



Growth and Natural Capital

Barton Forward: Optimizing Growth in the Canadian Agri- food Sector

by

Dr. Donald Buckingham, President and CEO

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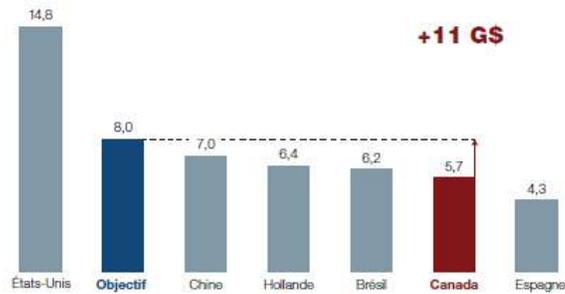
The vision of the *Advisory Council on Economic Growth (Barton Report)*



“Canada will become the trusted global leader in safe, nutritious, and sustainable food for the 21st century”—would reflect the strength of our starting position, as well as the global trends we can exploit.”

Figure 2 Le Canada pourrait viser 8 % de la part du marché mondial des produits agricoles d'ici 2027.

Exportations de produits agricoles, 2015
Part des exportations mondiales

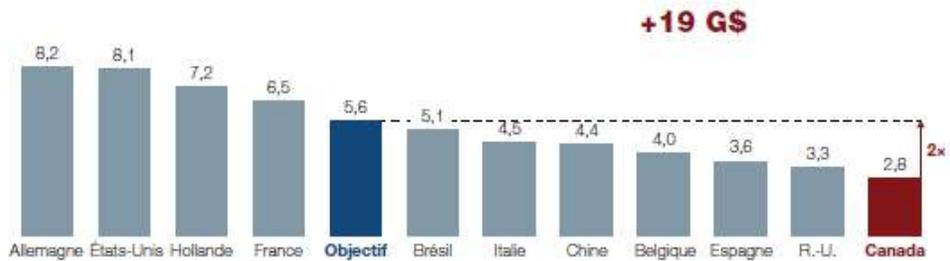


Source : Organisation mondiale du commerce

**Objectif:
La croissance
aggressive**

Figure 3 Le Canada pourrait chercher à doubler sa part du marché mondial des produits agroalimentaires d'ici 2027.

Exportations de produits agroalimentaires, 2015
Part des exportations mondiales



Source : Organisation mondiale du commerce

CAPI organized four meetings, asked four questions

In the fall of 2017, CAPI initiated a plan to conduct four “Barton Forward: Optimizing Growth” workshops.

1. Ottawa, in November 2017,
2. Saskatoon, in December 2017
3. Guelph, in March 2018,
4. A wrap-up “national conversation” in Ottawa in May 2018.

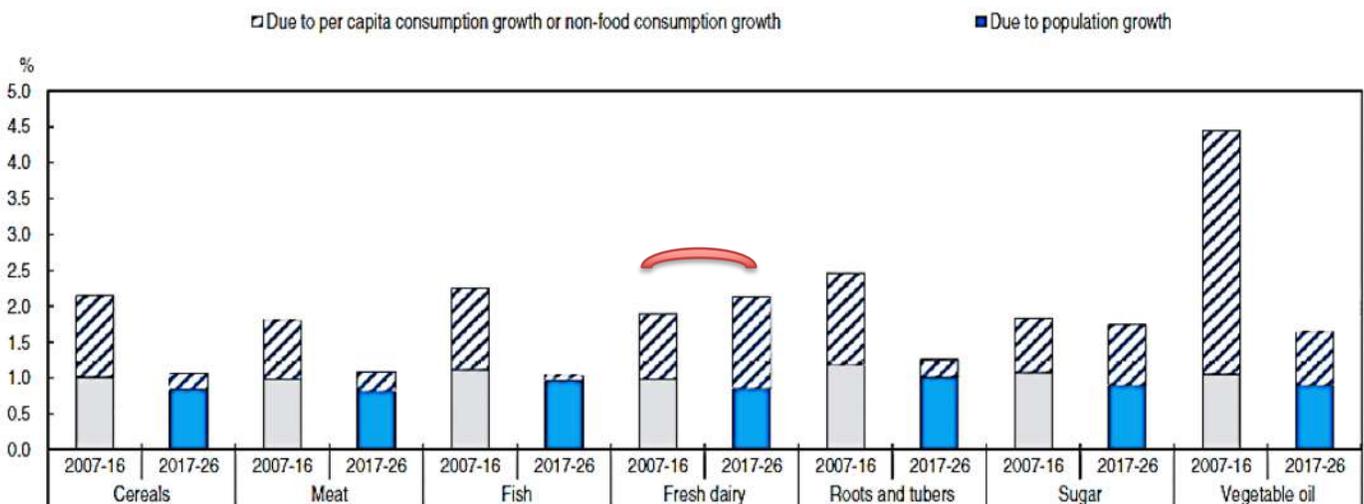
We raised the following four questions:

