



Five Sectors, Five Futures
- Can One Policy Framework Really Work?

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Executive summary

How much can policy change the future of agriculture? Looking at five Ontario agricultural sectors, it's clear that policy can set general directions, but individual sectors have to create their own future. This brief highlights trends from 1997 to 2004 in Ontario's grains and oilseeds, dairy, beef, hog and greenhouse sectors, their challenges and opportunities, and considers the implications for policy.

Ontario's farming sectors are different on almost every dimension— The beef and grain and oilseed (G&O) sectors are dominated by small farms (80% and 70% sell less than \$100,000). Both have struggled with low farm incomes, but they have reacted differently. G&O farm numbers dropped and farms shifted toward mid-sized operations. Off farm jobs seemed to insulate much of the beef sector and, even with BSE, farm numbers grew and sector structure remained unchanged.

Other sectors have shifted toward much larger farms. Dairy has been profitable, farm numbers are shrinking and average size is increasing, only 7% sell less than \$100,000. At over \$1.9 M per farm, their average equity levels are more than double those of other sectors. Hog farms saw their income decline and farm numbers drop, while average size increased.

Greenhouses were hot. Farm numbers, average size and incomes all increased, and total sector output almost doubled. By 2004, farms over \$1M in annual revenue account for 80% of sales.

Looking at the differences and opportunities facing these sectors a number of changes are necessary.

The direction of policy needs to change — These sectors all have different futures and business risk management (BRM) is not defining those futures. Investing in research, new products, new thinking and new markets will go a lot further toward achieving agriculture's potential as a provider of food, energy, a better environment and health. Continuing to expend 90% of policy resources on BRM is a recipe for decline. Canadian farmers deserve more.

Recommendation: Increase investment in non-BRM programs from 10% to 20%.

Sectors need their own strategy and leaders who can execute — Since the opportunities vary by sector the strategies must too. Each sector must create its own future — developing and executing a sector strategy. These strategies will allow the additional non-BRM resources to target areas that can really change the future for agriculture. We will need leaders with a vision far beyond the next cheque in the mail and more active leadership by associations and boards.

Recommendation: Each sector to create a strategic plan by year end 2008

Small farms are different and policy must reflect that — Both policy and sector strategies can support this important group for rural Ontario. Support for networks connecting small farms to markets and training in production, marketing and environmental management will improve their performance. Rural development programs can provide the off-farm jobs that farm families need.

Recommendation: Create policies and sector strategies for small farms

A detailed analysis of each sector and comparisons with other provinces may be found at www.iafpi.ca.



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Introduction

As the Next Generation Agricultural Policy Framework moves into its final stages we have to ask the question “How much can policy do to change the future of agriculture?” It’s a tough question. When we looked at five of Ontario’s biggest agricultural sectors, the answer appears to be that policy can help set general directions and create a supportive environment, but individual sectors have to make their particular future happen. Together Ontario’s grains and oilseeds, dairy, beef, hog and greenhouse sectors include almost 27,000 farms, about 73% of Ontario’s farms. This brief highlights trends in the five sectors, their challenges and opportunities, and considers the implications for policy. A detailed analysis of each sector may be found at www.iafpi.ca

Ontario agriculture is not one industry

We often speak about agriculture as if it were a single industry; in reality it consists of many very different sectors, each with its own set of opportunities and challenges. This reality continually complicates the process of creating agricultural policy. Can we call for more open trade and greater access to foreign markets, but insist that our supply managed sectors must be protected? When we encourage greater production of biofuels from crops, how will we manage the impact on sectors that need those same feedstocks for their animals? How do we encourage growth oriented sectors dominated by large farms but also support a balance between on farm and off-farm activities in sectors where 80-90% of farms are small and the farming families make most of their income off-farm.

Agricultural policy is also challenged by agriculture’s new roles in society and by the new opportunities that presents. Although its economic role is diminishing, agriculture will be a major part of the solution to energy and global warming, to more environmentally friendly products and to healthier foods and ultimately healthier consumers. These opportunities are altering the paths and prospects for the individual sectors that make up agriculture in Ontario. The challenge in the next round of agricultural policy will be to develop policies that recognize and are adaptable to the very different characteristics and prospects of Ontario’s farming sectors.

