

World Agriculture & Trade



Canada's Agriculture: 5 Years After the End of Transportation Subsidies

Significant changes in domestic and trade policies in the 1990s have had a longlasting effect on Canada's agriculture. In 1995, Canada repealed the Western Grain Transportation Act (WGTA), ending government support that had lowered producers' cost of transporting grain to export ports from the Prairie Provinces—Alberta, Manitoba, and Saskatchewan. Elimination of freight subsidies reduced returns for traditional grains such as wheat, causing farmers to shift some wheat land to nontraditional crops. Rising transportation costs for producers also led to retention of feed in the region to support an expanded livestock sector. As the transportation subsidy ended, the Feed Freight Assistance Program also ended, stopping payments to livestock producers in feed-deficit areas and leading to rising feed grain production in Eastern provinces.

Changes in trade policies have also played a role in transforming Canada's agriculture. In 1989, Canada and the U.S. established a free trade area, adding Mexico in the North American Free Trade Agreement (NAFTA) in 1994. And in 1995, the multilateral Uruguay Round Agreement on Agriculture under the World Trade

Organization (WTO) committed Canada and other countries to a reduction in export subsidies for agriculture. While 1989 free trade area and NAFTA have removed most of the border trade policies in agriculture between the U.S. and Canada, differences in domestic policies and other agricultural marketing structures remain.

History of Canada's Freight Subsidies

Canada's regulation of freight rates for grains and oilseeds began with the 1897 Crow's Nest Pass Agreement. During the past few decades, the railroads were badly in need of additional income from higher rates in order to maintain the transportation network in good working condition. The WGTA—passed in 1984—required shippers of grains and oilseeds to pay only a portion of transportation costs while the government compensated railroads for hauling grains from Western Canada to export ports. Low shipping costs encouraged farmers to produce crops destined for export markets, skewing agricultural production toward commodities such as wheat and barley.

The government repealed the WGTA in 1995 as part of the Budget Implementation Act. Termination of transportation subsidies for grains and oilseeds in western Canada allowed a reduction in the budget burden, saving the Federal government an estimated C\$561 million and helping to fulfill the WTO commitment on export subsidy reduction. Repeal of the WGTA also allowed railways to charge higher rates (although still subject to legislated freight rate caps) and some of the additional funds could be channeled toward improvement in the rail system.

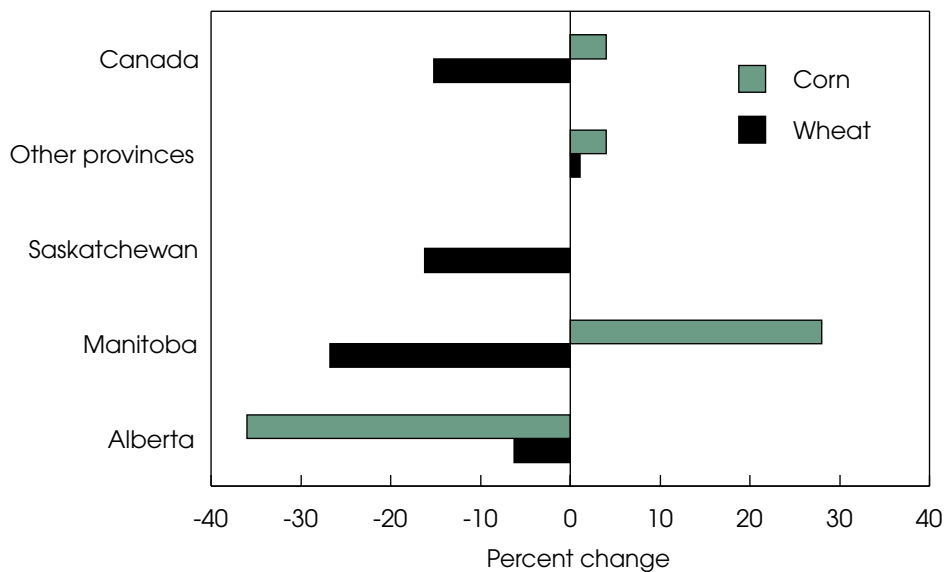
The end of the WGTA program resulted in elimination of the Feed Freight Assistance Program (FFA) for feed-deficit provinces. The FFA, created in 1941, helped lower feed costs for livestock producers in Atlantic Canada, British Columbia, eastern Quebec, northern Ontario, the Northwest Territories, and Yukon. The FFA ceased to operate as a transportation subsidy on October 1, 1995, and FFA funds—about C\$72.7 million—were available to aid feed-deficit livestock producers during an adjustment period. Producers in those provinces would also receive supplemental import permits for feed wheat and barley, if necessary. Losing feed subsidies has slowed grain movement from the Prairie to the eastern region and encouraged feed grain production in eastern Canada.

