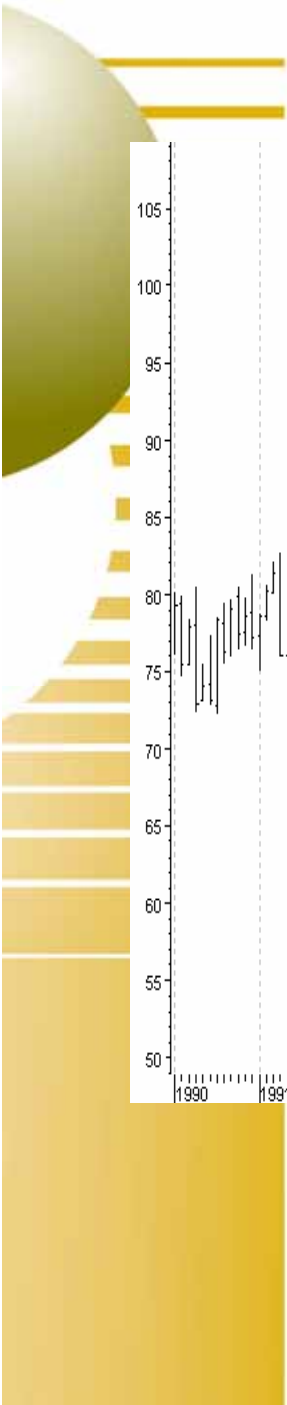
## Opportunity/Risk 2: More Price and Margin Volatility

- Agricultural prices are increasingly volatile and unpredictable
- Largely due to:
  - Energy
  - Reduced trade barriers
  - Much lower grain stocks
    - Corn            14.5%    vs.    30%
    - Wheat        17.8%    vs.    30%
    - Soy oil        8.7%     vs.    14%
  - Multiplication of national uncertainties
    - Brazil has poor/good crop
    - China is a buyer/seller











## Opportunity/Risk 2: More Price and Margin Volatility

- Ethanol as an example
- Short term
  - Opportunity for grain producers
  - Risk for livestock producers
- Long term
  - Risk for grain producers if the political bubble bursts and benefits are capitalized into land values
  - Opportunity for livestock producers when markets adjust for higher cost
- For both – they will pay capital markets for the risk



## Opportunity/Risk 3: More Trade Disputes/Better Trade Rules

- More disputes with more trade and lower subsidies
  - Dumping
  - Technical regulations
  - “MCOOL”
- Politicians will always try to stop imports
- Trade agreements put rules and legal processes in place
  - Slowly creating precedents
    - US refinery regs., Byrd Amendment, Cotton?
    - NAFTA, WTO appeals
  - But offended countries must use the processes
  - Need to re-gain definition of dumping, oppose MCOOL, continue to pursue US subsidy case



## Risk/Opportunity 4: Disease Outbreak

- Canada is very vulnerable
  - Among most trade dependent
  - National (not regional) protocols
- Good managers are vulnerable to
  - Poor managers
  - Poor inspection processes



# Management Challenges and Risk Mitigation

- For commodity risks, need to use instruments available – futures, options, swaps, crop insurance
- Need better instruments
  - US products priced in C\$ - synthetic options
  - Extensions to production insurance
- Much more extensive development of contracts
  - Many should be based on final consumer price



# Management Challenges and Risk Mitigation

- Closely aligned value chains need to be developed to:
  - Ensure identity for differentiation
  - Share risk – find better pricing mechanisms
  - Reduce transactions costs
  - Respond to customer needs
  - Convey customer requirements
- Invest in labour-replacing capital to improve productivity and minimize labour market risk
- Implement “performance management” for break throughs and continuous improvement





# Management Challenges and Risk Mitigation

- Managers need to manage:
  - People
  - Relationships
  - Markets
  - Risk
  - Public policy



# Public Policy Challenges

- Public policy needs to:
  - Do things individuals cannot
  - Provide incentives for improved performance –economic, environmental, social
- Streamline Regulation
  - Product and label approvals need to be “tough but fast”
  - Constantly re-evaluate regs and regulatory systems – safety and commerce
  - Need to reconsider what is a “public good” – eg meat and food inspection



# Public Policy Challenges

- Need to provide *leadership* in better trade policy
  - Multi – and bi-lateral treaties
  - Implementation of treaty principles in national law
  - Challenging trade barriers of foreign countries



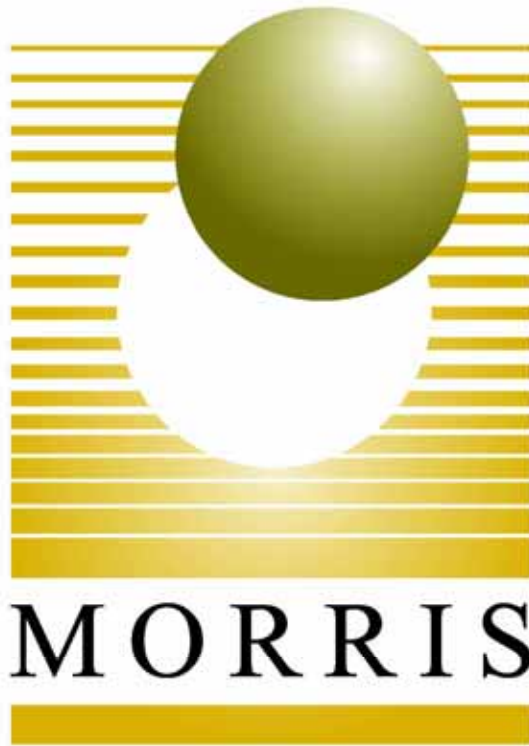
# Public Policy Challenges

- Continue to change the structure of tax system to encourage investment
- Build third party verification into policy
- Enhance and improve R&D incentives



# Public Policy Challenges

- Move rapidly to zonal containment procedures against disease risk – no need to punish producers in Quebec for a disease outbreak in Saskatchewan
- Provide some stability to the currency



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more competitive and prosperous  
Canadian agri-food sector.***

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