1. Are these realistic targets?
2. Could we achieve growth while maintaining and improving our natural capital?
3. Are they compatible with other policy objectives?
4. Does science and innovation hold the key to meeting these growth targets?

Are these realistic targets?

Global trade to year 2026 will continue to grow, but at a slower rate

OECD projects growth in trade volumes, due to lower income and population growth rates, will be much lower than the previous decade, with the exception of fresh dairy.



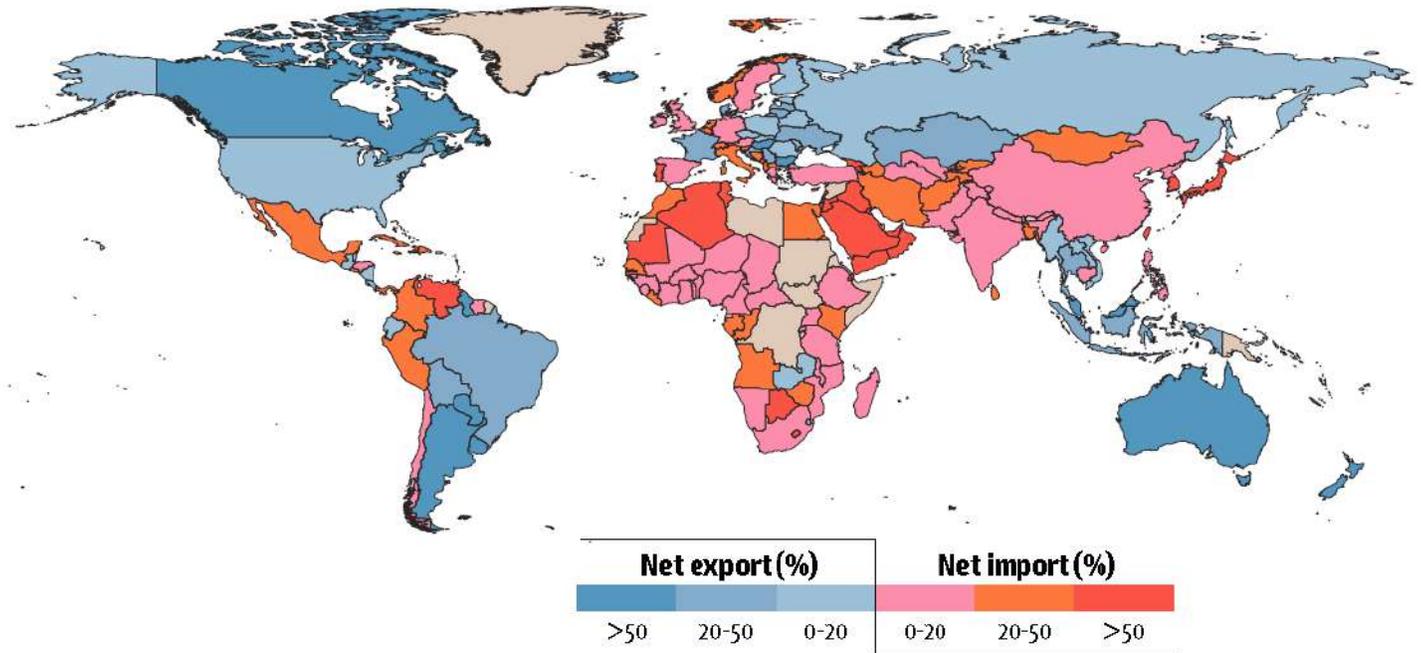
Note: The population growth component is calculated assuming per capita demand remains constant at the level of the year preceding the decade. Growth rates refer to total demand (for food, feed and other uses).

