

THE URUGUAY ROUND OF THE GATT NEGOTIATIONS AND NOVA
SCOTIA TURKEY PRODUCERS: REASONS FOR CONCERN

by

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DEDICATION

There is one person whose influence and opinions are dispersed throughout this entire thesis but whose name will not appear in any footnote or bibliography: my Dad. His support of this endeavor, not the least of which was financial, was wholehearted and unwavering. Many conversations (which, to the uninitiated, sound a lot like arguments) and afternoons on the golf course placed all economic matters in their proper context: extremely important, but not more than the individual contexts or situations of the people whose lives are being considered.

I thank him for firmly instilling in me that all that matters is that I do my best, and I hope that in completing this work I have made him proud.

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Although the above contributed a great deal to this project, all errors and omissions are the responsibility of the author alone.

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ABSTRACT

This thesis explores why Nova Scotian turkey producers are extremely concerned about the current round of the negotiations of the General Agreement on Tariffs and Trade, which has become known as the Uruguay Round. Beyond addressing the possible ramifications of a GATT settlement that is unfavorable to Nova Scotian turkey producers, the analysis places Canadian agricultural issues within a wider political and social context. In addition, the results of a survey administered to turkey producers in Nova Scotia are presented.

It was found that if supply management systems are weakened as a result of the outcome of the GATT negotiations, the entire turkey industry in Nova Scotia is in jeopardy of being eliminated. Hence, Nova Scotian turkey producers are justifiably concerned about the Uruguay Round. However, the Canadian government's support of supply management systems is predicated on the assumption that the family farm as the primary unit of food production in Canada must be maintained at all costs. No matter what the outcome of the Uruguay Round, Nova Scotian turkey producers will continue to be proactive in their attempts to protect their livelihoods.

INTRODUCTION

On February 21, 1992, more than 30,000 Canadian farmers marched on Parliament Hill in Ottawa. They did so to express their continued concern that the federal government do everything within its power to win the international support Canada needs to be able to maintain Canadian supply management systems in their present form. On the same day in Exhibition Park outside Halifax, about 2,000 Nova Scotian farmers held a spirited but peaceful rally, also in support of Canada's supply management system.¹

Such activism by farmers was ignited by the fear that the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) negotiations would result in the replacement of import controls, which protect marketing boards, with tariffs. A recent report had been published by the Canadian Turkey Marketing Agency noting that if the proposals were implemented then for turkey "it is difficult to see any industry remaining in the Atlantic Region by the end of five years as post-farm sectors consolidate in Central Canada and production eventually follows."²

Marketing board and supply management schemes in Canada have frequently been criticized by economists on a number of fronts. Despite this, the Canadian federal government has vowed to do everything within its power to protect marketing boards. This is because it is the position of the government that supporting agriculture through ensuring family farms are allowed to prosper is a laudable policy goal.

The objective of this thesis is to establish why farmers in general and Nova Scotian turkey producers in particular are so concerned with the current round of the GATT

¹Brian Rau, "Farmers rally for supply system," The Chronicle - Herald, February 22, 1992, p.2.

²Canadian Turkey Marketing Agency, Sectoral and Regional Implications to the Canadian Turkey Industry of Tariffication of Existing Border Measures, p.ii.

negotiations. In essence, these farmers are concerned because an unfavorable resolution to the GATT negotiations could mean the loss of their livelihoods.

To show how it is possible that an international political agreement could produce such a dramatic and drastic result, the Canadian agricultural scene is viewed in terms of both a traditional and present-day context.

Chapter I provides background information on the current world crisis in agricultural trade. Chapter II examines the economic theory behind marketing boards, while Chapters III and IV address the international and domestic aspects of agriculture, respectively. Analysis of a survey administered to Nova Scotian turkey producers is provided in Chapter V, along with commentary on the Canadian Turkey Marketing Agency Analysis of Tariffication. Chapter VI addresses aspects of the American turkey industry. The conclusion is contained in Chapter VII.

This thesis is not intended to be a traditional economic analysis of supply management that merely criticizes the inefficiencies of marketing boards. Instead, the real and deep-rooted reasons for supporting marketing board schemes will be explored, and related to the Uruguay Round of the GATT negotiations.

CHAPTER I

THE CURRENT WORLD CRISIS IN AGRICULTURAL TRADE

That the global problem of agricultural trade has reached crisis proportions is rarely disputed. Supply of foodstuffs on an international level greatly exceeds demand, even though world food prices are depressed. This was expected considering the advances of biotechnology and other research methods in the 1970s and 1980s, which combined to increase greatly the productivity of farming units. However, this increase in productivity is not the core of the problem - the prevalent practice of governments providing most of their income transfers to farmers through support of commodity prices is.

Theoretically, price supports and liberal trade are not in conflict when the price support levels are adjustable and set below world market prices, but in practice this does not occur. High levels of price supports inevitably lead to excess supplies and interventions at almost all countries' borders in an effort to protect their internal markets. The methods employed differ (for example, the European Community uses variable levies, the U.S.A. and Canada both have forms of import quotas, and Japan employs a state-trading agency for a number of commodities³), but the effects are invariably the same. At the same time that production is stimulated, consumption is decreased as prices rise. Thus, net import requirements are decreased globally while net export availabilities are increased. All countries have at one time or another tried to dispose of their excess supplies internationally through subsidized prices. This has not only flooded markets and decreased prices, but has increased the animosity amongst the countries who compete in export markets - in some cases even leading to

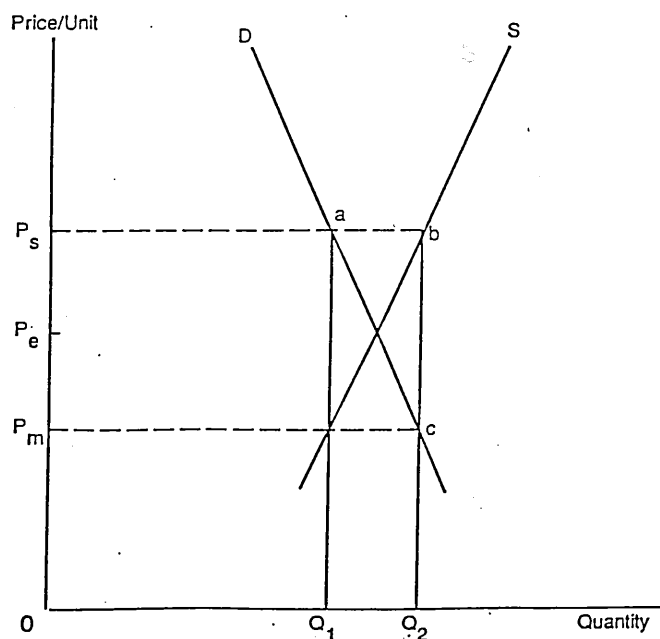
³D. Gale Johnson, Kenzo Hemmi, and Pierre Lardinois, Agricultural Policy and Trade, p. 3.

trade wars. Not only have all countries been hurt by the political ramifications of such fallouts, but the economic consequences have been severe. The term "crisis" is frequently employed because countries can no longer afford to travel down the path that past and present agricultural policies have led them.

The magnitude of government purchases required to maintain minimum guaranteed prices is illustrated in Figure I. On the vertical axis, the support price is designated as P_s . At this price, from the supply schedule, producers will be willing to sell Q_2 units, but the demand schedule indicates that consumers are willing to purchase only Q_1 units at this support price. Therefore, the support price of P_s can only be maintained by withholding $Q_2 - Q_1$ units from the market.

Figure I

Government Purchases Needed To Maintain Minimum Guaranteed Prices



Source: Robinson (1989: 57)

The gross returns to the producer will be the area of P_s multiplied by Q_2 . Government expenditures are then needed to make up for the shortfall between what consumers spend (area $P_s a Q_1 0$) and what farmers receive (area $P_s b Q_2 0$). If the government decides to hold the surpluses for possible future use, additional storage and handling costs will be incurred. The alternatives are to destroy the surpluses produced, or find a secondary market, so that these excesses can be sold or "dumped" without undercutting the internal market price.

It frequently arises that the international market is the "secondary" market chosen to dispose of these excess supplies. Other countries retaliate by putting import barriers in place, and the stage has adequately been set for increasing and escalating international agricultural trade issues.

Producer Subsidy Equivalents:

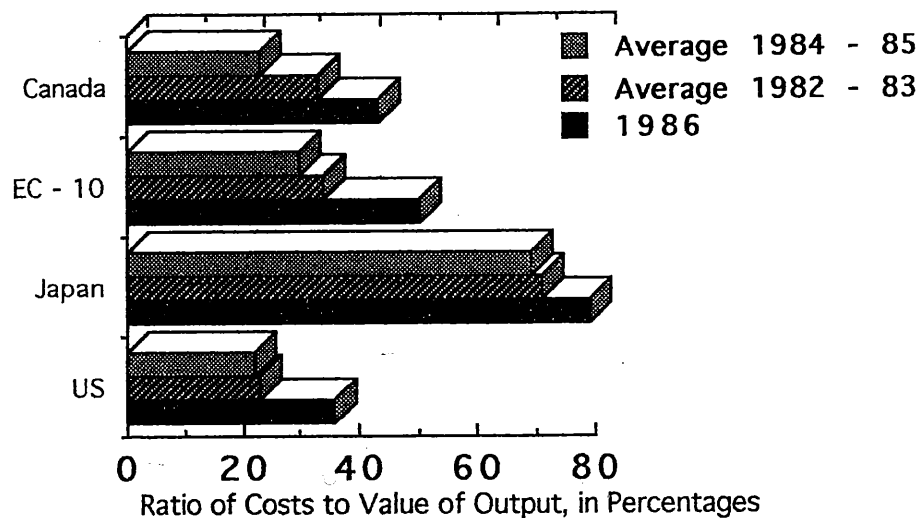
The large sums of money involved when industrialized countries subsidize agriculture, either through direct government expenditures or the high implicit taxes consumers must pay because of inflated prices, provide most of the logic for attempting to undertake multilateral agricultural reform. A popular measure of the cost of this support is the Producer Subsidy Equivalent (P.S.E.). The P.S.E. can be defined as the payment that would be needed to compensate farmers for a loss of income that would result from removing a given policy measure,⁴ or the gross amount of consumer and agricultural support to agriculture relative to the value of output.

⁴The Organization For Economic Cooperation and Development, National Policies and Agricultural Trade, p. 100.

As evidenced by the P.S.E.'s implicitly included in Figure II, the costs to taxpayers (via their governments) of agricultural supports has risen drastically in the 1980s. The U.S. Department of Agriculture has calculated estimates showing that the ratio of costs to the value of output in 1986 ranged from a low of 36% in the United States to a high of 79% in Japan. Canada was in between these extremes with an estimated P.S.E. of 43%.⁵

FIGURE II

The Costs To Taxpayers Of Agricultural Supports



Source: Blandford (1989: 814)

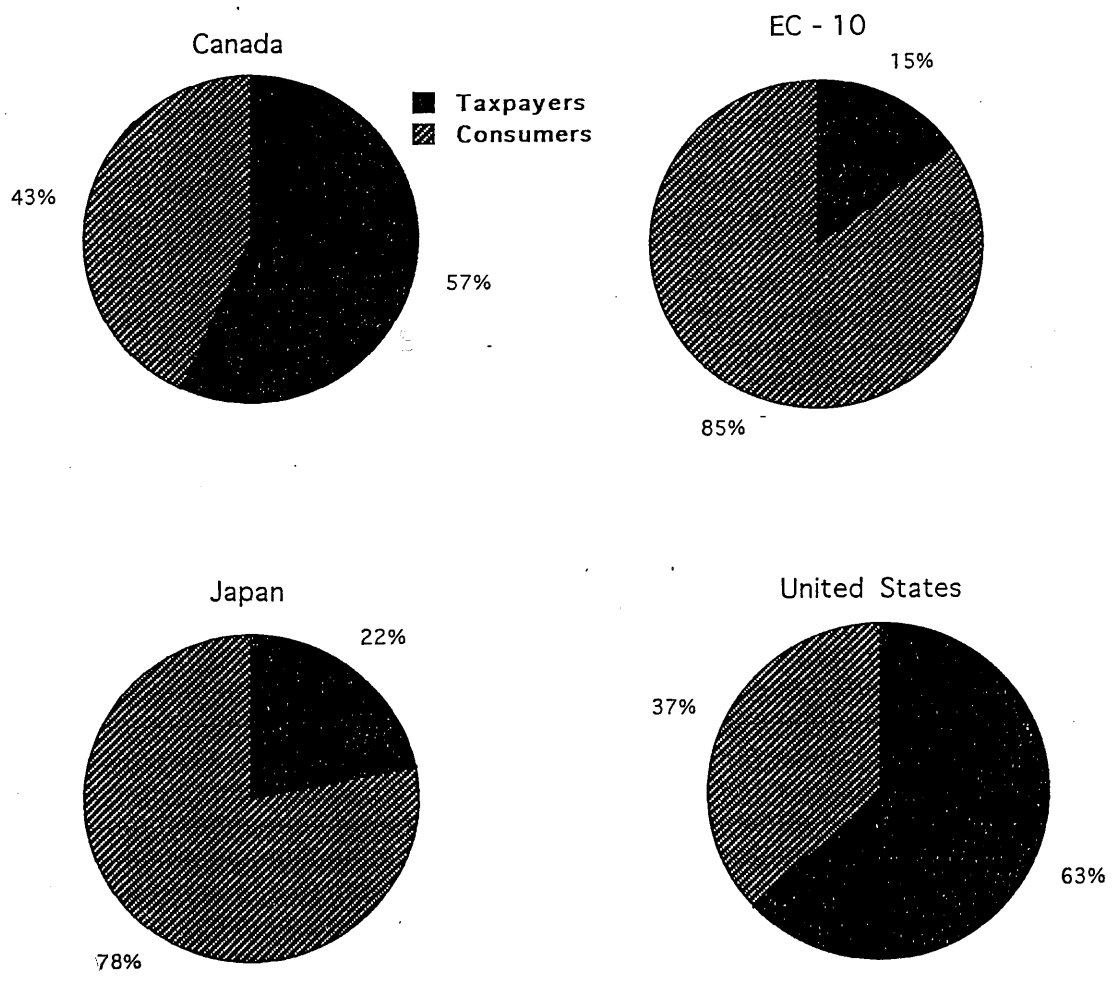
The P.S.E. for Canada almost doubled in the period 1982 - 1986⁶, and large increases also occurred in the United States and the European Economic Community. These increased costs must be borne either through higher taxes or through higher food prices. Figure III shows that in Japan and the European Community, consumers

⁵David Blandford, "Bringing Agriculture into the GATT," Canadian Journal of Agricultural Economics, Volume 37 (1989), p. 814.