The differences –structure and incomes

With the exception of hogs, these are billion dollar sectors, but the similarities end there (Table 1). The beef and grain and oilseed (G&O) sectors are dominated by small farms, a fact that is reflected in everything from sales and profitability, to investment and low debt to equity ratios (Table 2). Hogs and dairy sectors are in the middle in terms average revenue/farm, but the stability and profitability of supply management are evident in the dairy sector’s higher net incomes, lower government payments and off-farm income, as well as in higher levels of both debt and equity. At \$1.9 M per farm, dairy producer equity is more than double that of other sectors. Greenhouses were hot. Total sector output almost doubled between 1997 and 2004. With average annual revenue of just under \$1 M, greenhouses occupy the top spot in size as well. Dairy was the only other sector where total output grew, but only by 6%.

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On an aggregate basis, off-farm income has surpassed net farm income as the main income source for farm families the five sectors, amounting to over \$1B in 2004. However, this is due mainly to the G&O and beef sectors, where small farm sizes, BSE and low world grain prices made off-farm income an essential survival strategy for most farmers. For many, farming is just one part of their working life.

Table 1. Key Ontario Sector Statistics, 2004

Sector	# of Farms	Total Revenue (\$M)	Total Net Income (\$M)	Total Gov. Payments (\$M)	Total Off Farm (\$M)	% of farms with annual revenue <100K	% % of farms with annual revenue <250K
Grains and Oilseeds	10,150	1,108	127	59	503	63.25%	84.73%
Hogs	2,030	669	75	22	86	24.87%	57.14%
Beef	8,985	996	-78	96	430	77.79%	89.20%
Dairy	5,600	1,674	380	30	64	7.05%	44.55%
Greenhouses	1,200	1,184	148	17	31	21.67%	39.17%
Total	27,965	5,630	652	224	1,114	52.10%	74.16%

Data source: Statistics Canada Farm Financial Survey, 2004

Table 2. Average values/farm for Ontario sectors (\$,000), 2004

Sector	Avg. Revenue	Avg. Net Income	Avg. Gov. Payments	Avg. Off Farm	Avg. Investment	Avg. Debt	Avg. Equity
Grains and Oilseeds	109	13	6	50	24	167	863
Hogs	329	37	11	42	47	445	713
Beef	111	-9	11	48	12	92	538
Dairy	299	68	5	11	81	614	1,937
Greenhouses	987	123	14	26	117	566	832

Data source: Statistics Canada Farm Financial Survey, 2004



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Sector structures are changing but not in the same way

Only two sectors experienced growth in farm numbers – beef and greenhouses, the sectors with the lowest and highest average net incomes. In spite of BSE, the beef sector continues to grow. It appears that the fact that the vast majority of beef farming families earn most of their income off-farm is insulating the sector. Unlike every other sector, the distribution of beef farms categorized by annual revenue remained virtually unchanged from 1997. This was not just an Ontario phenomenon; Saskatchewan and Alberta displayed similar trends of growth and stable distributions.

Growth in greenhouses was different. Driven by increasing demand for year round vegetables and continued profitability, the total number of greenhouse farms rose, but their distribution shifted, with rapid growth in the numbers of farms with revenue over \$250,000 per year and shrinking numbers below that level. The hog and dairy sectors also exhibited the same pattern, fewer small farms and more large farms, although their total numbers declined.

Difficult times had two effects on grains and oilseeds. Total numbers dropped by almost 2,000 farms but there was also a marked shift to the middle, where margins tended to peak. Mid-range G&O farms became more numerous, while the numbers of large and small farms dropped.

In every business it's getting tougher for small farms to make money

In each of the sectors, farms selling less than \$100,000 saw their incomes deteriorate between 1997 and 2004. Government payments could not pick up the slack. This group, and the next category up, \$100,000 to \$249,999, present real challenges for policy makers. In general, the scale required to support a farm family has been increasing. Many recognize this and have grown, found off-farm income or exited farming. However, those remaining still make up almost three quarters of farm numbers and many are frustrated with the difficulty of making a living off their moderate scale farms.



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Looking Ahead

These sectors are already being affected by several major changes in society and science. Concern over energy and the environment has already altered the situation in the grain and oilseed sector and in sectors which now have to compete with oil for feed. Table 4 summarizes the trends, opportunities and challenges for the sectors.