Source: OECD/FAO (2017), "OECD-FAO Agricultural Outlook", OECD Agriculture statistics (database), <http://dx.doi.org/10.1787/agr-data-en>.

Are these realistic targets?

Who will be importing

Figure 2.12 Percentage of net food imports in domestic food supply in total calories



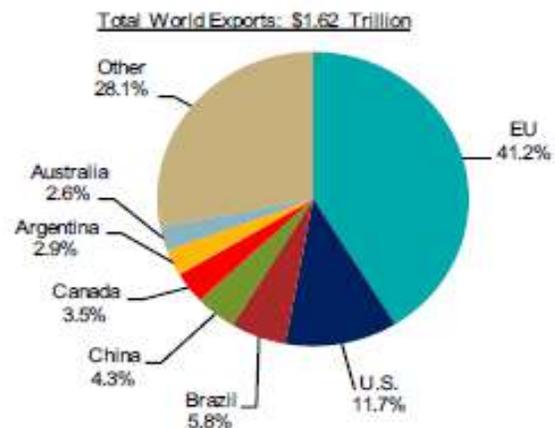
Source: FAO Global Perspectives Studies, using 2011 food balance sheets from FAO, 2016a.

Are these realistic targets?

Who will be exporting

- OECD projects that top five-country export concentration ratio to increase over the next decade and exceed the current level (above 70%).
- Canada is the 5th global ranked exporter and importer of agri-food products.
- Importers will continue to be more widely dispersed than exporters.
- A small group of exporters will be trying to sell to numerous small importers
- Importers with worsening food deficits will be attempting to gain control of supply sources.

World Agriculture and Agri-Food Export Share by Country of Origin, 2016

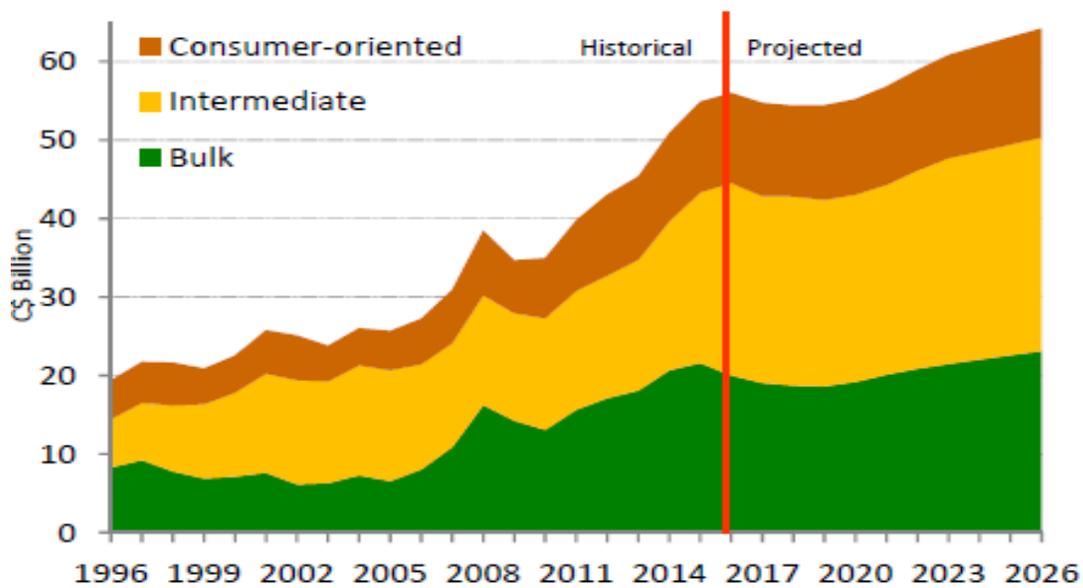


Source: Global Trade Tracker and AAFC calculations.
Notes: (1) Excludes All Seafood - Fresh and Processed. (2) Includes Intra-EU trade.
(3) Percentages may not add up to 100% due to rounding.