⁶Loc.cit.

pay a larger share of the bill, while in the United States and Canada, taxpayers pay proportionately more.

FIGURE III
Consumer and Taxpayer Shares of Agricultural Support Costs



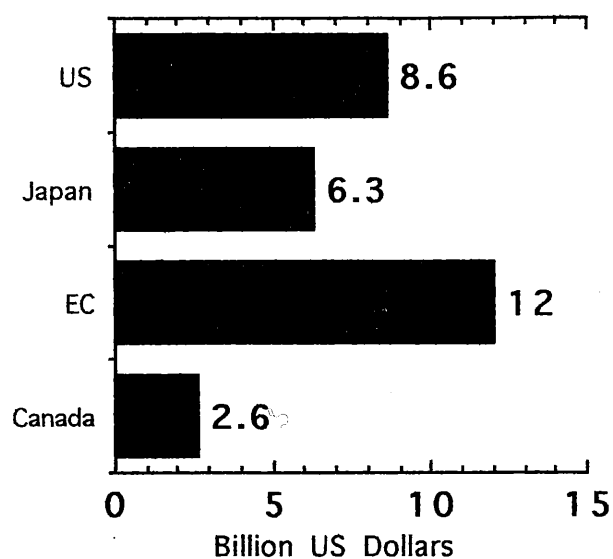
Data 1982 - 86 except EC 1982 - 85

Source: Blandford (1989: 815).

Much of the observed difference between Canada and the United States can be attributed to Canada's supply management system, but it is clear that although the burden of support placed on consumers at the grocery store may be higher for Canadians than Americans, Canadians are actually favorably positioned compared to other industrialized nations. It is easy to criticize Canada's supply management system as being unfair because Canadian food prices are higher than those in the United States, when actually Canadian food prices are relatively low when all industrialized nations are taken into consideration.

In his article "Bringing Agriculture into the GATT," Economist David Blandford has calculated welfare increases that would accrue to all industrialized countries if there were a multilateral elimination of the policies that create high costs for consumers and taxpayers. Estimates for 1986, as shown in Figure IV, indicate that Canada would have experienced a net gain of \$2.60 billion (in American funds) if this hypothetical elimination had taken place. Substantial welfare increases would have also been experienced in other industrialized nations.

FIGURE IV
Gains In Economic Welfare From Trade Liberalization



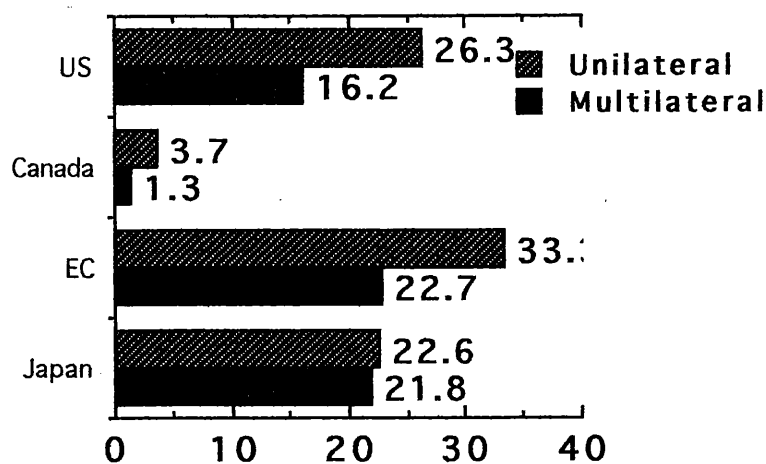
Source: Blandford (1989: 815)

Considering the inefficiency of agricultural support programs and the potential societal gains that could be achieved if international agricultural support programs were multilaterally reduced, reform seems to be the logical solution. However, this is not the case because farmers as a whole would suffer if the support programs were eliminated. As Blandford has shown in Figure V, the losses would be greater under unilateral reform schemes, but they are still significant when multilateral implementation occurs. With multilateral reform world prices rise for certain commodities (such as wheat and dairy products), but when countries act unilaterally

producers as a whole are worse off because the resulting increases in world prices would be less, if they occurred at all.

FIGURE V

Producer Loses From Trade Liberalization, 1986



Source: Blandford (1989: 817).

It becomes obvious that policymakers are placed in an unenviable position. Economic efficiency would lead them toward decreasing agricultural support, but the political power of the farming sectors who would be hurt counter the goal of eliminating the inefficiencies of international agricultural markets. The result is an escalating crisis in world agricultural trade which shows no sign of improving unless policymakers are willing to work with their international counterparts to try to eliminate, or at least greatly reduce, costly agricultural subsidies.

CHAPTER II

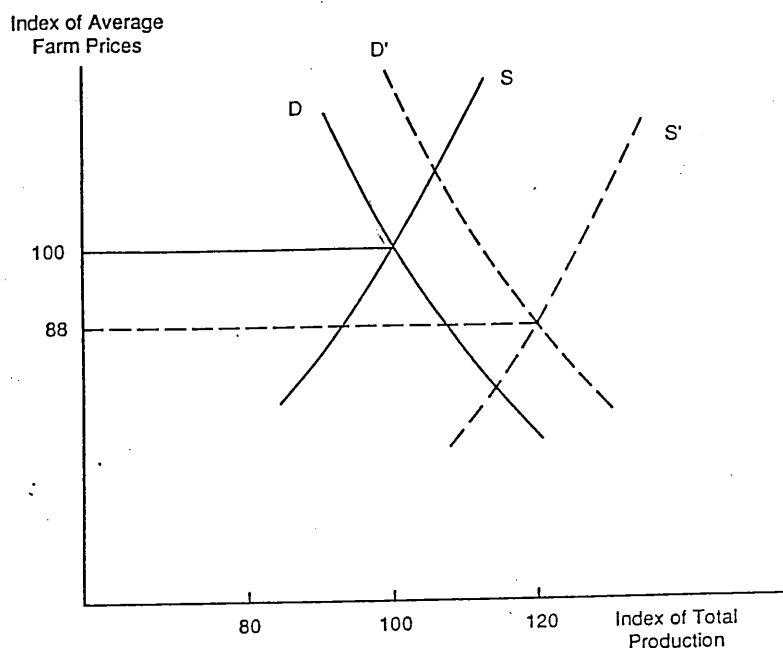
THE ECONOMIC THEORY BEHIND MARKETING BOARDS

The theoretical rationale behind establishing the Canadian Turkey Marketing Agency, or any supply controlling quota program, is that market intervention is necessary to achieve higher and more stable farm prices and incomes for producers. In agriculture, shifts in supply are prevalent, resulting from such diverse factors as entry and exit of producers, changing quantities of imports and exports, weather patterns, and loss of product from pest-induced problems. Low income elasticities of demand for food in high income countries such as Canada result in a slow growth in domestic demand for food. Except in periods of buoyant export markets, the general tendency is for agricultural income to increase at a slower rate than does total GNP. Relatively price inelastic demand curves for domestically consumed agricultural products lead to the phenomenon whereby, for a given demand curve, producer prices and incomes can be increased by a decrease in supply (from any cause) and losses in income can occur when supplies to the market are increased.

Figure VI illustrates this combined effect of a shift in demand relative to supply when the demand and supply curves are both inelastic. Even though the aggregate demand curve shifts outward over time, improvements in technology cause the aggregate supply curve to shift proportionately more. With no support programs, average farm prices fall, and even though the technical efficiency of farmers has improved, the net returns for all farms has decreased.

FIGURE VI

Effect on Average Farm Prices of a Shift in Supply Relative to Demand



Source: Robinson (1989: 33)

Marketing boards are established with the goals of providing stability to industries and supporting prices through supply control. Price and income fluctuations, resulting from the naive expectations which are the basis of the cobweb phenomenon, are essentially eliminated.

In Canada, marketing board systems operate in the dairy, egg and poultry (chicken and turkey) sectors. The success of the Canadian supply management system is obvious; the goals of bringing stability to industries which had previously experienced significant fluctuations in price and/or production and maintaining and increasing producers' incomes have been achieved. A variety of implicit and explicit social objectives, such as preserving the family farm, helping rural communities, providing all producers equal access to markets, and preserving a way of life have

also been positively influenced, to differing extents⁷. Marketing board schemes are popular from the government's perspective because they are a fiscally cheap way to support viable farm units through a means that is popular with farmers. Such a regulatory scheme is appealing to the treasurers of the federal and provincial governments because it eliminates the need for more costly commitments to ensure the farm incomes that stabilization schemes entail.

Despite the successes of the program in the eyes of both politicians and farmers (and to a limited extent consumers, who are not highly organized against the supply management system and to some extent are sympathetic to farmers), agricultural economists and many free-market supporters in general have been eager to point out the inefficiencies and problems associated with supply management. One report which is typical of the criticisms that have been projected upon supply management systems was that of the 1984 Task Force on Program Review, a group organized with two major objectives: better service to the public, and improved management of government programs. Members of the task force noted that:

Of all regulatory programs in agriculture, the national supply management programs have been subject to the severest and most consistent negative comment from the private sector (all affected interests, with the exclusion of the farmers themselves). These comments focus on the restraints to innovation and efficiency caused by national and provincial quotas, the costs to society of high quota values, and the lack of accountability of the marketing agencies themselves. These programs are clearly viewed by their critics as obstacles to improved national productivity and long term economic development. Moreover, senior Agricultural Canada officials are now expressing similar concerns that national supply management has acted as an undue brake to increased producer efficiency, and, hence, long term viability....

In the Team's view these programs have excessively favoured producer interests, have blunted entrepreneurial initiative at both the producer and processor levels, and have been inadequate in protecting consumer interests. To the extent they have engendered

⁷Bernie McCabe, "Economics of Quota Allocation Within Supply Management: Analysis of the Present Procedures for Quota Allocation," Canadian Journal of Agricultural Economics, Volume 33 (June, 1986), p. 203.

long-term production inefficiencies they have reduced national productivity and have thereby become an obstacle to economic development.⁸

Critics frequently use five basic arguments when criticizing marketing board systems. These programs are considered rife with inefficiencies because of:

The Capitalization of Quota Values:

Although the NSTMB has no published turkey quota values, their Ontario counterparts do, and in practice the existence of quotas in the Nova Scotia turkey industry means that these quotas have achieved a market value. Capitalization occurs because the quota rights are required to gain access to the higher prices and revenues that supply management systems allow, and thus these rights can be expected to acquire a capital value.⁹ Economist Michele Veeman from the University of Alberta has shown how quota rights acquire a value indicative of the traditional Ricardian concept of economic rent. Again, from the Task Force On Program Review, the authors conclude that the "presence of high trading values for quota" indicates:

- (a) Original owners of quota have reaped windfall gains.
- (b) Total industry output has been unreasonably constrained by global quotas.
- (c) Purchasers of quota must recover this cost through excessive farm gate prices.
- (d) The cost of getting into the business on the part of new entrants is made very high, thus jeopardizing the ability of small farmers to enter, creating a barrier to exit, and encouraging, over time, farm concentration (as only larger and or vertically integrated farms can finance quota costs).¹⁰

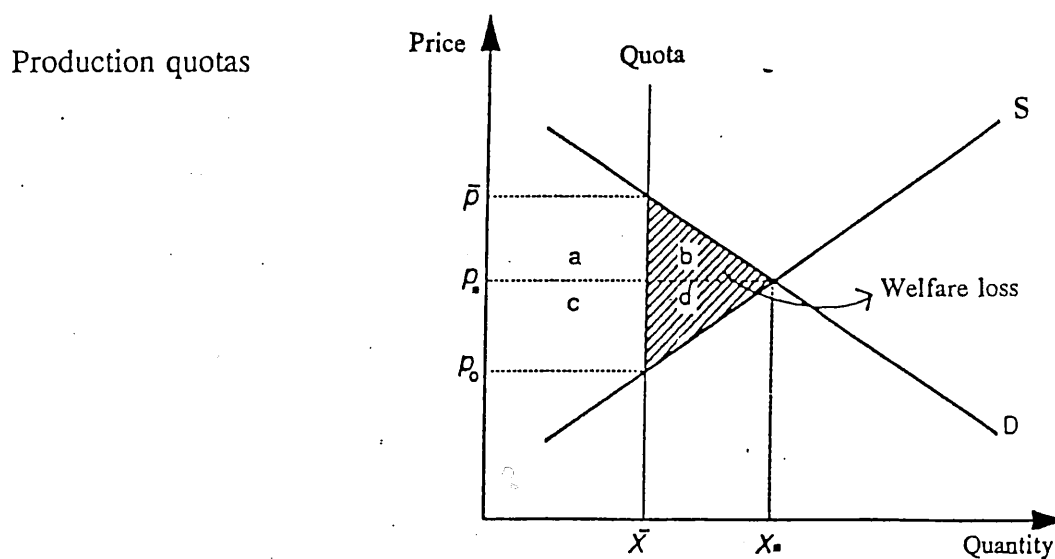
⁸Minister of Supply and Services, Regulatory Programs, p. 103.

⁹Michele M. Veeman, "Social Costs of Supply-Restricting Marketing Boards," Canadian Journal of Agricultural Economics, March 1982, p. 24.

¹⁰John Spriggs and G.C. Van Kooten, "Rationale for Government Intervention in Canadian Agriculture: A Review of Stabilization Programs," Canadian Journal of Agricultural Economics, Volume 36, No. 1 (March, 1988), p. 7.

Figures VII and VIII illustrate two of the problems associated with quota schemes as they operate in conjunction with marketing boards. Figure VII shows that if the market were able to reach a competitive equilibrium, then more of a certain commodity would be produced and consumed, as compared to when a support price is set and maintained by limiting total production by means of quotas. Not only do consumers lose some consumer surplus, but producers lose some of their producer surplus, resulting in a net welfare loss to society.