The immediate effects of WGTA repeal were cushioned in 1995/96 by high grain prices and the new Federal compensation to farmers for value of the lost subsidy. To deal with loss of the transportation subsidy in the longer term, Canada established two transitional programs that ended in 1997—the Western Grain Transition Payments Program (C\$1.6 billion) and the Western Grain Transition Adjustment Fund (C\$300 million). Besides lower returns from higher freight costs, farmers' problems were further compounded by serious disruptions along the rail system in winter 1996-97, prompting the government to initiate an independent review of the transportation system.

Although transportation subsidies have been eliminated, new transportation legislation passed last year has introduced a policy to cap railroad revenues at levels below the true cost of transportation but

World Agriculture & Trade

Manitoba's Corn Acreage Rose As Wheat Acreage Declined In the Late 1990s



Corn: from average 1990-94 to average 1995-99. Wheat: from average 1989-94 to average 1995-99.
Economic Research Service, USDA

still higher than the costs under the WGTA. Debate continues on the role of the Canadian Wheat Board (CWB) in commercial railcar tendering (contract bidding) and railcar allocation. Further decisions on transportation reform and freight rates will be announced later this year.

Other government efforts geared to helping farmers cope with higher freight costs include: changes in the CWB's pooling policy to reflect anticipated higher transportation costs in the eastern Prairies; an additional C\$1 billion of export credit guarantees to foreign buyers of Canadian bulk grain and other agricultural export sales; infrastructure and road upgrades; and the Dehydrated Alfalfa and Compressed Hay Assistance Program. In addition, the Federal government and provincial governments of Saskatchewan and Manitoba announced early last year that grain and oilseed producers in those provinces would receive a one-time payment of C\$400 million to absorb some of the end-of-the-WGTA impact. The Alberta provincial government offered a similar program for its producers.

Prairie Agriculture In the Post-WGTA Era

Eliminating transportation subsidies has transformed Canadian agricultural production, marketing, and exports of grains, oilseeds, and livestock. Changes in Canada's agriculture have been spurred by other factors such as NAFTA and the WTO, and ending freight subsidies in particular has strengthened the effects of establishing a free trade area and provided a stronger foundation for Canada's agricultural sector to compete under the WTO rules.

Subsidized freight rates had helped encourage grain exports and diverted grains away from domestic activities. In the Prairies, the farm value of grain was determined by the price at port after deducting freight costs. The WGTA kept the cost of transporting grains and oilseeds from Prairie producers to export position in Thunder Bay or Vancouver about C\$17 (about US\$12) per metric ton below costs that prevailed during post-WGTA. Removing the subsidies raised producer shipping costs by 40-50 percent, on average, for transport from local elevators to export position, and lowered

rates of return for Prairie grain and oilseed producers.

With elimination of freight subsidies lowering government support and raising costs, Prairie farmers moved away from production of freight-subsidized grains. Those farmers also developed a different mix of land, labor, and other inputs to stay profitable. Production in the Prairies shifted from grains to commodities such as specialty crops and livestock. The lower value for feed grains in the Prairies fostered expansion of cattle and hog production throughout the 1990s.