Source: AAFC, Overview 2017

Are these realistic targets? Canada's Agri-food exports

AAFC projects exports of Canadian agricultural and agri-food products to reach nearly \$65 billion in 2026 with significant increase in the share of intermediate goods.

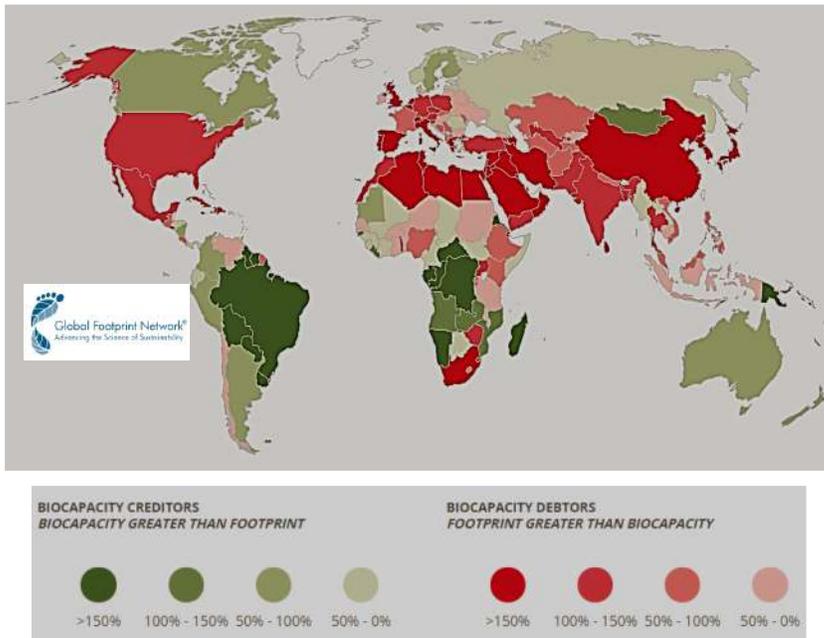


Source: Statistics Canada; AAFC Calculations.

Yes, we can. But, it will not be without its challenges and risks

OPPORTUNITIES	CHALLENGES	SOLUTIONS	RISKS/TRADE-OFFS
Canada has a good reputation and a strong base on which to brand its products.	Competition will be stiff in the global market place; other exporters also targeting the same markets.	Increase value-added and compete on quality and sustainability.	Growth in exports at expense of natural capital.
Opportunities from strong global demand for protein and high-quality food.	NAFTA renegotiations are ongoing with results unknown. No specific agri-food trade agreements with potential growth markets.	Negotiate, ratify and modernize trade agreements with China, India, CPTPP, and NAFTA.	Future of NAFTA. Domestic subsidies in competitors.
Meeting the demand for high value products of growing middle classes.	Labour/skill shortages. Infrastructure bottlenecks Cost competitiveness of SMEs.	Training and education to boost skills. Automation and productivity improvements.	Automation will require retraining to fill skilled labour shortage.
Market intelligence, promotion and international regulatory cooperation could be used to expand markets.	Uncertainty around NAFTA, Regulatory Cooperation. Market promotion under-resourced.	Continue to negotiate with the US and other countries. Consult with industry on regulatory needs. Fund more market promotion.	Uncertainty of outcomes.

Could we achieve growth while maintaining and improving our natural capital?



How do we avoid the Netherlands' success in increasing agri-food exports, which is "accomplished through intensive production practices that contributes significantly to its externalities. . . Net external costs add up to €1.6 billion or 15.5% of production value annually". A cost of €988.4 per hectare compared to €20-64 per hectare in the U.S.)