FIGURE VII
PRICE SUPPORTS



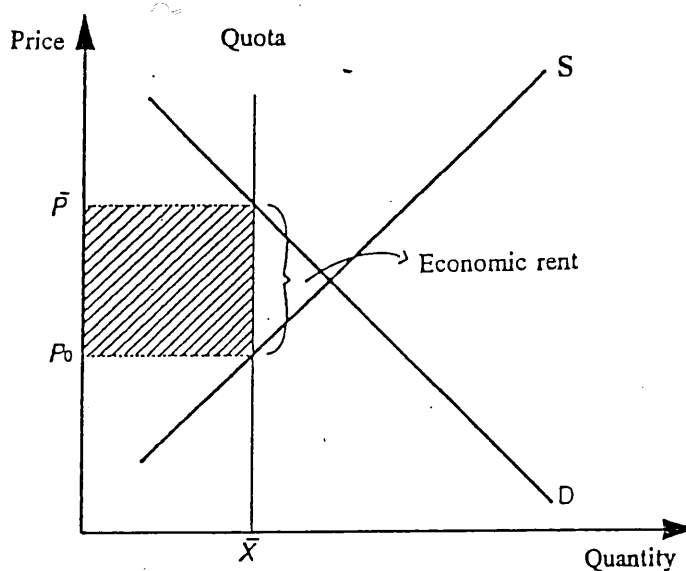
If the above market were free to come to a competitive equilibrium, x_e units would be produced and consumed at a price of p_e per unit. If a support price of \bar{p} is set and it is maintained by limiting total production by a quota of \bar{x} units, consumers lose consumer surplus represented by the sum of areas a and b above. Part of this, area a, is transferred

to producers in the form of a higher price for the units actually produced. Although producers gain area a, they lose producer surplus on the units they no longer produce, area d. The net welfare loss caused by this policy is thus the sum of areas b and d, the hatched triangle.

Source: Raynauld, Stringer and Townley. (Forthcoming)

Figure VIII illustrates how quota rights allow a producer to achieve economic rent. Regulations setting the support price and limiting the amount a producer can produce to the amount of his or her quota result in the marginal cost of production being less than the commodity's price. Thus there is economic rent for producers, at the margin.

FIGURE VIII
THE RENT CREATED BY A QUOTA



The last unit sold by producers sells for the support price \bar{p} , but its marginal cost is only p_0 . The existence of this rent at the margin, the difference between \bar{p} and p_0 , is the result of regulation which sets the support price and

limits production to a quota of \bar{x} units. The total rent created by this policy, in essence a monopoly profit, is shown by the hatched area.

Source: Raynauld, Stringer and Townley. (Forthcoming)

High Prices of Canadian Turkey:

There is no question that Canadian consumers pay more than their American counterparts for turkey. However, Canadian turkey prices are less than those paid by European consumers. The critical questions to ask are whether these higher prices are unreasonable, and how much of the price differential can be attributed to the system of supply management. The highly integrated, competitive structure of the American turkey industry enables product to be offered more cheaply to consumers, but this has been at the expense of independent producers - both in the numbers remaining and in the net incomes received by these producers. The Canada / United States price gap is well documented, but industry publications point out that consumer prices for chicken, eggs and dairy items have risen more slowly than the Consumer Price Index for all foods. From 1981-1991, the percentage increase in the C.P.I. for all items was 67.1%, while for all food items the rise was 53.6%, compared to only a 38.0% increase for supply managed products.¹¹

Inefficiencies in Farm Scale and Location:

Individual turkey producers in Nova Scotia have increased their efficiency over the years and Canadian farmers in general (especially those in supply managed industries) are known for their abilities to implement new technologies. However, the restraints on interprovincial quota reallocation, the high cost of quotas, and the resulting farm gate prices restrain farmers from operating the most technically

¹¹Canadian Broiler Hatching Egg Marketing Agency, the Canadian Chicken Marketing Agency, the Canadian Egg Marketing Agency, the Canadian Turkey Marketing Agency, and the Dairy Farmers of Canada, Fact Sheet, July 1992, p. 1.

efficient size of operations, especially compared to those operating in the United States.¹² These factors can thwart the traditional economic goals of comparative advantage and allocative efficiency.

Regressive Taxation:

When wealth is transferred from consumers to producers through higher retail prices, this is a regressive tax because food purchases compose a higher percentage of the incomes of low income consumers, as compared to their more affluent counterparts.

A Permanent Sellers' Market:

A reasonable balance of bargaining power between buyers and sellers is usually obtained through cyclical variations. Some experts find fault with the global quotas and border controls operating under national supply management, saying that it unduly hurts consumers and processors. Popular arguments contend that product innovations by producers and processors are inhibited by the processors' inability to guarantee a reliable supply of product. There have been charges of gearing producers' behavior to meet quota limits, sometimes on a day-to-day or week-to-week basis, and not meeting processor demand patterns.¹³ Industry leaders flatly refute this argument, especially for the turkey sector. Since 1985 the United States has consumed more turkey per capita than Canada¹⁴, essentially because of the

¹²Minister of Supply and Services, Regulatory Programs p.99.

¹³Loc.cit.

¹⁴Bernie McCabe, "Economics of Quota Allocation Within Supply Management: Analysis of the Present Procedures for Quota Allocation," Canadian Journal of Agricultural Economics, Volume 33 (June, 1986), p. 201.

presence of more further processed items in the U.S. market. This can be attributed to the higher prices of turkey in Canada, and not the inability of processors to secure product, as the processors themselves sometimes argue.

Monopoly Practices in American Agricultural Markets:

The term "marketing board" may be uniquely Canadian but the concept is not. While in Canada farmers have historically been exempted from The Combines Act, and now The Competition Act, farmers in the United States have been similarly supported as farmer cooperative associations are exempted from the Sherman Antitrust Act.¹⁵

In the United States, cooperatives have begun to be forged across local markets, and "Marketing Orders" operate as the American counterpart to Canadian marketing boards. American federal and certain state laws allow that if the majority of growers in an area vote in favour of a marketing order, then the appropriate government will establish a marketing organization for that area. A minimum commodity price may be established collectively, but a necessary precondition for the marketing order scheme to be effective is that individual markets are able to be isolated.

To this extent, climatic conditions delineate areas in which sugar, hops, rice, peanuts, citrus fruits, nuts, grapes, lettuce and tobacco can be grown commercially, and marketing orders have been able to operate successfully in these markets. In fact, the Navel Orange Administrative Committee which controls the marketing of all oranges in Arizona and California has been so successful it has been referred to as the

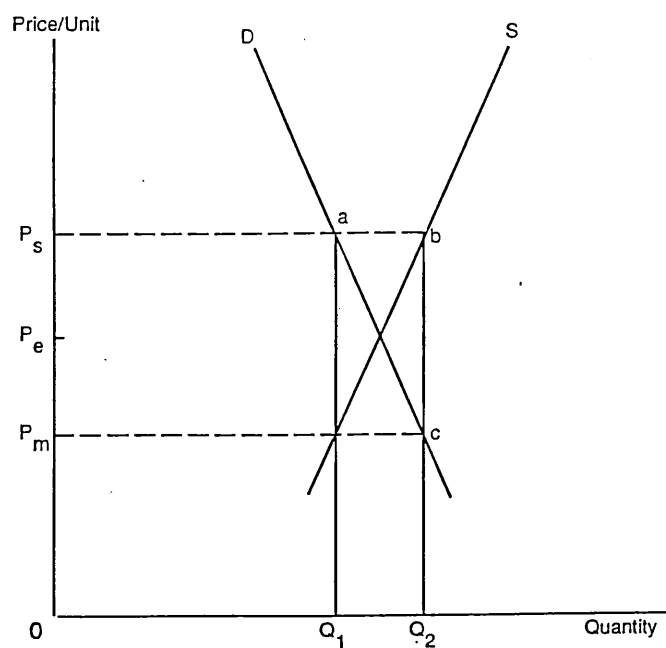
¹⁵The material in this section draws heavily on Belton M. Fleisher, Edward J. Ray, and Thomas J. Kniesner, Principles of Economics, pp. 76 - 84.

"OPEC of oranges." (Because the oranges grown in Florida and California ripen at different times, these two areas do not compete in the marketing of fresh produce.)

The notable difference between marketing boards and marketing orders is that with the exception of rice, hops, peanut and tobacco growers in the United States, there is no special legislation limiting the entry of new participants into markets protected by marketing orders. Economically, this means that the growers will probably not earn economic rents in the long run.

FIGURE IX

Government Purchases Needed To Maintain Minimum Guaranteed Prices



Source: Blandford (1989).

Another way that Congress has provided aid to agriculture is that for some commodities, notably milk and grains, minimum or "target" market prices are set, and in practice usually rest above the equilibrium market price that would prevail if the market were operating under perfect competition. Naturally, the effect of implementing a minimum price in these industries will be and has been excess supplies. This phenomenon can be described using the same diagram as Figure I, reproduced here as Figure IX. If the market price is established at a minimum of P_s , which is above the equilibrium price P_e then, from the supply curve, producers will produce Q_1 units of the commodity (in this case, milk). However, at the increased price consumers will only purchase Q_1 units of milk, resulting in excess supplies of Q_1Q_2 .

But what is done with these excess supplies? They are purchased by the government. In the case of dairy products, the resulting glut of fluid milk is converted into forms that can be stored, such as butter, cheese and dry milk. Some of this excess is given to the poor in both the United States and developing countries, but a significant portion simply goes into storage. For other commodities such as oranges, dealing with excesses has not been so philanthropic. Oftentimes, the produce is simply destroyed.

This sounds reminiscent of the plowing under of approximately 2 million dozen eggs in Canada in the early 1970s, an act which enraged consumers and helped to provide the impetus for establishing the Canadian Egg Marketing Agency in 1972.¹⁶ The avoidance of such outright waste is a consequence of the present supply management systems in Canada, and shows that marketing boards should not only be viewed by economists in terms of what they do poorly. At the same time it should be

¹⁶At the time, this number was painted by the media as being even more dramatic, as they quoted the raw number of eggs (well over 24 million) as opposed to the number of dozens or flats of eggs. This author knows of no one who goes to the store to purchase "12 eggs."

pointed out that marketing boards also perform many functions, such as stabilizing farmers' incomes as eliminating excess supplies, extremely well.

The underlying theme between Canada and the United States is that governments consciously enact measures to support the incomes of farmers. In the United States, agricultural support is characterized by sometime commodity gluts that need to be destroyed, and hidden costs (in the form of higher taxes) to consumers. Through higher retail prices Canadian consumers see directly how they are "supporting" agriculture, and do not have to witness the senseless waste brought about by overproduction. In addition, by limiting new entrants to the industry, the Canadian farmer operating under supply management is afforded more stability than his or her American counterpart. This seems intuitively correct when one considers that the common goal of both American marketing orders and Canadian marketing boards is to assist and support farmers.

Classical Economic Theory and Agriculture:

The way in which Classical Economic Theory views agriculture should be addressed, if only because this paradigm does not reflect how national leaders really deal with agricultural issues.¹⁷ Traditional theory supposes that countries naturally and optimally seek liberalization and unsubsidized free trade. Consequently, each country would eventually end up producing those commodities where they held either a comparative or absolute advantage, and collectively all nations would prosper from increased overall productivity and lower costs and prices than self-sufficiency would otherwise allow. The variety of foodstuffs produced and numbers of farmers would

¹⁷The material in this section draws heavily on Barry Wilson and Peter Finkle, "Is Agriculture Different? Another Round in the Battle Between Theory and Practice," in Agricultural Trade: Domestic Pressures and International Tensions, ed. Grace Skogstad and Andrew Cooper.

decrease in individual countries, but this is considered acceptable because farmers would "adjust" out of agriculture and move to a more productive activity.

However, Classical theory even provides the possibility of farming continuing after this adjustment, because of a decrease in land values as producers move off their farms. The cost of land is significant in agriculture, and if the cost were to fall low enough then it is possible that some commodities could once again become economically viable. After land values decrease, there is little to suggest that these farmers would be the same ones who originally owned the land, and the farms would be fewer in number.

Barry Wilson and Peter Finkle suggest three primary reasons why classical theory is unrealistic. Firstly, the macroeconomic euphemism of "adjustment" fails to consider the extreme impact on farmers and their families of trying to find, not only a new source of income, but a new way of life. Secondly, classical theory ignores the non-economic differences between various occupations. If a farmer is considered "adjustable" to some other occupation only in strictly economic terms, then the possibility that there is inherent social and cultural value to having people earn their livings off the land is overlooked. Finally, traditional theory may represent "overoptimism" in regards to food security. A sensible food policy should aim at producing surpluses, and even in times of peace a premium on achieving some level of self-sufficiency can be justified.

These two authors further note that despite the heroic assumptions involved, such a classical economic perspective has become the standard approach for almost all analysts. When the problems of agricultural trade are addressed by focusing on the traditional economic pillars of efficiency, competition and free markets, then underlying issues are avoided. What types of societies countries want, whether or not farmers will have a place in the economic fabric of these countries, the goals of food

policies, and the acceptable costs for ensuring agricultural livelihood are issues that policy makers avoid at their peril.

In order to make progress in the GATT negotiations and with international agricultural trade policies in general, leaders need to look beyond what they have traditionally thought and done, and have the courage to challenge what may be inappropriate, though entrenched, beliefs. This does not mean that economics or economists should not be involved. Rather, it implies that they need to be more innovative in their thinking.

The Canadian Turkey Marketing Board System:

In 1973, the National Turkey Marketing Agency was established in Canada.¹⁸ Independent turkey producers supported this move because they felt they lacked bargaining power in a market composed of many sellers and few buyers. Before the Agency actually began operations in early 1974, the turkey industry in Canada was characterized by unstable supplies, erratic prices, and wasted resources as producers frequently moved in and out of the industry. Furthermore, producers feared the increasing level of vertical and horizontal integration in the turkey processing sector. Today, in addition to the national marketing agency, turkeys are marketed in Canada through eight provincial marketing boards. (Because of their insignificant levels of turkey production, neither Newfoundland nor Prince Edward Island have provincial boards.)

The general goal of this supply management system is to gear production toward market needs, allowing producers to receive a fair price while assuring Canadian

¹⁸The information in this section draws heavily on Canadian Turkey Marketing Agency, Marketing Turkey in Canada, 1991.

consumers of a predictable and adequate supply of poultry. This is carried out by the Canadian Turkey Marketing Agency (CTMA), who estimate the amount of turkey Canadian consumers will desire for a given time period. Possible imports and exports must be taken into consideration and domestic market conditions are determined through reviewing market surveys, consumption trends, population growth figures, and any significant market developments. Provincial quota allotments are then decided, and production targets along with the provincial shares must be approved by the National Farm Products Marketing Council.

The amount of quota Nova Scotia (or any province) receives is based on a five-year average of the amount of turkey produced provincially. Theoretically, the CTMA is also supposed to consider changing market conditions in each province, comparative advantage, and the province's ability to meet previous production targets. Once the Nova Scotia Turkey Marketing Board (NSTMB) receives its annual allotment, it distributes it to regular producers as production quota. As annual quotas are established six to nine months in advance, the estimates are closely monitored and adjusted as required. The NSTMB is responsible for adjusting producer quotas if provincial allotments change during the year.