Table 4. Major trends and future prospects

Sector	Farm numbers and structure	Trends in income	Future opportunities	Future challenges
Grains and oilseeds	<ul style="list-style-type: none"> - Shrinking numbers in largest and smallest. - Some growth in the mid-sized farms. - Majority of farms small 	<ul style="list-style-type: none"> - Declining incomes - Off farm increasing - Incomes recently reversed due to bio-fuels 	<ul style="list-style-type: none"> - Producing feedstock for biofuels & bioproducts - Functional foods and natural health products 	<ul style="list-style-type: none"> - Participating in next wave of bioproducts – cellulosic - Market access - Managing a sector with many small farmers
Hogs	<ul style="list-style-type: none"> - Decreasing numbers in small & medium sized farms - Trend to larger farms - Only farms over \$1 M in annual revenue grew in number 	<ul style="list-style-type: none"> - Higher revenues but lower net income, more off farm income 	<ul style="list-style-type: none"> - High value markets in Canada and abroad 	<ul style="list-style-type: none"> - Competition with biofuels for feed - Environmental concerns and non-farm neighbours - High Canadian dollar
Beef	<ul style="list-style-type: none"> - Increasing numbers but mainly in small farms. - Overall structure remains relatively unchanged unlike other sectors 	<ul style="list-style-type: none"> - Farm incomes hit by BSE - Off farm income and higher gov't. payments compensate for lower farm incomes 	<ul style="list-style-type: none"> - Huge markets in N. America and abroad. - Organic and high OMEGA 3 beef 	<ul style="list-style-type: none"> - Structure – number of small farms - Lack of focus on customer needs through chain - Competition with biofuels for feed
Dairy	<ul style="list-style-type: none"> - Decreasing numbers and trend to larger farms 	<ul style="list-style-type: none"> - Declining sales but strong prices and net incomes. - Low reliance on gov't. payments or off-farm incomes - Highest equity and debt 	<ul style="list-style-type: none"> - Functional food, specialty high value products 	<ul style="list-style-type: none"> - Reduction or loss of tariff protection. - Consumer resistance to pricing power - Ability of system to accommodate new products
Green-house	<ul style="list-style-type: none"> - Rapid sector growth - Rapid increase in farm scale - Small farm #'s decreasing, large farms increasing in # 	<ul style="list-style-type: none"> - Increasing revenues and slightly higher profits - Low reliance on gov't. payment or off-farm - High debt to equity ratios 	<ul style="list-style-type: none"> - Consumer awareness of benefits of vegetables - Growing floraculture markets - High value export 	<ul style="list-style-type: none"> - Competition from foreign competitors - High Canadian dollar - Energy costs and consumption

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Changing the direction of agricultural policy

Agricultural policy cannot possibly address every opportunity or challenge for every sector. Its role is to create an environment which allows sectors to achieve their potential and programs to support their development. But it also sets a course for the industry; as the environment changes, so should the course. There is no doubt that the environment has changed but there are no real indications that the course plotted for agricultural policy in the Next Generation APF is changing in response. Instead it appears that both farm leaders and policy makers plan to focus on BRM. That means five more years of hoping that income support will secure the future of industry and being disappointed when it doesn't. What an unimaginative waste of time and billions of dollars. If we really want a different future for the agri-food industry in Canada (and this is a national issue) then three big changes have to happen, and the job of making them happen falls as much on farm leaders as it does on politicians and bureaucrats.

1. The direction of policy must shift from income support to innovation — A policy framework does more than influence the environment; it can set the direction for agriculture. The first APF charted a course toward income support - 90% of APF resources went to business risk management programs. That may have made sense then; it doesn't now. Little ends up in the hands of the majority of farmers, Ontario's smallest farms, and BRM won't make large farms more competitive in the long run. Markets are strengthening and both incomes and land prices are improving. There are opportunities for agriculture in bioproducts and healthy foods that didn't exist five years ago. In today's world, continued focus on BRM is a recipe for decline. Investing 90% of policy resources into programs designed to look backward and support farms in tough times is a poor way to invest in the future.

Roles for policy— The Next Generation agricultural policy needs a new direction and that means shifting more resources away from risk management toward opportunities, looking ahead rather than back. Research into products with Ontario advantages should be a priority. Creating incentives for sectors to invest in their future, from tax breaks to shared funding for high risk projects is another. Training, leadership development and branding Canadian food products would all support a focus on an exciting future.

Roles for industry leaders - Without changes in farm organizations, change won't happen. If farm leaders continue to insist that their only real priority is income support, nothing will change and a less competitive industry will need more support in five years. They need to make it clear that they support diverting some money from BRM to new thinking and new markets.