Canada's agri-food sector stands to be a solution provider to climate change

OPPORTUNITIES	CHALLENGES	SOLUTIONS	RISKS/TRADE-OFFS
Canada has an abundance of natural capital and could generate economic benefits from this advantage.	Including true value of environmental externalities from depleting and polluting natural capital in market transactions.	Innovative policies and regulations needed to monetize externalities. More industry-government collaboration with clear leadership.	Depletion of natural capital for the sake of export growth. Losing ability to produce high quality food.
Canada has a strong track record in environmental improvements achieved in the past 30 years.	Regional differences in environmental performance. Data and methodology lacking.	Boost training and education on environmental best management practices. Modernize environmental regulations. Invest in R&D.	Short term returns from high commodity prices vs long term benefits from sustainable practices.
Industry has been investing in sustainable practices to maintain its reputation and public trust.	Sustainability has become an entry requirement. Too many standards makes it costly and confusing.	Consolidate number of sustainability standards. Raise awareness of benefits of new technologies for transparency.	Consumers/markets may not be willing to pay for sustainable practices.
There is an opportunity for the sector to become a solution provider to GHG mitigation while improving natural capital.	Policies for pricing externalities and positive environmental impacts of agriculture not being discussed in this context.	Policies and regulations to price externalities and value Environmental Goods and Service (EG&S) needs to go beyond carbon taxes.	Business Risk Management (BRM) continues to encourage less sustainable practices.

Are they compatible with other policy objectives?

ACEG targets were acknowledged by Finance Canada in Budget 2018, at a time when many policy initiatives were under development. Hence one may ask about the consistency of “Barton” targets with other policy buckets:

- AAFC’s **A Food Policy for Canada**
- Health Canada’s **Healthy Eating Strategy**
- **Canadian Agricultural Partnership (CAP)** program (newest FPT Policy Framework)
- **Pan Canadian Framework on Clean Growth and Climate**
- **Supercluster** program that allocated \$950 million to be shared among five clusters, including the Protein Industries Canada supercluster on the Prairies.

The policy landscape presents the sector with many opportunities and challenges

OPPORTUNITIES	CHALLENGES	SOLUTIONS	RISKS/TRADE-OFFS
With so many policies in play right now, this is an opportune time for policy coordination and “desiloification” of the issue.	Funding is spread thinly to support each initiative properly. Interest groups are unlikely to all pull together any time soon for common policy approaches.	These initiatives are all focused on the middle to longer term and require collaboration among various stakeholders.	Lack of consensus among various stakeholders to reach agreement on various policy measures.
Developing policies without creating conflicts between consumer and producer interests regarding the provision of affordable, accessible nutritious food.	Possible incompatibility between affordable food for Canadians and profitability of farmers/food industry.	Develop a domestic market growth strategy similar to the Barton export growth strategy. Engage civil society and stakeholders on food and health issues.	Food security and affordable food vs. industry profitability. Nutritional labelling may appear to create bias against certain foods.
Changing consumer preferences for organics and local food could provide opportunities for small-scale farmers and address food insecurity.	Regulations governing organics inconsistent across provinces. Small-scale farms and firms can be less cost competitive.	Modernize organic regulations. Acknowledge multiple food systems in Canada, including urban agriculture for food insecurity.	Could create the perception of conventional food being unsafe/unhealthy.