The success of this, or any other supply management program, depends crucially on avoiding overproduction at all costs. To this extent, a "Promotion Agreement" has been established whereby the provincial boards agree to pay the national agency for overproduction, based on the number of cents per eviscerated kilogram over provincial allotment. As part of this agreement, overproducing provinces must also accept a decrease in their quota allotment for the following year.

Another critical role of the CTMA is to establish and set the Cost Of Production Formula (COP). In theory, the COP should reflect costs that efficient farmers are expected to incur, and thus are the basis of what is supposed to be a reasonable

financial return for the producer. The COP incorporates all on-farm costs, is updated weekly and is a guide for negotiations between processors and producers when formulating the farm gate price for turkey.

CHAPTER III

THE INTERNATIONAL ENVIRONMENT OF AGRICULTURE

The General Agreement on Tariffs and Trade (GATT):

Since World War II, eight rounds of international negotiations have taken place to facilitate trade amongst nations. These negotiations, within the General Agreement on Tariffs and Trade (GATT) have been very successful; since 1947 the tariffs on thousands of industrial products have fallen from an average of approximately 40% to 4.7%.¹⁹ World trade has increased dramatically, and within the framework of the GATT dispute-resolution mechanism, numerous trade conflicts have been settled. But of all the areas of international trade reform so far unresolved, agriculture lies at the heart of nearly all of them.

The central position of agricultural trade in the 1986 Uruguay round of the GATT negotiations has its immediate origins in the failure to discipline the use of subsidies to agriculture. Subsidized competition for available world agricultural markets escalated sharply after the Second World War, and continued through the formation of the European Economic Community, and evolution of the Common Agricultural Policy. In 1982, international meetings of the OECD (Organization for Economic Cooperation and Development) and GATT were influenced by rising trade conflicts between the U.S. and E.C. (European Community). To examine this issue a Trade Mandate Study was initiated in the OECD; and the International Committee on Trade and Agriculture in the GATT was created, two occurrences that are regarded as being the beginning of the technical preparations for the negotiations on agricultural policies and

¹⁹Bob Davis, "GATT Talks Resume," The Wall Street Journal, January 13, 1992, p. A1.

their trade effects. The magnitude and urgency of the agricultural trading problem was increased by the passage, in 1985, of the U.S. Food Security Act. The subsequent global decline in agricultural commodity prices were, partly as a result of increased supply and demand imbalances, and partly from intensification of the US - EC subsidy war. In 1986, the government of Canada took a lead in having the situation in agriculture placed on the agenda for the May 1986 (Tokyo) Economic Summit.

At this Meeting, the seven major industrialized nations (the United States, Japan, West Germany, France, the United Kingdom, Italy and Canada) publicly acknowledged the seriousness of the current crisis in world agricultural trade. The substantial debate on agricultural issues that ensued made obvious that further substantive discussions on agriculture, within the GATT forum, were needed if the countries were to make any progress in solving agricultural trade problems. Subsequently, a GATT Ministerial Meeting was held in Punta del Este, Uruguay and for the first time ever agriculture was included in the agenda of a round of Multilateral Trade Negotiations (MTNs) - what is now referred to as the Uruguay Round.

Why Agriculture Is Treated Uniquely:

The significance of finally placing agricultural issues at the forefront of international negotiations arises because since its inception, GATT has taken an approach to agriculture fundamentally different from its approach to other industries. Typically, GATT rules have related to how governments may intervene to protect their domestic markets and industries, and have explained how countries are to relate to each other in terms of their rights and obligations under trade rules. The signatory governments are obliged to bring their domestic and international trading practices in

line with the rules. However, for agricultural issues the *reverse* process has occurred. GATT rules were written to fit the domestic agricultural programs already in existence, with chief deference to the United States; the rules were then liberally adapted or interpreted to fit the agricultural policies of other signatory nations. Instead of developing domestic agricultural *policies* to fit the *rules* of international trade, negotiators tried to develop *rules* to fit *policies*. This reverse process has not worked well, as the current agricultural crisis proves. In addition, the continual bickering over GATT rules for agriculture has eroded some of the credibility of the entire GATT dispute-settlement process. There is a worry that unless credibility can be restored, the erosion of confidence could spread to other areas and industries, undermining the progress in trade reform made in that important milieu since World War Two.

Many commentators have observed that the GATT's greatest failure has been in the agricultural sector. In most countries with an agricultural base, an assortment of import barriers and provisions to encourage commodity exports have helped to make government intervention into agriculture more pervasive than in any other economic sector. A country develops its domestic farm policies to support and protect (and garner the votes of) its own agricultural producers and interests. It is these domestic farm policies that directly influence agricultural trade policies; this is the universal relationship at the heart of why present and past attempts to decrease international barriers to trade in agriculture have been unsuccessful. Despite this, one of the factors fueling the current GATT negotiations is that national agricultural policies are under pressure in most countries because of the monumental cost of maintaining them. Major changes are of course more easily accepted if they are accomplished multilaterally, but this is a secondary concern.

The Uruguay Declaration agreed to in 1986 contained, for the first time, a comprehensive negotiating mandate for agriculture. Part of the Ministerial Declaration on the Uruguay Round includes the following:

AGRICULTURE

The CONTRACTING PARTIES agree that there is an urgent need to bring more discipline and predictability to world agricultural trade by correcting and preventing restrictions and distortions, including those related to structural surpluses, so as to reduce the uncertainty, imbalances and instability in world agricultural markets.

Negotiations shall aim to achieve greater liberalisation of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines, taking into account the general principles governing negotiations by

- (i) improving market access through, inter alia, the reduction of import barriers
- (ii) improving the competitive environment by increasing discipline on the use of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade, including the phased reduction of their negative effects and dealing with their causes
- (iii) minimising the adverse affects that sanitary and phytosanitary regulations and barriers can have on trade in agriculture, taking into account the relevant international agreements²⁰

The primary role of the Uruguay Round was not to get the government *out* of agriculture, but to redefine the *role* of government and to eliminate or decrease their trade-distorting policies and practices. For example, the negotiators are not addressing principally how much income is transferred to the farm sectors of countries. Theoretically, if countries choose to make large income transfers to their farm populations it would be wholly within their prerogatives, as long as these transfers are not seen to alter seriously or disrupt world trade.

For example, simply providing income transfers to farmers in the form of payments from the government does not necessarily distort trade, because it will not

²⁰As quoted in Dale E. Hathaway, Agriculture and the GATT: Rewriting the Rules, p. 112.

affect market allocations. However, price supports will influence the equilibrium quantity of agricultural products demanded and supplied. If these price supports are sufficiently above (or below) the world market price of the commodities considered, then the government's attempts to support farmers are trade-distorting.

As the current round of negotiations has progressed since 1986, the fundamental conflicts have been focused on the two giants of world agricultural trade, the United States and European Economic Community (EC). The US has maintained that countries should work to eliminate trade distortions by eliminating government-induced resource allocation distortions (defined as overproduction resulting from generous subsidies) in their agricultural sectors. Furthermore, the US position holds that the GATT should have control over the nature of what domestic farm policies are allowed under the new international trading rules. In contrast, the EC (and especially France) has sought to protect their resource allocation distortions because they are a means to achieve EC social objectives within agriculture. Negotiating members of the EC indicated that they were willing to negotiate changes to the policies that had some international trade-distorting effects, but that they were not willing to eliminate their basic policies - a stance which the US has not accepted.

Canada's Negotiating Position:

Because Canada is only a small player in relation to the 108 member-nations of GATT, Canadian authorities have attempted to influence the negotiations through their membership in the Cairns Group, which also consists of Argentina, Australia, Brazil, Chile, Columbia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand and Uruguay. The Cairns Group has publicly emphasized that the long-term objectives of the negotiations should be the eventual elimination of all

trade-distorting support and protection. They originally proposed that this could be achieved through a combination of (1) measured decreases in trade-distorting protection and export subsidies, (2) the dismantling of import access barriers, and (3) the universal application of a set of strengthened GATT rules to trade in agriculture.²¹

In view of inevitable uncertainties about the durability of the Cairns Group, Canadian negotiators have emphasized their own particular preferences and concerns. Significantly, Canada has been the only country among the Cairns Group members to "emphasize the need to take account of the attenuation of the trade effects of price support programs where effective supply control measures are in place." ²²

According to K.D. Meilke and T. K. Warley, "Canada's objectives for agriculture in the Uruguay Round throughout the 1980s have been few, consistent and clear."²³ They include the desire to achieve substantial decreases in import barriers, production and export subsidies, while strengthening the force of all GATT rules. In addition, Canada has a number of "second tier objectives,"²⁴ which include:

1. Emphasizing that the negotiations in GATT are not designed to terminate income transfers to agriculture, but to contain, reduce and eventually eliminate the external effects of such policies. In other words, national agricultural policies should transfer income to farmers (in whatever amounts each country chooses) in ways that are trade neutral by virtue of their being decoupled from production and consumption decisions.

²¹K.D. Meilke and T. K. Warley, "Agriculture in the Uruguay Round: A Canadian Perspective," Canadian Journal of Agricultural Economics, December, 1989, p. 827.

²²Ibid., P. 826.

²³Loc.cit.

²⁴This information draws heavily on K.D. Meilke and T.K. Warley, "Agriculture in the Uruguay Round: A Canadian Perspective," Canadian Journal of Agricultural Economics, December, 1989, p. 836.

2. Securing international acknowledgment that certain stabilization or economic safety net programs are not trade distorting. In the very least, Canadian authorities argue that these programs are within the bounds of any reasonable minimum standard.

3. Improving the clarification of GATT rules, by expressing the wish to see an end to all the exceptions, waivers and grandfathered arrangements under which other industrialized nations have been able to escape the disciplines of the GATT concerning their agricultural trade. To achieve this, Canada wants a set of unambiguous and enforceable rules to which appeal can be made regarding disputes in agricultural trade.

4. Establishing that the adverse trade effects of commodity-centered price and income support programs are not trade-distorting when the output responses of producers to incentive prices are constrained by supply control (management) programs.

5. Emanating from their desire to support supply management programs, Canadian negotiators have been seeking clarification of the provisions contained in Article XI of GATT, the clause permitting the Canadian authorities to impose import quotas, which is an essential part to making domestic supply control programs effective.

Canada's stance on Article XI and the Canadian government's stated commitment to supporting Canada's dairy, egg and poultry industries are economically inconsistent with its other objectives for international trade liberalization and reform. This is because the major sectors of western Canadian agriculture (such as wheat and grains) are reliant upon export markets and must be price-competitive internationally if these producers are to prosper. Canadian grain producers are efficient enough to be competitive in international commodity markets, but it is obvious from the relative size

of the Canadian government that Canada does not have the fiscal ability to compete against the US and EC in the escalating subsidy counter-attacks.

Decoupling:

The primary goal of the GATT negotiations has been to have countries agree to reshape their farm programs so that the distortion of trade in farm and food products is eliminated, or more realistically, reduced. In attempting to reach this level of trade neutrality, the concept of "decoupling" has been discussed during the Uruguay Round. Economist T.K. Warley has formally defined decoupling as being:

...achieved when any government payment, production or price subsidy, or any form of public financial support or benefit (including commodity-related regulatory measures or import controls) received by an agricultural producer have no direct connection with, or have no direct influence on, the allocation of resources (either in production or consumption) devoted to a particular commodity or production practice relating to a specific commodity.²⁵

In accordance with this concept farmers can still be supported by their governments but in the form of direct income supports, allowing the competitive forces of demand and supply and resultant prices to operate in the marketplace. Such "transparent" means of income support to farmers is more apt to lead to questions about the overall purposes of such programs, who the benefits are conferred upon, and whether Canadians (via the politicians who represent them) consider the answers to these questions acceptable.

²⁵T.K. Warley quoted in G.C. Gilson, "Early experiences with the coupling and decoupling of agricultural price supports and farm commodities," Canadian Farm Economics, Vol. 22 No. 1, p.40.

Canadian farm leaders have argued that supply management schemes are acceptable because they are not trade-distorting internationally, as production is only sufficient to meet domestic needs and excess Canadian poultry and dairy products do not flood the international marketplace. For example, even though Nova Scotia turkey producers only produce as much as their quota allows, their incomes are still tied to their amount of production because they are paid on a 'cents per kilogram' basis. Furthermore, supply management is not consistent with decoupling because consumers provide income support to farmers directly through higher prices. This, along with the initial setting of farmgate prices, assures that the market for turkey is not operating unfettered.

Farmers have a psychological preference for receiving their income through commodity prices and not through receiving income transfers.²⁶ Adrian de Graaf, a turkey producer from Port Williams, N.S. and presently Chairperson of the CTMA, explains why many producers are opposed to the principle of decoupling:

The Americans basically offered that to Canada before - get rid of your supply management systems and pay your farmers to farm. Don't pay them to produce and increase the numbers. Don't tie the amount of money you pay to them to the amount of production they have because then they'll just produce more and flood the market....

In a nutshell, what that says to me is, well, pay Adrian \$40,000 a year to farm. Guarantee him that but don't let him produce any more than what he's producing now. Why the hell would I get up at 6:30 in the morning? Why not get up at eight? Why not get up at ten? I'm going to get my forty grand at the end of the year anyway....It's a welfare system.²⁷

The Canadian government also has difficulty with the principle of decoupling, because it would mean an increased financial cost as payments from national

²⁶Ake Blomqvist, Paul Wonnocot, and Ronald Wonnocot, *Economics*, p. 521.

²⁷Statement by Adrian de Graaf, personal interview, August 9, 1992.

exchequers would have to replace the present higher consumer prices for turkeys as a means of income support to farmers.

Those operating under supply management do not care about international trade neutrality; their goal is to protect their livelihoods, and thus they stand opposed to decoupling on principle. Because of this, Warley has expressed that the international community will probably have to adopt a "theoretically flawed" but "pragmatically workable"²⁸ approach to categorizing policy instruments according to their degree of trade neutrality. Which may please Canadian farmers, but it leads back to the act of giving agriculture special treatment in the GATT negotiations - the very thing that the Uruguay Round was supposed to eliminate. Thus, the quandary over the most basic issue of GATT remains: can agriculture at both the national and international levels be a managed industry, or one where competitive forces have the freedom to operate?

²⁸Warley, *op.cit.*, p. 43.

