Regoverning Markets

Small-scale producers in modern agrifood markets

Innovative Policy

Canada
Marketing boards used to connect and empower small- to medium-scale farmers in domestic and international markets

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Canadian Federation of Agriculture

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Innovative Policy series

Innovative Policy is a series of short studies from the Regoverning Markets programme addressing a specific policy innovation in the public or private sector that improves the conditions for small-scale producers to access dynamic markets at national, regional and global level.

The case studies were coordinated by:

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Innovative Practice

Innovative Practice is a series of country case studies providing examples of specific innovation in connecting small-scale producers with dynamic markets at local or regional level. Based on significant fieldwork activities, the studies focus on four drivers of innovation: public policy principles, private business models, collective action strategies by small-scale farmers, and intervention strategies and methods of development agencies. The studies highlight policy lessons and working methods to guide public and private actors.

Agrifood Sector Studies

These studies look at specific agrifood sectors within a country or region. Research studies have been carried out in China, India, Indonesia, Mexico, South Africa, Turkey, Poland and Zambia covering the horticulture, dairy and meat sectors. Part A of the studies describe the observed market restructuring along the chains. Part B explores the determinants of small-scale farmer inclusion in emerging modern markets. Using quantitative survey techniques, they explore the impacts on marketing choices of farmers, and implications for rural development.

Country Studies

These provide a summary of market changes taking place at national level within key high- value agrifood commodity chains.

Further information and publications from the Regoverning Markets programme are available at: www.regoverningmarkets.org.

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1 Executive summary

This case study focuses on the establishment of marketing boards in Canada and the rationale underpinning them. Historically, where farmers have not been empowered, commodity prices have been kept low for long periods of time, forcing producers to increase their efforts to extract value from the supply chain. As a result of policy changes and legislation, producers have become actively involved in marketing their products collectively in the domestic and international marketplace.

2 Introduction

Farmers are continually faced with factors that affect their profitability. Consolidation of the global marketplace has had a substantial effect on the marketing power of producers both nationally and internationally. As a result, primary producers have increasingly less influence on setting prices for their products and on the cost of their inputs.

For nearly a century Canadian farmers have recognised the need to empower themselves in the marketplace. During prolonged periods of low commodity prices they have joined together to form various types of organizations, co-operatives and collective marketing structures, benefiting from economies of scale. Through these 'marketing boards' producers are better able to negotiate prices, coordinate time, and control quality and brand, while maximizing returns.

3 History and legislative changes

At the beginning of the twentieth century there were some exciting developments in Canada's agricultural production. With the expansion of the western provinces settlers from Europe brought with them expertise in crop production and animal husbandry. The increased agricultural activity and the need to export excess production from the west to central and eastern Canada resulted in the introduction of significant investment in grain handling and merchandising.

3.1 Cooperative approach to selling

Towards the end of the 1920s grain merchants introduced oligopolistic pricing measures and allowed the price of grains in the harvest season to drop substantially.

Grain merchants could effectively control the price in the context of little competition and the limited knowledge and means of communication available to farmers. Since small-scale farmers had little or no power to negotiate, they would take whatever price was offered to them. As farmers struggled through drought and the collapse of the financial and commodity markets, they banded together to form cooperatives and marketing boards empowered by producers. This era produced some of the world's largest grain cooperatives and the single-desk selling agency, the Canadian Wheat Board (CWB).

Over subsequent years, the CWB evolved into an organization which now has a board of directors of 15 members, ten of whom are elected by CWB farmer participants. The Canadian Wheat Board Act is based on three pillars: single-desk selling, pooling and government guarantee. The CWB is the sole exporter of western Canadian wheat and barley, and provides western Canadian farmers with power and security in the domestic and international marketplace. Instead of competing against one another for sales, western Canada's 85,000 wheat and barley farmers collectively sell as one through the CWB, and can command a higher return for their grain. The pooling portion means that all CWB sales are deposited into one of four pool accounts: wheat; durum wheat (used primarily for pasta production); feed barley; and designated barley. The pooling ensures that all farmers delivering the same grade of wheat or barley receive the same return at the end of the crop year regardless of when their grain is sold during that year. On delivery of their grain, farmers receive an initial payment guaranteed by the Government of Canada. The initial payment is calculated as 75 per cent of the average market price for wheat and barley to be sold over the course of the crop year, as estimated by the CWB. As sales are made throughout the year, adjustment payments can be issued. The CWB bases its wheat and barley prices on world prices and is not empowered to maintain artificial domestic support levels to subsidize western Canadian farmers (CWB, 2007).

The Canadian Wheat Board Act stipulates that every barley and wheat producer in western Canada must sell through the CWB. The laws have been amended in the past to allow for domestic feed production to be sold on an open market basis. In August 2007 farmers voted in favour of a marketing choice for all barley production, and amendments were made to the law, giving producers the option to sell either on the open market or through the CWB.