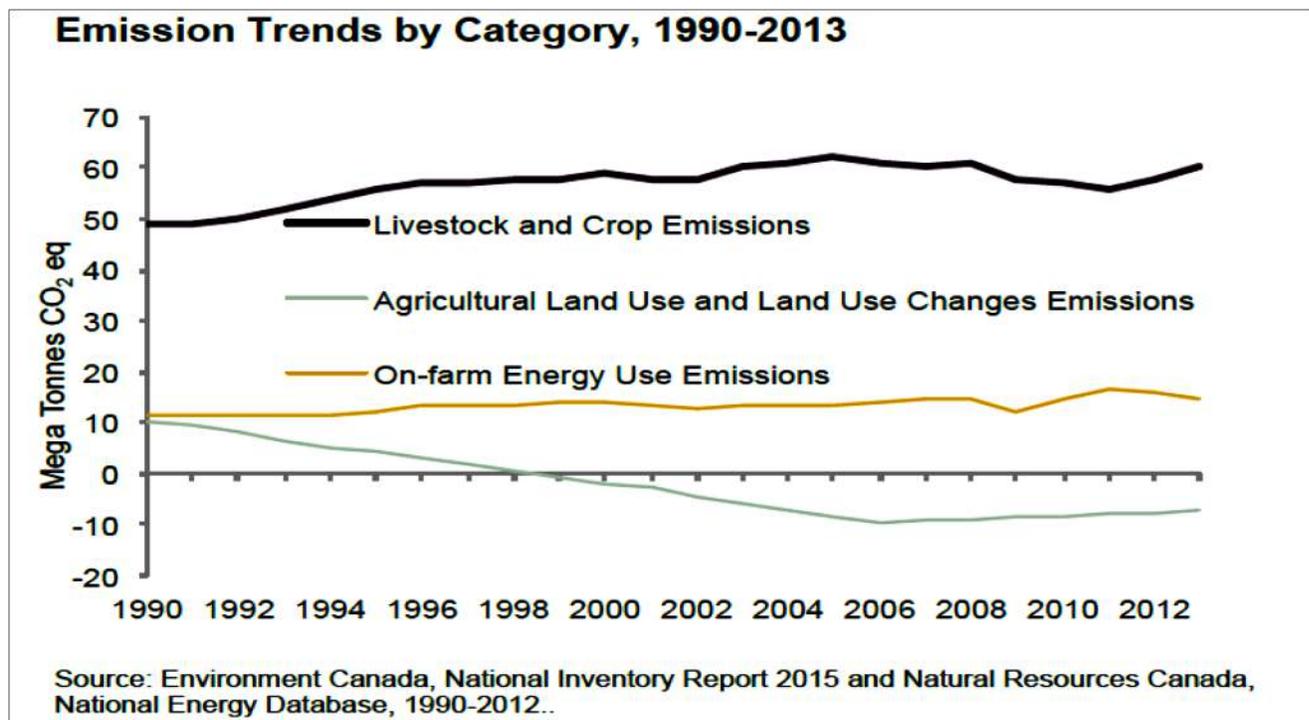
Does science and innovation hold the key to meeting these growth targets?

Canadian agriculture has steadily continued to grow while reducing its GHG emission intensity through innovations, and improved practices, such as:

- zero/reduced till,
- reduced summerfallow and use of cover crops,
- improvements in animal genetics and feeding efficiency,
- manure management.