CHAPTER IV

CANADIAN DOMESTIC AGRICULTURAL ISSUES

Canadian Government Support of Agriculture:

Despite the economic arguments panning marketing boards, supply management schemes enjoy widespread support in Canada. In January of 1986, Joe Clark (then Secretary of State for External Affairs) rose in the House of commons to state that:

...the Government has made clear for some time that it regards the system of marketing boards which is in place in the country as part of the distinctive fabric of the country. We do not intend to change the distinctive fabric of our country.²⁹

There are three major themes explaining why the provision of income support to agricultural producers (via supply management schemes, in this instance) is an ingrained part of Canadian agricultural policy. These include an attempt to achieve social justice, a need for efficiency in a "second best" world, and the desire to maintain the family farm as the most basic unit of food production in Canada.

In terms of social justice, a comment often heard from producers is that "farmers have as much right to make a living as anybody else." More broadly stated, each individual in society is entitled to a minimum standard of living arising from an adequate level of income.

Economists Lipsey and Lancaster published an article in 1956 entitled "The general theory of the second best" which argues that discretionary subsidies are necessary to

²⁹Joe Clark, as quoted in Jean - Denis Frechette, Liberalization of Agricultural Trade, p. 7.

offset the inevitable distortions occurring elsewhere in the economy.³⁰ This is supported by Blandford who wrote in 1989:

More than half of the benefits Canadian producers receive from domestic agricultural policies are necessary to offset the price-depressing effects of other countries' policies. Hence, there is some truth in the argument that we must subsidize because others do, at least on equity grounds, even though there is a welfare cost of doing so.³¹

Thirdly, the maintenance of the family farm as a policy goal is strongly supported by the Canadian federal government. Extending from this is the fact that almost superior moral and social values have been attributed to the tillers of the soil.³² It is not an accident that Canadian electoral boundaries were traditionally designed so that there was (and still is) a bias toward the representation of rural populations.³³ This rural ideology which promotes the preservation of rural economic life is not unique to Canada. The paradigm is globally accepted; the predominant beliefs are that farmers work harder, take more risks, and are more susceptible to forces beyond their control, thus making them appear disadvantaged compared to urban socio-economic groups and hence in need of special treatment. In the United States, Jeffersonian ideology embodied farmers as the backbone of society who were essential to liberal democracy because of their individualism and independence. Similar phenomena is evidenced in Australia by the prevalence of "countrymindedness", in Japan by the symbolic importance of the rice culture, and in Europe by the high value placed upon peasant farming.³⁴

³⁰John Spriggs and J. C. Van Kooten, "Rationale for Government Intervention in Canadian Agriculture: A Review of Stabilization Programs," Canadian Journal of Agricultural Economics, March, 1988, p. 11.

³¹K. D. Meilke and T. K. Warley, "Agriculture in the Uruguay Round: A Canadian Perspective," Canadian Journal of Agricultural Economics, December, 1989, p. 830.

³²Barry Wilson, Farming the System, p.85.

³³T.H. Qualter, The Election Process in Canada, p. 94.

³⁴Grace Skogstad and Andrew Cooper, editors, Agricultural Trade: Domestic Pressures and International Tensions, p. 5.

Government agricultural intervention is justified economically because of a lack of complete risk markets; it has been shown that producers are not able to efficiently transfer their price risks - either to other, less risk-averse individuals or between time periods.³⁵

Supply Management and Social Justice:

This may be the prevalent paradigm, but there are a number of problems with it, especially when the paradigm is used as a basis for arguing to support turkey producers through supply management. John Spriggs and J.C. Van Kooten have pointed out how supply management can thwart the social justice principle. Because the benefits of this program go to the producers owning the largest share of quota, the larger producers may be seen to be disproportionately supported. It is difficult to justify giving farmers with larger quotas and supposedly more wealth larger income transfers than those producers with less quota and smaller incomes. Across Canada, commodity-based subsidy programs may not translate into income support for the most needy farm families. There are certainly less affluent farmers in Canada than the eighteen turkey producers studied. Because quota rents are capitalized, the benefits of quota schemes go to the original owners. Theoretically, if producers are rational and all information is correct (a rather heroic assumption) all expected gains from the program should go to the first generation owners. Also, it must be questioned how socially just it is to provide income transfers to the turkey producers via transfers from consumers rather than taxpayers. The higher prices for supply managed commodities represent a regressive tax because the price is the same despite the consumers' ability to pay.

³⁵Meilke and Warley, *op.cit.*, p. 828.

Canadian Agriculture and the Government:

The strength of the farm lobby in Canada shows how farmers are organized and politically effective - not merely victims of bad weather or bad circumstances. Nova Scotia turkey producers are fully aware that they need special treatment in order to be able to "compete" in their chosen market. In a sense, they are fighting to artificially maintain an industry created by government support. Within the milieu of a federal government that openly supports deregulation and a larger role for the competitive marketplace, this must be seen as ideologically incompatible.

Prime Minister Brian Mulroney said in 1987 "We believe that Canadian farmers, if uninhibited and unfettered, are tremendous producers who can compete with anyone in the world." Barry Wilson has pointed out that the "...Canadian tradition has been to claim world superiority and then to line up behind protectionist support measures which belied the claim."³⁶ That such inconsistencies will continue to go unnoticed seems unlikely.

Are Canadian Farmers Disadvantaged?

Finally, it is easy to argue that the consequences of regulation (which include decreased efficiency and competitiveness) are acceptable if the benefits are conferred upon a disadvantaged group in society. But do farmers who operate under supply management remain disadvantaged? Obviously and naturally, Nova Scotia turkey producers fear a change in the present system because international negotiations could

³⁶Barry Wilson and Peter Finkle, "Is Agriculture Different? Another Round in the Battle Between Theory and Practice," in Skogstad and Cooper, Agricultural Trade: Domestic Pressures and International Tensions, p. 21.

cost them their livelihoods. But is it a socially just price that Canadians are paying to support these farmers? The answer to this question does not come easily. As record-high unemployment rates show, there are many disadvantaged Canadians. These are the questions Canadian farmers, politicians, bureaucrats and consumers need to openly address - and not hide behind traditional arguments that may be skewed at best and untrue at worst.

The Family Farm in Canadian Agriculture:

It is impossible to adequately discuss Canadian agriculture without looking at the concept of the family farm. In response to the survey question "Historically, the family farm has been the backbone of Canadian Agriculture. Do you feel that this is the most economically cost - effective way to organize turkey production?" all of the respondents answered yes. The same result held true when asked if they felt this was also "the most socially desirable way to organize turkey production". An editorial in The Globe and Mail, the voice of establishment capital, noted that "...the concept of the 'family farm' holds a place in Canadian psyche that motherhood envies".³⁷

The Strength of the Canadian Farm Lobby:

The prevalence of the family farm concept has a number of roots. The first is the strength of the farm lobby. J.D Forbes has noted how farm organizations are considered among the most powerful lobby groups in the country.³⁸ Secondly, a

³⁷"Help the Needy," The Globe and Mail, May 21, 1986, p. A9.

³⁸Barry Wilson, David Laycock and Murray Foulton, Farm Interest Groups and Canadian Agricultural Policy, p. 1.

number of politicians depend on the rural vote. Urban representatives have been known to capitalize on the "residual public sympathy"³⁹ urban constituents have for rural issues, which is expressed by a level of concern about traditional agricultural interests, as long as an increase in taxes is not part of the bargain. Thirdly, there is a strong measure of farmer solidarity about their perceived (or real) special status in society and, finally, all levels of government in Canada view the agricultural sector as the vehicle through which rural economic and social goals can be achieved.⁴⁰

C.T.M.A. Chairperson Adrian de Graaf stated "family farm operators always go the extra mile because it's their money and livelihood that depends on it - many corporate farm owners do not."⁴¹ There is value in this observation, especially when compared to agricultural policies enacted in the Soviet Union and Eastern Europe in the early 1980s, where farm production lagged significantly behind demand. In 1985 the Macdonald Royal Commission Report released a majority opinion supporting increased business principles and "market wisdom" when determining farm policies. However, John Messer, the only farmer on the committee and former Saskatchewan Minister of Agriculture, explained in his dissenting position why he felt family farms were important:

All that space between Canada's major population centers is not a vacuum.... Much of it is filled with farm families and small communities which serve farmers and farm production. When we talk about preserving the family farm, we are talking about preserving jobs, communities and all the infrastructure of schools, hospitals, roads and other services.... We are also talking about community co-operatives and credit unions and small business people such as farm machinery dealers and other entrepreneurs who are important participants in the small farming communities across Canada. This is the family farm economy.⁴²

³⁹ibid., p. 2.

⁴⁰Grace Skogstad and Andrew Cooper, Agricultural Trade: Domestic Pressures and International Tensions, p. 17.

⁴¹For further comments, see the survey results included in the Appendix.

⁴²Barry K. Wilson, Farming the System, p. 89.

Despite these arguments, there are problems associated with placing a premium on maintaining the family farm as a policy goal. The process of economic growth everywhere in the economy requires that the absolute level of employment in agriculture must decline. Thus, some family farms have to be eliminated. Multiple job-holding is not a characteristic of Nova Scotian turkey farmers, but is prevalent in the Canadian farming sector as a whole. In 1985, 48.4% of Canadian net farm income came from off-farm employment, compared to only 29.5% in 1975 and less than 20% in 1965.⁴³ The 1986 Government Task Force On Program Review further noted that:

The urbanization of the country has created a group of people distinct from the rural community. Exposure to different influences and ethics create different lifestyles and attitudes. A new generation of highly educated and specialized farmers is taking over.⁴⁴

The family farm can be seen to be losing its traditional status but this, however, is not a popular argument and has been voiced by few. An exception is Ralph Ashmead, the son of an Alberta family farmer who later received his Ph.D. in agricultural economics and is a former head of the Farm Credit Corporation. He explains that the family farm was the preferred vehicle to maintain rural society when governments were favoring subsidies and policies that allowed monocropping and simple market decisions, but that in a future of less government this is an outmoded view. In his words:

Does it really make sense that one person will still be the tractor driver, the accountant, the company credit specialist and marketer? I don't think that's possible and still do a good job. The world has become

⁴³*ibid.*, p. 42.

⁴⁴Minister of Supply and Services Canada, *Task Force on Program Review*, p. 111.

too complex for that and governments will soon have to come to grips with that.⁴⁵

This is not to say family farms should be eliminated, but that the family farming concept should not be placed on a pedestal as the predominant goal in agricultural policy making. Change is inevitable, and if farm producers are to benefit from carefully considered and innovative policy changes then all pertinent issues need to be addressed, and not merely accepted as gospel, as has often been the case when the subject of the family farm is raised.

⁴⁵Wilson, op.cit., p. 78.

CHAPTER V

SURVEY ANALYSIS AND COMMENTARY, AND THE CANADIAN TURKEY MARKETING AGENCY ANALYSIS OF TARIFFICATION

Methodology:

The June 1992 Edition of Canada Poultryman noted that "With only eighteen producers in the province, members of the turkey industry often interact like old friends even at their business gatherings."⁴⁶ Because of the small population, it was decided that an analysis of these producers could be undertaken. A mailing list of all turkey producers in Nova Scotia was obtained from the Nova Scotia Turkey Marketing Board Office in Kentville, and surveys with cover letters and stamped, return envelopes were sent to all producers on July 10, 1992. After a month, follow up telephone calls were made to those producers who had not returned their surveys. Except for one gentleman who said that "I got the survey, but I'm not going to fill it out," the respondents were enthusiastic about and interested in the study, and all promised to try to find time to fill out the form. This concern with time to fill out the survey was expected, because the summer season is traditionally hectic for farm operators. One of the eighteen Nova Scotian producers is the Poultry Division of Maple Leaf Foods Inc., and it was decided not to follow up on their status as a corporate owner because the study focuses on family farm issues.

⁴⁶Anne Hutten, "Nova Scotia Turkey Marketing Board," Canada Poultryman, June, 1992, p. 18.

The cover letter for the survey briefly explained the purpose of the study and emphasized that all information obtained was to be treated with confidentiality. That all questions were optional was clearly stated, and producers were encouraged to skip a question rather than sacrifice the entire survey. Ten surveys were returned, representing 56% of individual turkey producing units in Nova Scotia. With the knowledge that some of the operations are jointly owned (either through husband/wife or parent/child partnerships), the survey included space on certain questions for data on both operators, but obviously other answers would represent the biases of only one of the joint owners.

Results:

The average age of the replying turkey producers was 42 years. The average number of dependents per producer (eliminating the double counting of husband/wife partnerships) was only 1.53, which seems low considering the emphasis that persons arguing for the continued support of agriculture place on family farm issues. However, it could also be indicative of the fact that farming has progressed so that large families are not a necessary requirement of running a successful operation, and that farm families are following the national trend toward smaller families.

The turkey producers in Nova Scotia have significant educational training. Of the 17 producers, only one did not attend high school, eight have attended high school and seven have completed at least some university or college training. 69% say that they have worked in an occupation besides farming, ranging from such fields as government, forestry, sales and quality control. This, along with the nature of farming that requires a variety of skills and business acumen, suggests that Nova

Scotian turkey producers possess skills which could be considered transferable to other occupations. Although only two respondents said that they were planning to retire or sell their operations within the next five years, in the event of something cataclysmic (such as an unfavorable resolution of the GATT negotiations) producers would be greatly disadvantaged but able to respond in some positive manner to changes because of their significant though nebulous "abilities to adjust."

From this examination, there was little evidence of off-farm employment. Only four of the seventeen owners reported that they or their spouses are currently employed outside of the farming operation. One spouse was a part - time bank teller and another spouse was a full - time bookkeeper, while one owner was the part - time Chair of the Canadian Turkey Marketing Agency (Adrian de Graaf, who has been referred to elsewhere) and another owner was the president of P.W.A. Agrisystems, a farm equipment supply business operating out of Port Williams. However, the operators did obtain a significant amount of their income from farming operations other than producing turkeys. In fact, the percentage of time devoted to their turkey operations was on average estimated to be only 47.5% of the time devoted to all farming activities. By asking for sources of other farm income, it was found that revenues were obtained from such diverse sources as chickens, hogs, apples, rental income, corn, rhubarb, grains and soybeans. Eighty percent of respondents also have chicken quota (another supply - managed commodity), which would further explain producers' desire for a favorable resolution to the GATT negotiations.