3.2 Supply management

There were further developments in Canadian agriculture policy between the 1950s and the 1970s. Given the large production capacity of the country at that time numerous small to medium-sized farms were actively generating incomes by selling excess production. Like grain merchants of western Canadian grain, farmers were required to negotiate prices on an individual small producer basis, limiting their ability to bargain for higher prices. Particularly for perishable products such as milk, processors who had sufficient supply to meet their demands either turned away produce or purchased for a significant discount. In the absence of information and with no system in place to coordinate and manage supply, many small to medium producers were unable to meet demand with appropriate amounts of supply and had little or no bargaining power. In 1949 the federal government passed the Agricultural Products Marketing Act, which authorized boards established under provincial marketing acts to regulate sales between provinces and for export. This Act was modified in 1957 and provided the basis for establishing supply management programmes (Brinkman, 2001).

Supply management marketing boards were established to assist in the orderly marketing of certain commodities, to increase the selling price, and to increase the income of the ailing farmers. Initially the marketing boards were established on a provincial basis with the first board being established in 1957 for tobacco growers in Ontario. They were later extended to the dairy and poultry industries (Brinkman, 2001).

Early farm organizations lacked the leverage to set up marketing structures for producers and turned to provincial governments to create marketing boards. The marketing boards were either government-sanctioned producer groups or appointed bodies, with legally binding, province-wide authority to conduct such marketing activities as pricing and production management to meet demand through marketing quotas. These groups were able to implement programmes only at the provincial or regional level. Their effectiveness was undermined by a lack of regulatory control over the marketing of products that crossed provincial boundaries and national borders. Despite local management of supply, in many instances surpluses from other areas were able to disrupt the orderly marketing of the groups and undermine their attempts to regulate prices (CDC, 2007). In an attempt to resolve such conflicts, the Farm Products Marketing Agencies Act was passed in 1972. The Act underpinned the establishment of the supervisory National Farm Products Marketing Council for the development of national or regional marketing plans, and for the establishment and operation of national marketing agencies or boards (Canadian Encyclopedia, 2007).

The Farm Products Marketing Agencies Act incorporated policy changes that have made a substantial difference to supply management. Changes allowed the commodity agencies to control the supply of products through quotas. This then enabled production to take place according to demand, taking changing consumption habits and levels of imports into account. The level of imports for these products is regulated at the borders through a system of tariff-rate quotas, which include both over-quota tariffs as well as import volume. The Act also allows agencies to set prices that are fair and equitable to producers.

3.3 Other marketing boards

Under the legal framework underpinning supply management, numerous provincial marketing boards have been established. These work collectively at a provincial level on a voluntary or mandatory basis to enhance prices and market agricultural products including fresh produce, pork, tobacco, maple syrup and others. Few marketing boards exercise powers to control production of produce which fall outside the five major supply managed commodities.

4 How these marketing boards function today

By marketing agricultural products collectively farmers have been able to secure economic gains in the supply chain. Although the marketing boards have evolved over time, their fundamental goal remains the same: to secure greater bargaining power for primary producers.

Historically Canada's collective marketing tools have excelled at bargaining for optimal prices for generic products. However, globalization and shifting consumer demands have put continual pressure on these marketing tools. Increasingly, demands for product differentiation, higher quality and safety standards, and environmental sustainability require specialization and innovation, and Canada's collective marketing boards have had varying levels of success in meeting these new market realities. Because their strength lies in the marketing of common commodity products, marketing boards have, in many ways, stifled innovation and product differentiation. Others have excelled by building close relationships between producers, processors and retailers, and diversifying into new nutritional products such as free-range chickens, Omega-3 eggs and specialty cheeses. As a result of efficient and flexible management, the supply chain is able to meet continually evolving consumer demands. The challenge facing Canada's collective marketing entities is to maintain the bargaining power for primary producers while being flexible enough to create incentives for product differentiation and to continue to find new markets for its products.

Some marketing boards are addressing the issues of differentiation from within their industries. For example, the Chicken Farmers of Canada have allowed processors to be present at supply allocation meetings and to sit on the board of directors. This allows producers and processors to better understand consumer demands and the adaptations they need to make. Information is then fed back to producers who are given the option of adapting their products to meet changing demand. In this way, information on consumer demands flows back through the retail sector to the processors and down to producers who then make the adjustments in their production.

The ongoing multi-lateral trade talks at the WTO present another global challenge. Some have argued that the existence of supply management and the CWB are not trade friendly and should be significantly overhauled or completely eliminated, although both types of farmer-empowered organisations have worked within WTO rules by adhering to tariff-rate quota commitments, tariff reductions and export subsidy rules, and will continue to do so in any new trade commitment. However, rather than negotiate supply management and the CWB *per se,* the WTO discussions are focused on market access, domestic support and the existence of export subsidies. The challenge for Canadian negotiators is to ensure that over-quota tariffs for all supply managed products are not eroded to the point that products are able flow into the country and destroy the management of supply. Similarly, the existence of exporting trading enterprises should be negotiated, rather than unfair trading practices that constitute export subsidies. Indeed, collective marketing for any country should not be a negotiating area at the WTO. Instead, discussions should be focused on how these structures function in the context of free and fair trade, and on distortions within the three pillars of domestic support, market access and export competition.

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