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2. Policy can set direction, but sectors must create their own future – Ontario’s farming sectors are so different that there can’t be just one strategy for the future. Each sector must develop its own strategy to address its unique challenges and opportunities. While the strategies will be different, the need for a strategy is common. It’s not enough to hope that a broad agricultural policy framework will meet a sector’s needs. Sectors with a strategy will not only focus their own efforts, they can help governments focus policies and programs.

Roles for policy and programs— There is a definite role in supporting the process of developing sector strategies—funding background studies, supporting a generalized strategic planning process that can be modified for individual sectors, and kickstarting the strategic planning process. The government may develop targeted programs where national or regional opportunities of strategic importance are identified.

New roles for sector associations and new relationships— The differences between all of the sectors and their opportunities highlight the need for a re-examination of the roles of producer organizations. They are in the best position to identify opportunities for their sector and strategies to capture them. They are also the best group to communicate that strategy to producers, partners, and governments.

3. Small farms require a different approach and a separate policy stream – The approach must connect them to opportunities but also support the life balance between farming and off-farm activities. This is important not only to farm families, but to rural communities which benefit from the high levels of off-farm income.

Roles for policy – Policies tailored to small farms would promote connections to networks, support training in a range of business and environmental practices—particularly for second career farmers (retired from their first career), and work with regional economic development to support off-farm employment. They would support rural development to provide the off-farm incomes that many need and help farmers balance their on-farm and off-farm lives.

Roles for farm leaders - Creating these policies will require an acceptance that farmers cannot be served by one size fits all policies and creativity from farm leaders in identifying policies that can help make small farms viable and others that can keep large farms globally competitive.

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Creating the right environment for agriculture

There are also a series of policy areas that can support farming sectors as they move ahead, creating an environment that is supportive and helps industries achieve their potential.

Table 5. Creating the right environment

Policy area	Roles for policy	Roles for industry leaders
<p>Supporting bioproducts - The bioproduct revolution extends far beyond biofuels. Each sector and regions needs a strategy for developing bioproduct opportunities.</p>	<p>Investment in research and in industry development clearly targeted at Ontario advantages.</p> <p>Enhance connections between researchers, producers and bioproduct users.</p> <p>Increase producer involvement.</p>	<p>Identify attractive targets for their industries, advantages for Ontario and partners.</p> <p>Invest in R&D and in intellectual property.</p> <p>Support networks to develop the processes and markets</p>
<p>Greening agriculture - Farms sit on both sides of the environmental fence. The goal should be to move farms to be environmental positives</p>	<p>Investment in research into biogas and manure management systems, reducing the impact of farming and new technologies and processes. Programs to promote adoption of new systems</p>	<p>Identifying sector research priorities, developing sector strategies for improvement and facilitating adoption. The success of farm leaders in the environmental farm plan can be extended.</p>
<p>Developing People = The industry needs professional development beyond production, it needs skills in network leadership, connecting to other industries and researchers</p>	<p>Extend the mandate of programs like the Agricultural Management Institute to include training beyond the farm level, in network management, leadership and marketing. Programs must be flexible so that each sector can tailor them to their own needs.</p>	<p>Recommending the kinds of training needed in their sector. Coordinating training strategies across sectors. Cooperating with government and education organizations to create programs designed to develop programs for future leaders.</p>
<p>Support for food processing - A vibrant, growing food processing industry will increase demand for the primary products produced by Ontario farmers.</p>	<p>Helping to develop a food processing strategy with some elements focused on using Ontario products would be a common goal for all five industries. This strategy would also support investment in new technologies to increase productivity and strategies to create a regulatory environment which supports new product development, particularly in the expanding markets of functional foods and nutraceuticals</p>	<p>Working with food processing companies to determine how Ontario farm products can be used to the benefit of both food processors and farmers should be a priority</p>
<p>Creating a supportive regulatory environment</p>	<p>Updating regulation to reflect changing needs, knowledge and technology. Canada needs a more progressive, supportive and less regional approach to regulation.</p>	<p>Identifying current or future regulatory issues for the sectors and contributing to the process of regulatory change.</p>

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Conclusions and Recommendations

The world has changed for agriculture. New opportunities for the agri-food industry to take a leading role as a solution provider to society in energy, environment, health and emerging markets mean that old models of the world no longer apply. The papers in this series highlight just how different agricultural sectors are on almost every dimension. They each have their own structures, issues and futures. A broad agricultural framework focused on BRM cannot possibly address the opportunities facing the industry. Both industry and governments must recognize that they need a different approach to this new world. That approach begins by taking three big steps in the next year.