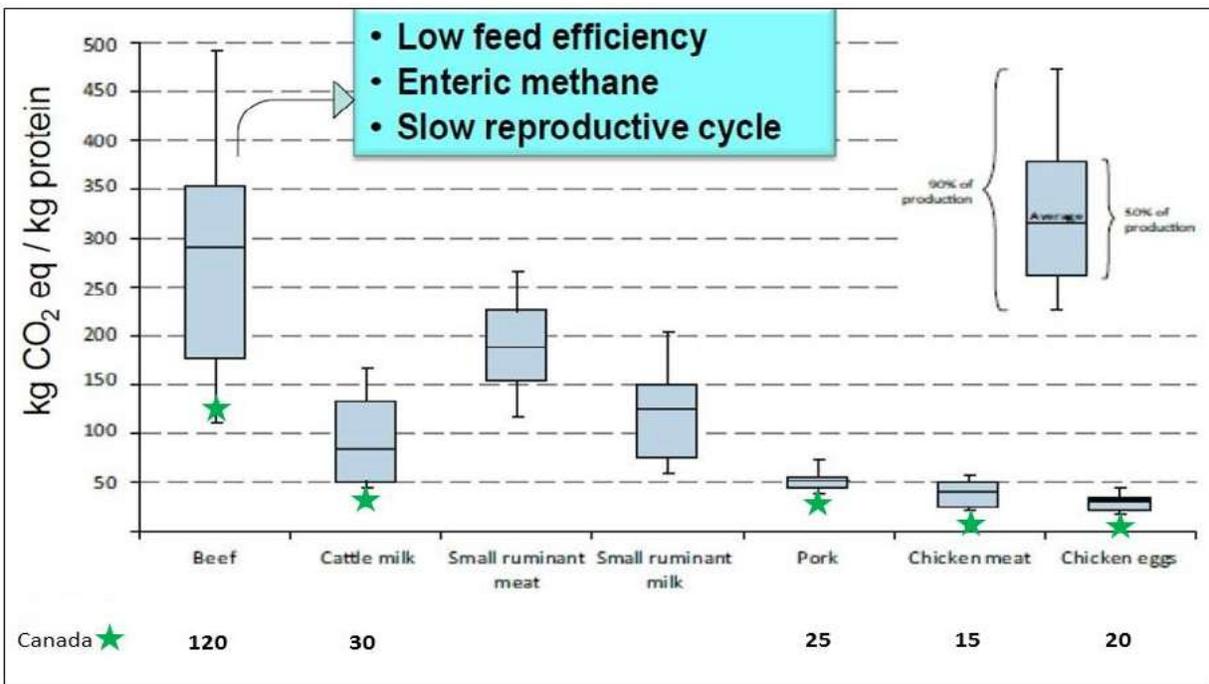
The efforts by the governments, industry and research organizations continue to enable the industry not only to reduce its emissions but to become a net sink and provide solutions for the rest of the economy.

Through science and innovation Canada's soils have become a net carbon sink



Through science and innovation Canada has become one of the most GHG efficient animal protein producer

GHG Emissions Intensity of Canadian Livestock



Source: FAO, GLEAM and AAFC estimates

Need to make the best use of new science to improve our natural capital and industry competitiveness

OPPORTUNITIES	CHALLENGES	SOLUTIONS	RISKS/TRADE-OFFS
Canada has excellent scientific research capacity and a good record of science breakthroughs.	Skill shortages in some agricultural related science fields, lack of an entrepreneurial/risk-taking culture. Agriculture does not attract talented youth.	Encourage education in ag-related fields, risk-taking, commercialization capacity. Get the message out that agriculture is a modern industry.	Lacking the capacity to continue innovating
Increased attention and funding for R&D and innovation.	Funding spreads thinly across needs. Business investment in R&D still very low relative to competitors. Regulatory framework impedes innovation.	Encourage collaborations/partnerships between government and industry. Increase business investment in R&D. Modernize regulatory frameworks to be more nimble and responsive to innovation.	Public R&D crowds out private R&D. New thinking around R&D required
New innovations with health, environmental and economic benefits.	Public trust is still a big issue preventing/slowing down the adoption. Lack of regulatory frameworks for new innovations such as CRISPR in Canada.	Focus on the development of technologies with health and environmental co-benefits to maintain public trust. Engage with civil society to improve trust. Modernize regulations.	There may be a trade off between swift regulatory process and maintaining public trust.
New technologies are transforming agriculture by improving management practices and transparency.	Can require costly changes and investments. May be slow to adopt.	Education/awareness of benefits of new technologies. Subsidies to help de-risk and encourage adoption.	Small farms may not adopt, leading to further industrialization of farming.

CAPI believes that we will require more than “simple” growth to achieve the ambitious growth targets by ensuring that the gains in the agri-food sector can be sustainable.

FIVE CONCLUSIONS FROM CAPI’s “BARTON FORWARD” CONVERSATIONS:

- **YES, WE CAN**
- **MAINTAIN NATURAL CAPITAL**
- **MONETIZE ALL COSTS AND BENEFITS**
- **SUSTAIN HUMAN HEALTH AND WELL-BEING**
- **CREATE (LEVERAGE) NEXT GENERATION CONNECTIONS**

So what does the law have to do with this? Plenty!
Vous avez des questions? Vous n'avez qu'à
demander.