Processed food has become an integral part of the Prairie economy. In Alberta, for example, the post-WGTA annual growth rate for value of manufacturing shipments of meat and meat products, fruits and vegetables, and potato products was nearly 9 percent, exceeding the 6-percent growth rate for all food and beverage industries. Before repeal of the WGTA, Alberta's food and beverage industries had grown about 5 percent annually.

The most successful story is perhaps Manitoba's livestock industry. Manitoba has an advantage of affordable and low-cost supply of pasture. With no freight subsidies, it is expensive to export grain from Manitoba, due to the long distances to ports. Feed grains, particularly, stay in Manitoba.

It was estimated that about 5.8 tons of forage per animal is necessary for low-cost livestock enterprises. Grains can be bought locally or imported to feed livestock. A survey by Manitoba Agriculture and Food shows that the average rental rate for private pasture in 1997 was C\$6.73 per animal unit month (AUM), compared with C\$11.37 in Saskatchewan and about C\$12 in Alberta. (An AUM is the equivalent amount of forage needed by one mature 1000-pound cow and her suckling calf grazing for one month—i.e., 26 pounds of dry matter per day as forage or 997 pounds for one AUM.)

Manitoba also has the advantage of having a large share of government-owned land—about 41 percent or 1.7 million acres of unimproved "Crown" land—available for low lease rates. With successful livestock expansion, the livestock

share of total cash receipts has increased to nearly 43 percent (from 35.5 percent in 1994), compared with 26 percent in Saskatchewan and 60 percent in Alberta (from 20 percent and 53 percent in 1994).

Hog Sector Leads Livestock Expansion

The free trade agreement with the U.S. helped spur expansion of livestock production in Canada, and the WGTA repeal sustained it. Repeal occurred at a time when global meat demand was high, but livestock inventories during this period were also high. Canada's onfarm cattle inventory was up 14 percent, and the increase in the Prairie Provinces reached 20-25 percent during the post-WGTA period (from average 1989-94 to average 1995-99), with Manitoba leading.

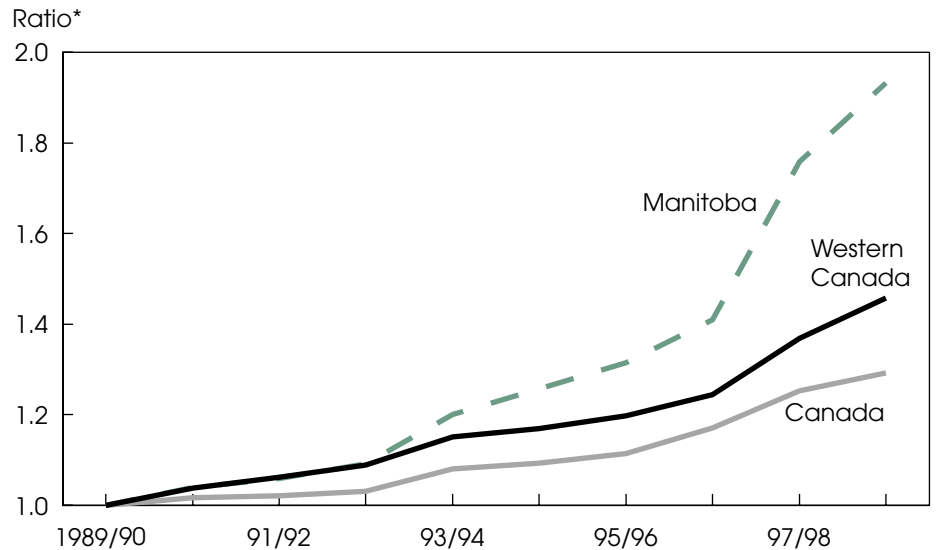
The hog story was more telling. While Canadian hog inventories were up 12 percent after WGTA repeal, the expansion in Manitoba—the province furthest from overseas export position—was much more impressive, a 37-percent increase. Manitoba's hog production ranks third after Quebec and Ontario.