This is not to say that the farmers queried are unconcerned with their turkey operations. Fully 100% answered 'yes' when asked if they were interested in expanding the size of their turkey operations. Seven of the ten respondents had made improvements to their turkey operations within the last two years, ranging in value from a reported \$2000.00 for a "better feeder for the brood section of the barn and

some new drinkers" to \$140,000.00 for "New siding, new drinker system, and a new heating system." Four of the ten respondents said that they were planning to make 'major' improvements to their operations within the next five years, again ranging from a low of \$14,000.00 to implement a new source of propane heat to a high of an estimated \$170,000.00 - \$200,000.00 for a "new building to replace two old buildings - but only if a successful GATT outcome is realized." This brings up a related issue. Although half of the respondents agreed that they had avoided further investing in their turkey operations because of the uncertainty surrounding the future of supply management in Canada, fully 100% of those replying said that they were interested in expanding the size of their turkey operations. Such interest in expansion could suggest that these producers are not operating at optimally efficient levels. Economic theory suggests that if the producers were operating in a purely competitive market, there would be no economic incentive for expansion.

No matter what their efficiency levels, they are operating under heavy debt loads. Of the nine respondents who chose to answer a question on debt loads, two approximated their farm's debt load to be between \$0.00 and \$100,000.00, one chose \$100,000.00 to \$200,000.00, two respondents each estimated their debt loads at \$200,000.00 to \$300,000.00 and \$300,000.00 to \$400,000.00 respectively, while one farming operation is operating under a debt load of an estimated \$500,000.00 to \$600,000.00. Additionally, one producer qualified that the "turkey portion only" of his farm's debt load was between \$200,000.00 and \$300,000.00.

Other survey questions were more qualitative in nature. In response to a statement about family farms, all respondents felt that this was the most cost-effective way to organize turkey production, as well as being the most socially desirable method. When asked if they thought the number of turkey producers in Nova Scotia was going to change within the next five years, two replied that they did not know, two thought

that the number was going to be lower, with a majority of six expecting the number to remain the same. The posing of the question, "Do you feel that as Nova Scotian turkey producers your concerns are being given adequate representation by the federal government's GATT negotiators?" resulted in a split between four no's, five yes's and one maybe. However, producer solidarity was again evidenced when nine of the ten respondents thought that their farm leaders were doing an adequate job. Seven of the ten respondents thought that if the value of turkey quotas were to decrease significantly, then the federal government has an "obligation" to compensate turkey producers for this financial loss. Despite a concern for an adequate return on production, all respondents choosing to answer the question agreed that they would continue to be a turkey producer in Nova Scotia even if they had to face a 15% decrease in their incomes from turkey production.

A large space at the end of the survey was left for "any other comments you have in relation to any aspect of the Nova Scotia turkey industry, the GATT negotiations, or farm incomes in general". A theme of the written responses was that of a perceived need by the producers to "educate consumers." One farmer said that "One of my major concerns is a lack of understanding by consumers. They firmly believe that all agriculture is subsidized." This thought was echoed by another operator who wrote:

It appears that people, consumers need to be educated in the cost of production in N.S. and what social and economic effects agriculture has to the economy. The reality of what a producer gets paid and what the consumer pays seems unjust. Consumers need to know what farming and agriculture are all about. This is a role that all people in our agricultural industry must play. That is, education to the general public about the need for food security and the reality of what our industry is all about.

The conduct of agricultural policy debate in the Canadian political system can explain why producers feel that consumers do not understand agriculture.⁴⁷ More accurately, producers probably use this as an explanation of why consumers are not more sympathetic to producer interests - if consumers are hostile to farmers, then it must be because consumers simply do not understand, for the farmers themselves genuinely believe that their supply management system is fair and just. When agricultural policy is developed and discussed in Ottawa, it is amongst a small group of lobbyists, bureaucrats and politicians, all of whom have knowledge of and special interest in Canadian farm policy. The problem is that when pertinent issues go beyond this small sphere to general public debate, the arguments employed are often based on misconception, misinformation, ignorance, myth, ideological agenda, conflicting interests, political expediency and unclear goals.⁴⁸ Not only does political confusion result, but Canadian consumers overwhelmingly believe that they are being overcharged for food. CTMA Chairperson de Graaf and others attribute the emotion surrounding this fact to Canada's close proximity to the United States:

We have the second cheapest food in the world. The Americans have the cheapest. And that's one of the unfortunate things. Our consumers see that. America's food is cheaper than ours. But they don't see that everywhere else in the world it isn't.⁴⁹

The prevalent practice of cross - border shopping in Canada supports this hypothesis, as does direct price comparisons between Canadian and United States' turkey prices. Figures obtained from the CTMA shown in the following table compare the prevailing prices of consumer packaged hen turkeys in Canada and the United States for October and December of 1990 and March of 1991.

⁴⁷Wilson, *op.cit.*, p. 5.

⁴⁸Wilson, *op.cit.*, p. 5.

⁴⁹Statement by Adrian de Graaf, personal interview, August 9, 1992.

The information in Table I also shows the effect of the price relationship between the two markets. In light of the October and December of 1990, and March of 1991 actual prices in Canada and the United States, it becomes obvious that Canadian turkey would be replaced by American turkey during the significant Christmas and Easter markets. Between October and December, the U.S. price decreased (or "softened") by 47 cents per kilogram, while the Canadian market price was constant, reflecting the traditional strength of the Thanksgiving and Christmas markets.

TABLE I
CONSUMER HEN PACK TURKEYS

<u>Prevailing Prices</u>	<u>10/90</u>	<u>12/90</u>	<u>03/91</u>
U.S. Price (cdn \$/kg)	1.83	1.36	1.39
U.S. landed in Can.*	3.06	2.29	2.35
Cdn. Price	3.00	2.98	2.58
Incentive to Import	nil	.69	.23
 <u>Changes Between Months</u>	 <u>10→12</u>	 <u>12→03</u>	
U.S. Price	-0.47	+0.03	
Cdn. Price	-0.02	-0.40	

* Includes freight and tariff equivalent reduced to reflect the first two steps in the proposed tariff reduction schedule.

Source: Canadian Turkey Marketing Agency (November 7, 1991).

If the proposed method of tariffication were in place during this time, market dynamics would have meant that the situation would have changed from a roughly break - even position for imports of turkey into Canada, to a clear advantage of 69

cents a kilogram to import turkey in December of 1990. This large increase in the incentive to import occurred within only a two - month period.

Despite the normal softening of the Canadian market after the Christmas season, there would still be a 23 cents per kilogram incentive to import American turkey into the Canadian market during the Easter season, which is the third most significant marketing period for the turkey industry.

However, simply noting the price differentials between Canada and the United States does not present the whole economic story. Obviously, there would be freight costs associated with shipping the turkey to Canada, even if supply management systems were eliminated and turkey was allowed to flow freely across the Canada - United States border. (Before the Canada - United States Free Trade Agreement came into effect, turkey imports could not exceed 2% of domestic production. Now, Canada has to accept 3.5% of domestic production as imports.⁵⁰) A study by the Department of External Affairs has shown that production costs related to agriculture (farm inputs, manpower, taxes, interest, depreciation, and related expenses) are higher in Canada, whether or not they are adjusted for the exchange rate.⁵¹ Thus, a price differential is to be expected - it is the size of this differential that is of concern to economists and consumers.

CTMA Analysis of Tariffication:

The CTMA has completed a series of analyses entitled "Sectoral and Regional Implications to the Canadian Turkey Industry of Tariffication of Existing Border

⁵⁰Canadian Turkey Marketing Agency, Marketing Turkey in Canada, 1991, p. 6.

⁵¹Jean - Denis Frechette, Liberalization of Agricultural Trade, p. 4.

Measures," the final portion of which was published in February of 1992.⁵² The purpose of this study was to analyze the effects of tariffication on the Canadian turkey industry. The final draft GATT Agreement on Agriculture of December 20, 1991 (a section of the Dunkel Report) proposed that tariffication would replace the current quantitative import restrictions (GATT Article XI: 2 (c) (i)), the clause which enables supply management systems to operate in Canada.

Tariffication entails the elimination of quantitative import restrictions, which will in practical terms introduce into the Canadian turkey industry (because of our proximity to the United States) price ceilings at the wholesale level based on U.S. market prices. The phasing in of scheduled tariff reduction commitments means that the price ceiling at the wholesale level would decline over time, and that the Canadian turkey industry would become susceptible to fluctuations in U.S. turkey market prices, and exchange rate risks. The sectoral and regional consequences of tariffication were addressed, because of the heterogeneity of the Canadian turkey industry.

As one would expect, this industry report predicted serious and detrimental implications if the tariffication proposal were to come into effect. On a national scale, they concluded that changes would "confuse production and planning and eventually eliminate the ability of the Canadian industry to meet market requirements."⁵³ To back up this conclusion, the analysts calculated the economic incentives to import that arise from low U.S. market prices. Baseline tariff equivalents for turkey were provided to the CTMA on a without prejudice basis by the Office of Multilateral Trade Negotiations and the International Trade Policy Directorate. Components of the

⁵²The material in this section draws heavily on the Canadian Turkey Marketing Agency's Analysis of the Tariff Equivalents as Calculated by Agriculture Canada and Implications of Tariffication and Reductions of the Market Price Support in the AMS, published on November 1, 1991 and subsequently updated on January 7, 1992 and November 1, 1991.

⁵³Canadian Turkey Marketing Agency, Sectoral and Regional Implications to the Canadian Turkey Industry of: Tariffication of Existing Border Measures, January 7, 1992, p. i.

Dunkel text were used to calculate tariffs, and the February revised tariff equivalent for turkey was 70.4% (ad valorem), or 126.1 cents per kilogram. A tariff reduction schedule of 36% was applied in six yearly steps, beginning in 1993.

The empirical basis of this study was that the effects of tariffication could best be ascertained by looking at the relationship of Canada to U.S. prices over time. The price differentials of Canadian and American consumer pack hen turkeys listed previously can be again used to illustrate why the Canadian turkey industry is influenced by that of the United States. The "U.S. Price Landed in Canada" includes applicable freight costs and tariff equivalents reduced to reflect the first two years of the reduction schedule. As is shown, the incentive to import American turkey changed from being almost nonexistent to a competitive advantage of 69 cents a kilogram over the short time period between October and December. The traditional strength of the Thanksgiving and Christmas markets maintained Canadian prices during this time period with only a 2 cent decrease in per unit price, but the equivalent American decrease was 47 cents per kilogram.

The report predicts that the documented price fluctuations of the imports would result in either an increase in domestically frozen turkey as demand requirements are replaced by American imports, or the industry would absorb a 25% price decline for this largest sales volume of the year. Depending on the extent to which domestically produced product is placed in storage, production levels for the following year would have to be decreased. At the same time, the year in which this adjustment is made could be further characterized by similar American price fluctuations during periods of peak demand, and a cycle of uncertainty in the Canadian industry would have been established.

An increase of American imports at the peak periods of Christmas, Thanksgiving and Easter would mean that domestic Canadian product would go into the freezers.

This would first be felt by the producers in central Canada, but eventually the increased imports would affect the Nova Scotian market. Regionally, there are several factors that combine to determine how segments of the turkey industry will respond to the implementation of tariffication. These include the nature of the processing industries in the various sectors, the degree of concentration or competition in the retail and food service sectors, and how federal and provincial governments respond to the consequences of tariffication. Taking into account these factors, the CTMA analysis concludes that:

In each region, over the five year time horizon of this analysis, the number of turkey producers will decline as integration and consolidation take place, in response to border measure removal. Labour on turkey farms and in processing plants will be displaced in response to the same forces.

While in Central Canada, the initial reductions in output will start to turn around by years 4 and 5, producer numbers, labour, and value-added will not, as consolidation and integration take hold. In the Western and Atlantic Regions, this reversal is not anticipated. The turkey industry in the Western Region will continue to decline to a fraction of its current size (about 20%). **It is difficult to see any industry remaining in the Atlantic Region by the end of five years as post - farm sectors consolidate in Central Canada and production eventually follows.**

Clearly, the losses in labour, economic activity and value - added will occur in the two regions of the country less well equipped to absorb such losses.⁵⁴

Because of this, the CTMA considers supply management and tariffication "mutually exclusive."⁵⁵ In the event of tariffication, Nova Scotian producers would not be able to survive. The validity of the CTMA analysis is increased because they openly admit that turkey could be adequately provided to Atlantic Canada through

⁵⁴Canadian Turkey Marketing Agency, UPDATE ANALYSIS: Sectoral and Regional Implications to the Canadian Turkey Industry of: Tariffication of Existing Border Measures, February 14, 1992, p. ii.

⁵⁵ibid., Executive Summary.

shipments from elsewhere, implying that there is not an economic reason to maintain a turkey industry in Nova Scotia. Through inference, the CTMA is admitting that supply management, particularly in Nova Scotia, is the primary factor maintaining entire industries. Because this appears to be the case, there is little wonder that Nova Scotian turkey producers are extremely concerned about the outcome of the Uruguay Round of the GATT negotiations.

CHAPTER VI

THE TURKEY PROCESSING INDUSTRY AND THE INFLUENCE OF THE UNITED STATES

The Turkey Processing Industry:

The relationship between turkey producers and processors in Nova Scotia causes concerns for Nova Scotia turkey producers as they contemplate the changes that have been proposed in the current GATT round of negotiations. One of the distinct characteristics of poultry processing in Canada is that of increasing rationalization. As reported in the February 1992 issue of Chicken Forum, there have been many recent mergers and elimination of companies all across Canada. Hillsdown Holdings of Britain purchased Maple Leaf Mills in 1987 and Canada Packers in 1990, and now operate these ventures under the name of Maple Leaf Foods/The Poultry Company. Not only does this company operate one of the two poultry processing plants in Nova Scotia, but it holds one of the two largest turkey quota allocations in Nova Scotia.⁵⁶ Elsewhere, the poultry operations of J.M. Schneider have been consolidated and are reorganized under Horizon Poultry Products Inc., Maple Lodge Farms has added several new companies to its holdings, including the former Nadeau Poultry Ltd. in New Brunswick, and Plains Poultry of Wynyard Saskatchewan now owns the Saskatoon plant of its former competitor, Canada Packers.⁵⁷ In Alberta and British Columbia, Lilydale Co-operative Ltd. has in recent years taken over the poultry operations of four of its former competitors. Finally, in Quebec, the consolidation of five regional poultry plants into Agrimont Inc. was purchased by U.S. poultry

⁵⁶Nova Scotia Turkey Marketing Board Annual Report, 1990.

⁵⁷"Companies disappear as rationalization continues," Chicken Forum, February 1992, p.1.

giant TYSON foods, which in turn was bought out by Bexcel Inc., which now controls 75% of the turkey processing capacity (and 85% of the companion chicken processing capacity) in that province.

