

**ONTARIO AGRICULTURAL ECONOMICS AND
BUSINESS**

RESEARCH AND SERVICES COMMITTEE

2006 ANNUAL REPORT

**TO
ONTARIO AGRICULTURAL SERVICES
COORDINATING COMMITTEE**

February 2007

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1 Executive Summary

The purpose of Agricultural Economics and Business Research and Services Committee (AE&BRSC) is to identify and prioritize the future agricultural economics and business research and service needs of Ontario's agriculture and food industry stakeholders.

An Agricultural, Food and Resource Economics Research Day was held on December 13, 2006. The focus of the day was to highlight research which had resulted (in part) from the strategic research priorities set by the Agricultural Economics and Business Research and Services Committee. Presentations focused on the economic implications of a wide range of agricultural research topics – policy, food economics, land use and management, and trade, environmental stewardship. The full agenda and presentations is available at <http://fare.uoguelph.ca/events/farerresearchdaydec2006.html>

The Agricultural Economics and Business Research and Services Committee met on January 9, 2007 to review industry issues and identify research topics of importance to the industry. These issues and research topics were then circulated to all committee members, who were asked to review them and rank them according to priority. The resulting research issues are:

- I. Capturing Opportunities from Demographic Trends
- II. Local Food Systems
- III. Business Structures:
- IV. Global Trends
- V. Energy and Climate:
- VI. Land Use
- VII. Entrepreneurship and Management

2. Industry/Sector Scan

There were an unprecedented number of consultations, studies and discussion documents of the Ontario and Canadian Agriculture sector during 2006. There has been plenty to study - the very difficult cost price squeeze brought about by an ever increasing world supply of major agricultural commodities, declining number of input suppliers, food processors and food retailers, continuing uncertainty on the trade front, and continuing discontent with Canadian farm income support programs, and an steadily increasing average age of primary farm operators have lead to continuous economic uncertainty suffered by most sectors of the agriculture industry.

As well as the continuing and growing economic issues in the industry - the federal-provincial-territorial consultations on the Next Generation of Agriculture and AgriFood Policy has been a major impetus for much of this activity.

The Canadian Agri-Food Policy Institute (CAPI) was created to provide independent national economic analysis and input to the agricultural policy development. Their findings can be found at <http://www.capi-icpa.ca/index.html>

In Ontario, the Institute of AgriFood Policy Innovation has been working to provide independent economic and policy research and address long range issues important to the future competitiveness of the Ontario agri-food industry and the quality of life for rural Ontario. Their papers can be accessed at <http://www.iafpi.ca/>

In November 2006 the George Morris Centre published a discussion document entitled Canadian Agri-Products Policy Project – Vision, Mission, Intents and Instruments. As part of the development process, the GMC held input sessions across the country in summer of 2006. Participants included individual producers, producer organizations, processors, input suppliers, wholesalers, and government agencies. This document can be found at www.georgemorris.org

The Canadian Federation of Agriculture and its members developed and fleshed out A Canadian Farm Bill: A new vision for Canadian agriculture. This document “serves as a discussion paper to drive debate as industry and government move forward in developing the next generation of agriculture policy”. A Canadian Farm Bill can be found at www.cfa-fca.ca

In October 2006 the Agricultural Management Institute held five Think Tanks across Ontario with the following goals:

- To identify the agriculture industry's business planning and management needs and gaps
- To understand better the causes of the low uptake of farm business planning and management techniques
- To gather input and ideas re farm business management.

Participants represented a broad spectrum of producers, suppliers, lenders, financial advisors, government and academics. Participants identified a number of perceived changes occurring in primary agriculture:

- Fewer medium-sized farms
- Larger farms and lifestyle farms
- More non-food production farms
- More government regulations and paperwork
- More environmental practices
- Separation of ownership and management
- Less government support and political clout for primary production
- More value chains and integration
- More technology
- More opportunities and more risks

Some of the key recommendations from these Think Tanks were:

- Strong support for small, local, peer led management groups or clubs, with government financial support
- Assistance to find new opportunities and enhance marketing
- Building decision-making capacity and alliance-building capacity
- One-stop electronic and voice information and referral sources
- Need to demonstrate and quantify the benefits of business planning
- Provide a simplified flexible, computer based template for planning
- Encourage farmers to co-operate and build alliances to add value
- Engage all farm organizations in promoting farm business management and planning

3. Report of Action Taken Since Last Strategic Report

2006 Research Day

The Ontario Ministry of Agriculture, Food and Rural Affairs, and the University of Guelph Department of Food, Agricultural and Resource Economics held the second annual Research Day on December 13, 2005. A major focus of the day was to highlight research which had resulted (in part) from the strategic research priorities set by the Agricultural Economics and Business Research and Services Committee. Presentations focused on the economic implications of a wide range of agricultural research topics – policy, food economics, land use and management, and trade, environmental stewardship.

The research update, held in conjunction with the Agricultural Management Institute's Vision 2020 Conference, was attracted 125 people from a wide cross section of the agriculture industry. The full agenda and presentations is available on the on the University of Guelph web site at

<http://fare.uoguelph.ca/events/fareresearchdaydec2006.html>

Committee Meetings:

The Agricultural Economics and Business Research and Services Committee met on January 9, 2007 to review industry issues and identify research topics of importance to the industry. These issues and research topics were then circulated to all committee members, who were asked to review them and rank them according to priority. The priorities of those Committee members who responded are reflected in this report under the Issues heading.