Both cattle and hog production have been viable options for farmers in the Prairies, particularly in Manitoba. Most cattle and hogs from Manitoba have been sold as slaughter animals to the U.S. or to other Provinces for feeding, continuing a trend that started in the early 1990s after the free trade agreement was implemented. For hogs, the movement to the south could slow down in the wake of expansion of hog processing facilities in 1999 in Manitoba (Brandon and Winnipeg). This could increase Canadian hog processing capacity.

With livestock expansion continuing in the Prairies, the need for feed increases. Most feed barley now remains in Canada. The feed share of total domestic barley use increased about 13 percent during post-WGTA. Feed use of other grains such as corn, dry peas, canola meal, and soy meal has also increased.

Dry peas, a nontraditional crop not grown much during the pre-repeal WGTA period, became an important part of successful low-cost livestock enterprises during

Number of Livestock in Manitoba Nearly Doubled in the 1990s

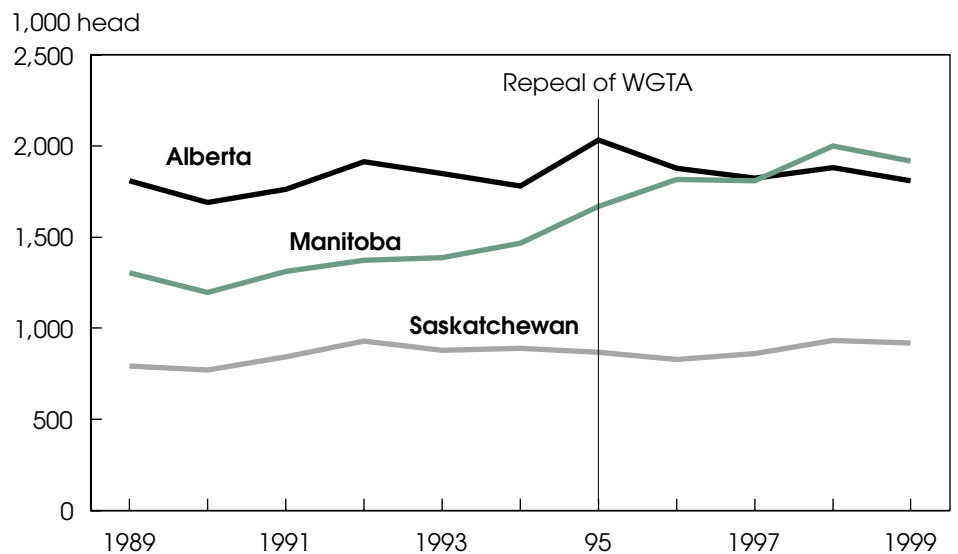


Based on grain-consuming animal units (GCAUs), a measure to combine different species of animals by comparing the historic amount of feed consumed by one dairy cow and the amounts consumed by other classes of livestock.

*Ratio is annual estimate relative to 1989/90.

Economic Research Service, USDA

Manitoba Has Led Expansion of Canada's Hog Inventory After WGTA Repeal



WGTA = Western Grain Transportation Act.

Economic Research Service, USDA

the post-WGTA era. Crop rotations to enhance nitrogen fixation during the last 10 years have boosted planted area of dry peas in the Prairies. Although the trend started in the early 1990s, post-WGTA

growth was significant, with farmers increasing area planted to dry peas by 221 percent in Saskatchewan and 105 percent in Alberta. Higher output of dry peas went

World Agriculture & Trade

to hog feeding, exports (up 107 percent during post-WGTA), and some food use.

Wheat Still Dominates Canada's Prairie Provinces

Historically, wheat has dominated Canadian grain production, and most of it is produced in the Western Prairie Provinces. Wheat remains Canada's major grain planted in the post-WGTA era, but its share of crop area has slowly declined since the mid-1990s. In 1999/2000, about 42 percent of total area harvested for grains and oilseeds was devoted to wheat (durum and nondurum), compared with 52 percent in 1982. The largest wheat province is Saskatchewan, which harvested more than half of total wheat area in Canada. Alberta ranked second and Manitoba third.