Significant on the provincial front is the merger that did not occur. In January of 1991 the ACA Cooperative Limited killing plant in New Minas, Nova Scotia suffered a major fire. After this, the aforementioned Canada Packers plant in Canard operated double shifts in an outdated plant to perform the slaughter and chilling operations of the burned ACA facility. This provided the impetus for ACA and Maple Leaf Foods to hold discussions about combining forces to build a new plant to handle all the processing needs of Atlantic Canada, which was to operate under the proposed corporate structure of "East Coast Poultry." The negotiations eventually failed, however, and ACA has since completed renovations to the old facility and no longer has to perform operations at the Canard poultry plant.

Some industry members consider this retrenchment regrettable and counter-productive. CTMA Chairperson de Graaf, a local producer, when asked to speculate about the future of the Nova Scotia turkey industry, noted that:

We're not all going to adjust and some of us are going to go by the wayside. The unfortunate thing in this area is that we need only one plant and we've got two. And the government knows that for sure. Some of us are going to have to go.⁵⁸

Despite some scheduling and environmental difficulties (including an inadequate water supply) at the outdated Canada Packers plant in Canard, this killing facility handled all the poultry produced in Nova Scotia (and sometimes overflow from New Brunswick) before the ACA plant was again operational. This indicates that a modern and efficient plant could easily handle the poultry produced, not only in Nova Scotia, but

⁵⁸Statement by Adrian de Graaf, personal interview, August 9, 1992.

in all the Maritimes. The Nadeau poultry plant presently operates in St. Francis de Madewaska, New Brunswick, but since this is near the Quebec border presumably its production could be handled by relatively proximate plants in Quebec.

Solidarity and achieving all possible economies of scale appear to be at issue here. With eight of the eighteen turkey producing units in Nova Scotia growing for ACA and the others supplying product to Canada Packers, there is a duplication of services and ultimately, excess capacity in the poultry processing sector. That the East Coast Poultry venture failed is lamentable because it represents a missed opportunity for the maritime poultry industry to capitalize on possible improved economies of scale.

The United States Turkey Industry:

The effect of rationalization of Canadian processing firms is better understood when the American food processing industry is also taken into consideration. Here, the decreasing number and increasing sizes of poultry processing plants have also been a long-term trend. Data from the United States Census bureau indicate there were 37,521 operating plants in 1963, compared to only 22,130 plants in 1982, which represents a decrease of 41% in only nineteen years. During the census period 1977-1982, there was a net decrease of almost 4% per year. This figure masks the fact that over 100 new plants were built each year for food processing, so that on average during this time 1,000 plants were closed annually.⁵⁹ If the lower prices of American turkey are resulting from increased efficiency (which appears to be the case) then, especially in view of the Canada-United States Free Trade Agreement, it seems

⁵⁹Thomas G. Johnson, John Spriggs, and G.C. Van Kooten, "Social costs of supply-restricting marketing boards: a comment," Canadian Journal of Agricultural Economics, Volume 30 (November, 1992), p. 370.

inevitable and perhaps advisable that Canadian firms continue to follow their merger opportunities.

Poultry production in the United States has tended toward greater concentration, and vertical integration is the predominant feature of the American industry. Companies that are vertically integrated own and operate more than one stage of the production process, which increases their market power as there are fewer competitive aspects of the industry. The authors of Economics of Food Processing in the United States (1988) explain how "integrators" (who are usually processing firms) control almost the entire poultry production system by owning the hatching facility and resultant birds, the feed mills, the supply store that provides medications and other inputs into the growth process, and the means to transport the birds to the poultry processing plant.⁶⁰ Integration has protected American producers from market risks such as those resulting from fluctuations in feed and product prices, and has enabled producers to obtain greater access to financing. Because the integrator owns the poultry and supplies the feed to the producers, remaining production risks such as losses of product due to disease or weather are shared between processor and producer. This seems positive, but there is a trade-off involved: a relief from market uncertainties for producers accompanies a complete loss of control over production methods and decisions. This can be contrasted with the supply management system in Canada that affords producers a considerable degree of autonomy.

⁶⁰Ken Rosaasen and Doug Maley, "Forward planning: An alternative marketing mechanism," Canadian Journal of Agricultural Economics, Volume 33 (June, 1986), p. 269.

Why Canadian Processors Are Sometimes Hampered in the Development of New Poultry Products:

Because of the way the CTMA estimates and tries to plan for the demand for turkey, a relatively long time is required to respond to unanticipated market changes or shifts.⁶¹ If a fast-food chain or other such enterprise were to develop a new turkey product, they could conceivably require only part of the turkey, such as thighs, for example. This fast-food chain would make a submission to the Turkey Industry Advisory Committee, which is the advisory group that makes recommendations to the CTMA on the level of production required in Canada. However, the Advisory Committee is likely to consider this a risky venture, especially because it begs the question of what to do with the rest of the turkey. Although the demand for turkey thighs could be satisfied by producing more turkeys, in the process this could create a glut in the market for other turkey parts. In the United States, the volume of turkey produced and processed each year is large enough to eliminate this problem; the percentage increase in amount of product demanded to fill any single new market requirement would be smaller and hence more easily assimilated. In addition, the larger U.S. balance-of-market could more easily absorb the other turkey parts, though there would be modest changes in the relative prices for the various demand segments. This is part of what explains why certain poultry parts (breasts, for example) cost more than other parts (such as legs), even though the cost of producing each segment is essentially the same, for the segment with the greater consumer demand can command a higher price.

The size of the Canadian market for turkey is dwarfed by that of the United States. In the United States in 1989, total turkey production was 2,479,056 thousand

⁶¹Special thanks goes to Paul Gervason for his insight into this issue.

kilograms,⁶² while the comparable Canadian figure was only 119,412 thousand kilograms.⁶³ That the American market could easily assimilate that of Canada is evidenced by the magnitude of American frozen stocks of turkey. On June 1 of 1991, frozen stocks of turkey in the United States were equal to 221.82 million kilograms.⁶⁴ In the same year in Canada, total turkey production was only 130 million kilograms of eviscerated product.⁶⁵ What this means on a Canadian scale is that if for one year all Canadian turkey producers were to increase their yearly production by 70%, and all of this 170% of the former year's production went directly into the freezers, with no domestic consumption, then this would equal the amount the Americans presently have in storage.

Perhaps more significant than the stocks of American turkey, when considering the effects of increased trade liberalization in Canada, is the price of American turkey. In 1989 in the United States the average U.S. Retail value of turkey was \$2.58C (Canadian) per kilogram.⁶⁶ In Canada (for 1989), a comparable figure was \$4.02C per kilogram⁶⁷ for broiler turkeys ranging from 5 to 8 kilograms, in the Montreal market.

Obviously, only part of this higher Canadian price is directly paid to the turkey producers. For example, for the 1989 figures quoted for Montreal, an average of \$1.47C per kilogram liveweight was paid to producers, \$2.72C was the weighted average processor price, and the average price to the consumer was \$4.02C.⁶⁸ In the

⁶²United States Department of Agriculture, Poultry: Production and Value Annual Summary, p. 162.

⁶³Nova Scotia Turkey Marketing Board Annual Report, 1991.

⁶⁴Post - 1990 American data was received directly from the U.S. Department of Agriculture, Economic Research Service, Commodity Economic Division, Washington, D.C.

⁶⁵Nova Scotia Turkey Marketing Board Annual Report, 1991.

⁶⁶All American prices were converted to American currency using an exchange rate of 1.1842 U.S. dollars in Canadian dollars, which was the average noon spot rate, as found in Bank of Canada Review, June 1992.

⁶⁷In Montreal, for turkeys ranging in weight from 5 to 8 kilograms.

⁶⁸1989 Poultry Market Review, p. 34.

United States in 1989, the average liveweight price received by farmers was \$1.04C, the weighted average processor price was \$1.92C, with an average price to the consumer of \$2.59. Canadian producers were paid 40% more than their American counterparts for equivalent product, and yet retail turkey prices were 55% higher in Canada.

It is beyond the scope of this study to determine the relative merits of these price differentials, but it is obvious that higher Canadian poultry prices can be attributed to more than Canada's supply management system, as evidenced by an indicated average store markup of 48% in Canada, compared to only 34% in the U.S. This is the rationale behind the surveyed producers' belief in the need to "educate the consumer."

TABLE II
CONSUMER PRICE INDICES FOR FOOD BY SELECTED ITEMS
CANADA (1986 = 100)

	<u>1990</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>	<u>1986</u>	<u>1985</u>
Food	115.9	111.1	107.2	104.4	100.0	95.2
All meat	121.0	111.5	108.2	108.0	100.0	95.2
Beef	118.2	113.2	110.8	109.1	100.0	97.9
Pork	117.2	105.3	103.6	108.9	100.0	86.1
Chicken	130.7	120.0	107.6	106.1	100.0	91.8
Turkey	111.0	102.0	101.9	102.6	100.0	96.1
Cured Meat	115.0	96.6	101.5	108.4	100.0	88.7
Canned Meat	114.6	105.7	102.3	102.1	100.0	98.2
Fish	123.1	124.5	120.6	111.2	100.0	95.2
Dairy Products	114.0	109.1	106.0	102.3	100.0	98.1
Fluid Whole Milk	113.9	109.2	106.1	101.8	100.0	98.7
2% Milk	117.6	109.9	105.9	101.8	100.0	99.7
Butter	110.8	105.0	103.8	101.7	100.0	97.1
Cheddar Cheese	110.4	108.9	106.9	103.7	100.0	97.1
Process Cheese	112.1	109.9	106.8	104.4	100.0	98.0
Ice Cream	110.2	106.2	104.3	100.9	100.0	95.5
Eggs	113.4	108.0	101.1	97.4	100.0	100.9

Source: Statistics Canada, 62 - 010.

It is tempting for consumers to blame the higher Canadian prices they see for turkey on Canada's supply management system. This underlying misconception gives the processors and retailers the relative freedom to increase their margins, while allowing turkey farmers to take the blame for high consumer prices for the product.

Consumer price indices for the United States and Canada also provide evidence that, at least in recent years, the supply-managed turkey industry has experienced price consistently below that of most food subgroupings. As can be seen from Table II, the CPI for turkey in 1990 (with a base year of 1986) was 111.0. This compares to 115.9 for all food, and 118.2 for beef, which is produced in an industry that does not operate under supply management. In the United States the trend is opposite to that of the Canadian industry. The retail price index for all poultry in the United States in 1989 was 116.0. In the same year in the US, the Consumer Price Index for all urban consumers, including all items, was only 113.0. This supports the hypothesis that supply management initially raises the price of the protected commodity, but that responsible marketing can further serve consumers by providing stability of prices in the ensuing years.

If the GATT negotiations are settled so that the Canadian turkey industry is completely opened up to North American market pressures, prices to Canadian consumers will fall, at least initially. For Nova Scotia in particular, if for 1989 a price differential of \$1.44 (\$4.02 - \$2.58) is assumed, considering the production level of 3,356,000 kg, then the saving to consumers is roughly estimated at \$4,832,640. Spread over a Nova Scotian population of 885,000,⁶⁹ a per capita saving of \$5.46 could be roughly estimated.⁷⁰ This is also presuming that United States turkey prices remain significantly lower than those in Canada. This assumption is suspect,

⁶⁹John Filion, editor, The Canadian World Almanac and Book of Facts 1990, p. 75.

⁷⁰It must be noted that this calculation is a gross estimate in that, amongst other things, it does not include increased transportation costs

especially considering that the Economic Research Service of the U.S. Department of Agriculture reported that net returns for turkey were negative in 1987, 1988 and 1989.⁷¹ One has to question how long American turkey prices can remain this low, if prices are not meeting the costs of production.

This per capita saving of \$5.46 in Nova Scotia hardly seems reason to justify eliminating the entire turkey industry in the region, which is the outcome predicted by the CTMA if the Dunkel proposal for tariffication is implemented. Remembering the context within which the Dunkel proposal was written and the Uruguay Round of the GATT negotiations was undertaken is essential. The original goal of GATT's 108 member-nations was to break down barriers prevalent in all aspects of international trade, and the countries now agree on new trade rules for almost all goods and services, with the significant exception of agriculture. The livelihoods of Nova Scotian turkey producers are in jeopardy of being eliminated, not as a specific goal of GATT policies, but as an unfortunate side effect. This is almost always the case with international trade rules changes - the turkey producers are not being specifically targeted. Thus, Nova Scotian turkey producers have every reason to be concerned about the outcome of the GATT negotiations and proactive in their attempts to influence the probability of the projected disastrous outcome for them.

⁷¹United States Department of Agriculture, Livestock and Poultry Situation and Outlook, p. 213. "Negative turkey returns" mean that the price producers receive for their product is not sufficient to cover production costs.

CHAPTER VII

SUMMARY AND CONCLUSIONS

These are not comforting times for turkey producers in Nova Scotia. The Uruguay Round of the GATT negotiations, begun in 1986, is attempting to liberalize worldwide trade and hence involves the attempt to decrease the barriers to global agricultural flows. Because of this, supply management systems that are predicated on restricting the imports of specific commodities are in jeopardy.

As this thesis has shown, the primary reason Nova Scotian turkey producers are opposed to changes in the current GATT rules is because their livelihoods are at stake if the marketing board structure presently in place should crumble. This is a possible scenario if the proposed changes do occur.

Marketing boards were originally established as a means to provide farmers with higher and more stable farm prices and incomes. To this extent Canadian marketing boards have been very successful, but they have produced negative effects, including the capitalization of quota values, relatively high priced Canadian turkey compared to the American market, inefficiencies in farm scale and location, and a permanent sellers' market.

The strength of the Canadian farm lobby is evidenced by the Canadian government's pronounced support of the supply management system in Canada, and the government's attempts to maintain the international legality of limiting the import of a variety of commodities, including turkey. This naturally leads to the issue of questioning why the Canadian government's support for farmers is so strong.

In large part, this is because one of the prevailing agricultural policy goals is to maintain the family farm as the most basic unit of food production in Canada, which

as a consequence is also supposed to maintain the viability of Canada's rural areas. This thesis has shown that there are problems associated with merely accepting this prevailing paradigm that farms should be preserved at all costs. For example, supply management programs may thwart the social justice principle. The capitalization of quota values means that economic rents accrue to the first-generation holders of the quota, and not to those farmers who are in greatest need of income support.

The survey administered as part of this examination into why Nova Scotian turkey producers are concerned about the Uruguay Round of the GATT negotiations provided a reflection of the concerns of turkey producers in Nova Scotia. Two features in particular indicate how these producers will fare in the next few years, no matter what happens in the GATT talks.

Firstly, these producers, by the very nature of their duties as farmers, possess a variety of skills that could be easily transferrable to other occupations if the need ever arose. Secondly, they are articulate, organized, and well versed in almost all pertinent agricultural and political matters relating to the protection of their livelihoods; they do not see themselves as victims of fate. For these reasons, one can obtain the clear impression that no matter what happens as a result of the GATT negotiations, these farmers will be able to survive.