Recommendation 1: Reallocate 20% of Next Generation APF resources to non-BRM projects

The first APF allocated about 10% of its resources to non-BRM programs. That's not enough. With higher grain and oilseed prices, the need for BRM should decline and diverting resources should be no real trouble.

The redistribution of the resources is a decision for industry and government leaders to develop together but a suggested starting point.

Area of investment	Recommended share of reallocation	Rationale
Science, technology commercialization	50%	Increase investments in bioproducts, bioenergy, healthy foods and new food products
Greening agriculture	15%	Investments in environmentally friendly processes, new environmental plans, manure processing technologies, and management systems designed for small farms
Renewal – Training, networks, productivity and capital investment	20%	Investments in training in managing innovation, in creating networks, in learning new processes and investing in productivity. These should be from agriculture to food processing to make the entire industry more competitive
New Markets	15%	Identifying new market opportunities in Canada and abroad focusing on high value food products from raw commodities to processed food products. Connecting producers and food companies to customers to maximize the value captured

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Recommendation 2: All sectors to complete a strategic plan by the end of 2008

Taking advantage of the reallocation of resources to prepare for a different future will take planning at the sector level. Each sector should commit to developing a strategic plan and a plan for executing that strategy. That will mean identifying opportunities facing the industry and the research, markets and changes that will be necessary to capitalize on those plans. What kinds of scientific research can advance the sector across the country or in a region. That means that sectors will have to develop national strategic plans and determine where the provincial plans fit in and where provinces need to modify their implementation or invest differently. It also means considering how the industry structure should influence the plan. In sectors like beef or grains and oilseeds, small farm programs will be important whereas in greenhouses the focus will be on growth, productivity and connecting to high value domestic or U.S. markets.

The strategic planning process will also include consideration of the priorities for reallocating Next Generation APF resources and assist governments in creating programs that maximize the benefits to the agri-food industry. The programs should include the entire food industry as partners.

Recommendation 3: Create a separate policy stream for small farms

Small farms are different and policies that do not recognize that fact run the risk of being perceived as failures. When groups speak about the decline in agriculture, they are really speaking about the loss of small farms. Farms with revenue over \$250,000 per year are actually increasing in number, with the largest farms increasing the fastest. Small farms are a priority for rural development, for many farm organizations. They also appeal to urban societies, both through the concept of supporting the family farm (often interpreted as small) and in terms of an interesting and appealing countryside to visit or local farms to buy from. Policies and strategies to retain small farms and improve their economic and environmental performance can have a significant impact.

Addressing the needs of small farms cannot be done by policy makers alone; industry leaders need to make it part of their planning process. When they develop strategies they have to understand where those strategies and policies will affect the viability of small farms and where they will focus on improving the competitiveness and growth of larger farms. In some cases, strategies may accomplish both objectives, in others different strategies will be necessary.



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These recommendations do not mean a complete reversal of agricultural policy, just a slight change in direction, focusing a bit more on future opportunities. There will still be plenty of support to help farmers through difficult times. The difference is that they attempt to work toward better times ahead for all parts of the industry so that BRM will become less necessary, rather than more. By the next round we may be able to shift more resources toward new opportunities.

As the world changes around us, the agri-food industry has to adapt too. These are just the first steps in a long journey toward a different future as a provider of solutions to society's problems. It's a bigger role and it requires a broader policy and strategic perspective than that of the past.



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Additional data: The results presented are estimates based on the Farm Financial Surveys from 1997 to 2004. More details for the industry are presented in the accompanying spreadsheet at the Institute website at www.iafpi.ca or by request.

About the Author

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About the Institute for Agri-Food Policy Innovation

The Institute for Agri-Food Policy Innovation (IAFPI) was established in 2005 through a partnership between the Ontario Ministry of Agriculture, Food and Rural Affairs and OAC – the Ontario Agricultural College at the University of Guelph.

The role of the Institute is to identify and assess policy issues of special significance to the agri-food industry and rural communities and communicate its findings to agri-food and rural leaders and policy makers, stakeholder groups and the public. The overall goal is to stimulate the consideration, development and implementation of effective agri-food and rural policies with long-term benefits for all of Canada.

The Institute is governed by an eight-member Board of Directors drawn from across the agri-food and rural sector. These leaders from industry, government, and academia represent a wide range of expertise in the farming, agribusiness, food, rural and consumer sectors.

For more information, visit the IAFPI website at www.iafpi.ca