After WGTA repeal, Canada's wheat area dropped 16 percent from the 1989-94 average. Wheat area harvested declined in all three Prairie Provinces, down about 25 percent in Manitoba, 17 percent in Saskatchewan, and 8 percent in Alberta. In the Prairies, nontraditional crops such as potatoes, soybeans, and edible beans have become popular, and area planted to corn has started to take off again.

While western wheat area declined through the 1990s, the second half of the 1990s marked a turning point for eastern provincial wheat. Increased demand for grains following elimination of WGTA freight subsidies led to increased production of wheat, corn, and soybeans in the East. Eastern Canada wheat area increased 2 percent after the WGTA period, reversing the declining trend set earlier. Ontario wheat area increased 10 percent, with winter wheat up 8 percent and spring wheat up 39 percent.

The Manitoba agricultural landscape has changed the most. Manitoba's domestic wheat shipments of flour, cereal, and feed have increased 132 percent from 1990. With most Prairie grains exported through Western Pacific ports, the long distance to these ports caused Manitoba freight costs to increase the most after WGTA repeal. However, effective August 1, 2000, Manitoba farmers who had freight costs deducted from their CWB payments for grain shipments through the western ports of Thunder Bay or Vancouver also received a rebate from the CWB based on the proportion of wheat shipped through Manitoba's Port of Churchill in the East.

Wheat for processing use picked up after the WGTA. Although Canadian wheat area and production were down, wheat ground for flour increased about 15 percent during 1995-98, from the 1989-94 level. Flour production during the same period also increased about 16 percent. With less wheat production after WGTA repeal, Canada's wheat exports were down 15 percent overall though durum wheat exports were up.

Although canola had been a freight-subsidized commodity, higher freight costs after WGTA repeal have not diminished growth in canola production and use. In the late 1990s, Manitoba's canola area was up about 51 percent from 1989-94, followed by Saskatchewan (up 44 percent) and Alberta (up 24 percent). With higher investment after repeal, domestic crushing capacity for canola increased about 60 percent during 1995-98, compared with the 1989-94 period. Cargill, CanAmara, and Archer-Daniels-Midland (ADM) all operate oilseed processing plants in Western Canada. (ADM recently announced a plant closing, although it is expected to be temporary.) Canola, canola

oil, and canola meal exports were up about 15 percent.

While the WGTA repeal has caused shifts in agricultural production throughout Canada, the primary impact has been diversification of agriculture in the Prairie Provinces. Output is moving away from traditional grains for export and toward more nontraditional grains and oilseeds. In addition, more feed production is staying within the Prairie to supply expanding livestock operations, and more land is utilized for livestock-related activities such as hay production and pasture. With expanding livestock and processing activities, livestock's share of farm income has increased as well. **AO**

*Suchada Langley (202) 694-5227
slangley@ers.usda.gov*

Allen Baker also contributed to this article.

Upcoming Reports—USDA's Economic Research Service

The following reports are issued electronically at 3 p.m. (ET) unless otherwise indicated.

May

- 10 World Agricultural Supply and Demand
- 11 Cotton and Wool Outlook (4 p.m.)**
Oil Crops Outlook (4 p.m.)**
Rice Outlook (4 p.m.)**
- 14 Feed Outlook (9 a.m.)**
Wheat Outlook (9 a.m.)**
- 18 Agricultural Outlook*
- 24 Sugar and Sweeteners Yearbook*
- 25 U.S. Agricultural Trade Update
- 30 Livestock, Dairy, and Poultry (4 p.m.)**

*Release of summary, 3 p.m.

**Available electronically only

Read about...

Canada's dairy policy

In an upcoming issue of *Agricultural Outlook*