But certainly the loss of the Nova Scotian turkey industry would be regrettable, not only from the viewpoint of the individual producers, but for the province as a whole. Even though it is technically possible for Quebec, Ontario or the United States to provide Nova Scotia with supplies of poultry, the ensuing loss of economic diversity would hurt the Nova Scotian economy.

Thus it is submitted that Nova Scotian turkey producers are concerned about the Uruguay Round of the GATT negotiations because the nature of the final deal (if any) that is reached can mean the difference between their being able to continue to be

turkey producers in Nova Scotia or their being forced out of their chosen occupation and resulting lifestyle. The level of concern they have expressed is commensurate with their possible losses; that more than 30,000 farmers chose to march on Parliament Hill last February is perfectly understandable.

APPENDIX A
ACCOMPANYING COVER LETTER FOR SURVEY

Department of Economics,
Box 185 Acadia University
Wolfville, Nova Scotia
BOP 1X0

July 10, 1992

Dear Nova Scotia Turkey Producer:

As you are well aware, the present supply management system in Canada has been the subject of much discussion. In particular, the negotiations of the General Agreement on Tariffs and Trade, especially in relation to Article XI and non-tariff barriers, has raised many questions about the future of Canada's poultry, dairy, and egg industries.

Although the international negotiations that have been taking place are of great interest, they also raise many important questions. As the daughter of a poultry producer and an Economics student at Acadia, my area of interest is how individual producers will be able to respond to such a changing and challenging environment. For my honours thesis, my supervisor and I wish to relate what is happening internationally to our local economy. The effects of an agreement on the turkey industry in Nova Scotia, and individual farm incomes in particular, is the focus of our study.

With the knowledge that there are only eighteen turkey producers in Nova Scotia, the following questionnaire has been prepared. However, it must be emphasized that all information obtained will be treated with the strictest of confidentiality. Our goal is not to pry into the details of your businesses; our goal is to analyze and discover how Nova Scotian turkey producers will be able to respond to the many challenges the present uncertain environment surrounding supply management presents. Remember, all questions are optional. **If for any reason you feel a question inappropriate, please just skip that particular question and do not sacrifice the entire survey.**

To facilitate our research, we ask that you return the survey as soon as possible. If you have any questions, please do not hesitate to call Cindy King (researcher) at 542-5124 or Dr. Maurice Tugwell (supervisor) at 542-2201, ext.137. If you are interested in the results of this survey, a report will be available by March of 1993.

I thank you in advance for taking the time out of your busy schedule to complete this questionnaire, and I eagerly await your reply.

Yours truly,

Cindy King

APPENDIX B

SURVEY DISTRIBUTED TO NOVA SCOTIA TURKEY PRODUCERS

SURVEY FOR NOVA SCOTIA TURKEY PRODUCERS

Please Note: We are conscious of the fact that many farm operations are jointly owned. For this reason, we have left two blank spaces for certain questions, so that accurate information may be obtained for each operator. We ask that all subsequent information be filled in using the same order. Thank you.

1. Name of Operation:

2. Owner(s): a. _____ b. _____

If jointly owned, is this a:

husband/wife partnership _____

parent/child partnership _____

other (please indicate) _____

3. Age of operator(s): a. _____ b. _____

4. Have you ever worked in any other occupation besides farming?

a. YES _____ NO _____ b. YES _____ NO _____

5. If YES, then:

What Occupation? a. _____ b. _____

For How Long? a. _____ b. _____

When (what years)? a. _____ b. _____

6. What level did you complete in school?

- | | |
|---------------------------------|----------------|
| a. Elementary School _____ | b. _____ |
| a. High School _____ | b. _____ |
| a. University/College _____ | b. _____ |
| a. Post Graduate _____ | b. _____ |
| a. Other (please specify) _____ | b. Other _____ |

7. How many dependents do you have?

- | | |
|----------|----------|
| a. _____ | b. _____ |
|----------|----------|

8. Are you planning to retire from your turkey operation within the next :

- | | |
|------------------|------------------|
| a. 2 years _____ | b. 2 years _____ |
| b. 5 years _____ | b. 5 years _____ |

9. Are you planning to sell your turkey operation within the next:

- | | |
|------------------|------------------|
| a. 2 years _____ | b. 2 years _____ |
| a. 5 years _____ | b. 5 years _____ |

10. Are you planning to transfer your turkey operation to any of your dependents and/or family members within the next:

- | |
|---------------|
| 2 years _____ |
| 5 years _____ |

11. Are you or your spouse currently employed outside of your farming operation?

- | | |
|-----------------------|-----------------------|
| a. YES _____ NO _____ | b. YES _____ NO _____ |
|-----------------------|-----------------------|

If YES:

Your Occupation: _____	_____
Full Time _____	Full Time _____
Part Time _____	Part Time _____
Spouse's Occupation: _____	_____
Full Time _____	Full Time _____
Part Time _____	Part Time _____

12. Have you or your spouse recently (within the last year) considered taking a paid position off the farm?
off the farm?

a. YES _____ NO _____

b. YES _____ NO _____

If YES:

Your Considered Occupation

Your Considered Occupation

Full Time _____

Full Time _____

Part Time _____

Part Time _____

Your Spouse's Considered Occupation

Your Spouse's Considered Occupation

Full Time _____

Full Time _____

Part Time _____

Part Time _____

13. What do you estimate is the present combined sale value of your turkey quota and turkey buildings?

14. What is the approximate size of your farm's debt load?

\$0 - \$100,000 _____

\$100,000 - \$200,000 _____

\$200,000 - \$300,000 _____

\$300,000 - \$400,000 _____

\$400,000 - \$500,000 _____

\$500,000 - \$600,000 _____

\$600,000 - \$700,000 _____

\$700,000 - \$800,000 _____

More than \$800,000 _____

15. Approximately how many people do you employ in your turkey operation each year?

Full-time _____

Part-time _____

16. Have you made any improvements to your turkey operation within the last two years?

YES _____ NO _____

If yes, what is the estimated dollar value of these improvements?

What was the nature of these improvements?

17. Are you planning to make any major improvements to your turkey operation within the next five years?

YES _____ NO _____

If yes, what is the estimated dollar value of these improvements?

What is the expected nature of these improvements?

18. Have you avoided further investing in your turkey operation because of the uncertainty surrounding the future of supply management in Canada?

YES _____ NO _____

19. Are you interested in expanding the size of your turkey operation?

YES _____ NO _____

20. OTHER FARM INCOME:

The purpose of this section is to assess the diversity of your farm operation. For each source of income, we ask that you estimate approximate gross annual revenues.

i. Dairy

ii. Chickens

iii. Beef

iv. Hogs

v. Fruit and vegetable crops:

Apples

Pears

Cherries

Strawberries

Blueberries

Corn

Other (please specify)

vi. Tobacco crops:

vii. Any other sources of farm income (please specify):

21. In relation to your other farming activities, approximately what percentage of your time do you devote to your turkey operation?

a. _____

b. _____

22. Do you feel that as Nova Scotian turkey producers your concerns are being given adequate representation by the federal government's GATT negotiators?

YES _____ NO _____

23. Do you feel that your farm leaders are doing an adequate job of trying to protect the turkey industry in Nova Scotia?

YES _____ NO _____

24. There are presently 18 turkey producers in Nova Scotia. Do you feel that 5 years from now this number will be:

Higher? _____

Lower? _____

The same? _____

25. Historically, the family farm has been the backbone of Canadian agriculture. Do you feel that this is the most economically cost-effective way to organize turkey production?

YES _____ NO _____

Do you feel that this is the most socially desirable way to organize turkey production?

YES _____ NO _____

Any comments?

26. Quota values are often one of a turkey producer's greatest assets. If the market value of turkey quotas were to decrease significantly, do you feel that the federal government has an obligation to compensate turkey producers for this financial loss?

YES _____ NO _____

If YES, what do you think should be the nature of this compensation?

27. Would you continue to be a turkey producer in Nova Scotia if you had to face a 15% decrease in your income from turkey production?

YES _____ NO _____

28. Please include any other comments you have in relation to any aspect of the Nova Scotia turkey industry, the GATT negotiations, or farm incomes in general.

APPENDIX C

SUMMARY OF SURVEY RESULTS

Ten surveys were returned, representing 56% of the registered turkey producers in Nova Scotia.

- A. Five of the ten operations were listed as jointly owned, three of which were father/son partnerships and the other three husband/wife partnerships.
- B. Of the 17 primary operators reporting, 9 had completed at least some high school and 7 had at least some University or College training.
- C. The average age of the operators was 41.8 years.
- D. 69% of the respondents had at some point worked in another occupation besides farming.
- E. The average number of dependents per operator was 1.53.
- F. Of the 17 primary operators reporting, only 2 were planning to retire within the next five years, and one within the next ten years.
- G. Only 4 of the 17 operators said that they or their spouse were currently employed outside the farming operation.
- H. Only 1 respondent said that they or their spouse recently (within the last year) considered taking a paid position off the farm.
- I. Two operations reported a debt load between \$0 - \$100,000, one reported a debt load between \$100,000 - \$200,000, two reported a debt load between \$200,000 - \$300,000, two reported a debt load between \$300,000 - \$400,000, and one reported a debt load between \$500,000 - \$600,000.
- J. Seven of the ten operations had made improvements to their turkey operation within the last two years.
- K. Four of the operations are planning to make major improvements to their turkey operation within the next five years.
- L. 50% of the respondents said that they have avoided further investing in their turkey operation because of the uncertainty surrounding the future of supply management in Canada.

- M. All of the respondents said that they are interested in expanding the size of their turkey operation.
- N. On average in relation to their other farming activities, these farmers devoted 47.5% of their time to their turkey operation.
- O. Of the 10 respondents, 5 felt that as Nova Scotian turkey producers their concerns are being given adequate representation by the federal government's GATT negotiators, 4 felt that their concerns were not being given adequate representation, and 1 responded "maybe".
- P. Fully 100% of respondents felt that their farm leaders are doing an adequate job of trying to protect the turkey industry in Nova Scotia.
- Q. In response to the question "There are presently 18 turkey producers in Nova Scotia. Do you feel that 5 years from now this number will be Higher? Lower? The same?" 2 respondents thought the number would be lower, 6 thought the number would be the same, and 2 had no opinion.
- R. In response to the question "Historically, the family farm has been the backbone of Canadian agriculture. Do you feel that this is the most economically cost-effective way to organize turkey production?" all of the respondents replied "yes." All respondents also answered that they felt this was also the most socially desirable way to organize turkey production.

Comments included:

"The family farm is efficient. The problem in Canadian agriculture is not that we are inefficient but the fact that it costs so much to produce a kilogram of meat due to taxes, interest rates, input costs about 1/3 to 50% higher in Canada than the U.S.A. Also our processors need to look at ways to reduce costs. We on the farm are also going to have to be more efficient and productive, but in fact it is an industry's problem and not just the producers' problem."

"Family farm operators always go the extra mile because its their money and livelihood that depends on it - many corporate farm owners do not. Also, family farms due to their nature and size are more environmentally friendly and provide regional diversification."

"We fully support supply management and the family farm."

"Breakdown in the family farm concept as we know it would socially and monetarily affect our entire province."

- S. One survey question asked "Quota values are often one of a turkey producer's greatest assets. If the market value of turkey quotas were to decrease significantly, do you feel that the federal government has an obligation to

compensate turkey producers for this financial loss?" 7 of the 10 respondents answered "Yes" and 3 replied "No."

If "Yes," they were asked to comment on the nature of this compensation. Replies included:

"Proportional to loss value - direct payment."

"Buy - out program to make the others more efficient (turkey barns)."

"But the reasons must be justified - example - if the federal government changes the rules (elimination of supply management and no border controls) we should be compensated - but if its simply a downturn in markets because consumers no longer want our product - tough!"

"Compensation would have to be considered if the turkey industry were to lose members because of a decrease in turkey numbers."

"A formula developed equal to that used to assist the grape growers in B.C. and tobacco growers in Ontario, that is, a remuneration per kilogram. In the best interests of our country as a whole we hope this will not become a reality!!"

"A buyout of all quota at a price established by the boards which would be fair to everyone."

- T. All respondents said that they would continue to be a turkey producer in Nova Scotia if they had to face a 15% decrease in their income from turkey production.
- U. Space was left at the end of the survey where respondents were asked to "Please include any other comments you have in relation to any aspect of the Nova Scotia turkey industry, the GATT negotiations, or farm incomes in general." Replies included:

GATT: As you know Article XI 2ci is within the GATT rules. This must be protected and secured. Our system is fair and just. I don't believe in vertical integration but I do believe in being more efficient in our total industry.

Farm Incomes: It appears that people, consumers, need to be educated in the cost of production in N.S. and what social and economic effects agriculture has to the economy. The reality of what a producer gets paid and what the consumer pays seems unjust. Consumers need to know what farming and agriculture are all about.

This is a role that all people in our agricultural industry must play. That is, education to the general public about the need for food security and the reality of what our industry is all about."

"As an industry leader I can assure you that much time and effort has been expended on behalf of all S.M.(supply management) producers. The Federal Government currently supports Canadian Agriculture's balanced approach at the GATT which includes the retention and clarification of Article XI2ci. The real

question is can they pull it off or will we be forced into some other form or structure to survive.

S.M. systems and the producers involved receive very little subsidization. One of my major concerns is the lack of understanding by consumers. They firmly believe that all agriculture is subsidized.

S.M. systems allow producers to retrieve their cost of production from the marketplace - consumer has no hidden cost. Non S.M. producers who need subsidies to survive cost the consumer more than they realize - first they pay the full cost at retail then second they pay through taxes for the same product through subsidies."

"Supply management has been in effect for some 25 years, and like many other businesses or industries, certain changes have to be made to keep pace with the times. It would be devastating to our industry if Article XI were to be removed, not only for our province but for all of Canada. I feel that changes will have to be made to the present system, ie., something along the lines of a second generation

Supply Management to adjust to the needs of the processing industry and the consumer.

It is imperative that we work together as a farming community to insure the quality of life we have experienced over the last half century.

It is my feeling that other countries should look closely at implementing a system equal to ours for their commodity groups.

There is room for improvement in farm incomes, especially in comparison to the dollars invested in their operations. (R.O.I.)

Being a small industry in Nova Scotia, I feel the Turkey Agency and Local Board represent our interests well."

"On equal terms with the U.S.A. we can compete with anyone. These questionnaires should have gone to the retailers."

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