4. Issues

The Agricultural Economics and Business Research and Services Committee identified the following research issues at its meeting of January 9, 2007. Committee members were then given the opportunity to rank the issues, and the sub issues within each issue. The list below is as ranked by committee members.

I Capturing Opportunities from Demographic Trends

- 1) What are the food production and distribution models for the agriculture and food sector to **more effectively capture markets from the changing demographics of the domestic consumer base**. These changes include consumers not born in Canada and seeking out foods not traditionally produced in Canada, and aging population, and an increasingly health conscious population.
- 2) What **policies and models are required to better link food, immigration and rural settlement**? What immigration policies and rural community attributes would more effectively lead to the involvement of immigrants in agriculture and food production and marketing? How could settlements in rural areas be effectively tapped to reduce our reliance on seasonal off shore labour?

II Local Food Systems

- 1) A better understanding is required of **what consumers think of when they think “local food”**. What is the definition of local, what are the attributes that consumers are looking for? What is the interaction in the mind of consumers between such attributes as direct from the farm, food miles, home grown, domestically produced, buying directly from the grower, and organics?
- 2) What will be the **impact on local food production systems if promotion of health attributes and healthy eating is successful**? For instance, what would be the impact on production should the “Five a Day” campaign for fruit and vegetable consumption be successful? What impact will the new Canada’s Food Guide have?
- 3) How do we more effectively develop **business models to link producers and buyers together in local food systems**? For example, there is a significant opportunity for more farmers’ markets in Toronto – but there appears to be a limited supply of producers wanting to sell at farmers markets. What business and distribution models would allow people who have a passion for production rather than a passion for marketing and customer relations become involved in direct to consumer selling, local food markets, culinary tourism, the food service industry, and the slow food movement.

- 4) What are the business models and market mechanisms to **linking local food with environmental and countryside stewardship**?
- 5) What will be the impact on the **definition of and the market for local foods if major retailers continue to increase their focus on organic foods**? Will this impact on direct sales opportunities for local producers selling local foods.

III Business Structures:

- 1) There appears to be a trend to less traditional intergenerational farm transfers, and towards new entrants coming to farming who do not have a family connection. These new entrants to the agriculture industry are often Second Career Farmers – people coming to the industry with capital and with extensive non-agricultural experience. What will be the economic impact in terms of farm numbers and production value of this trend on the sector? What are the **skills and information gaps faced by entrepreneurs from outside agriculture entering the agriculture and food sector**? How do we **adapt taxation and succession planning** regimes built on the assumption of intergenerational transfer to this new paradigm?
- 2) Economic research has shown that **Cost Control is a primary determinate of profitability for large scale producers**. Cost control appears to have a larger impact on the profitability commodity producers than marketing strategies. What are the cost control strategies of successful producers? What inputs or capital investments are higher cost producers over applying that result in the difference? What cost control instruments could be developed?
- 3) There appears to be a **continuing trend of the productions sector fragmenting into large scale low cost production focused framers, and smaller scale nice market/value added focused farmers**. The traditional middle size farms are disappearing. What is the economic and sectoral impact of this trend?
- 4) What is the **economic value to primary agriculture of the non-farm income** of family farm members?

IV Global Trends

- 1) The **economies of scale in the livestock processing sector and the mobility of the processing sector across North America** is resulting in less and less large scale processing being done in Ontario. What does the mean for our livestock sector in Ontario? What are the opportunities and business models for smaller scale processing to capture opportunities for Local Food?

- 2) What are the economic and sectoral structure **implications of continued concentration in the processing and retaining sector**? What are the implications of this concentration to the ability to develop local food system? What is the role of government? Can or should government regulate more competition?
- 3) What are the lessons to be learned from past **food safety and animal health emergencies** on how to respond? What is the role of producers, processors, retailers and government in emergency planning and emergency communications? What is the role and best practices for traceability?
- 4) What are the **ethical and economic impacts on the agriculture and food sector of privately funded research vs. publicly funded research**? There is a need to more clearly understand the business implications and ethical issues. Are the ethical issues any more or less with publicly funded or privately funded research
- 5) If the WTO talks continue to be unsuccessful, what are the economic opportunities for additional bilateral trade negotiations? **What countries should Canada is focusing on to develop bilateral trade agreements?**

V Energy and Climate:

- 1) Large scale production of energy from farm waste is often seen as a negative by neighbouring residents, particularly in near urban areas. Are there **business models for small scale waste conversion facilities**? Are they economically viable? Are there models for such waste conversion to be done in industrial parks rather than on farm?
- 2) The societal changing paradigm from concern from food sufficiency to concern for energy sufficient and climate change is a fundamental shift for the agriculture sector. **Is the excitement over the bio-economy myth or reality**? What are the economic opportunities and economic advantages of such a shift? Are agriculture industry institutions positioned to capture these opportunities?
- 3) How can we **quantify and mitigate the economic impacts of increasing energy costs of the agriculture sector**? What are the impacts when it changes? What are the changes that will be needed? Will concern over climate change result a fundamental change in fossil fuel energy markets?
- 4) What would be the **economic impact on agriculture if climate change brings about a shortage of water**? What happens to agriculture if we price water at a real cost.
- 5) Current **ethanol production models are based on burning fossil fuels** to produce them. What would be the impact on ethanol production if this changes?

- 6) What will be the **economic impacts of Climate Change** on the agriculture and food sector? How will changing attitudes to climate and changing productive ability affect the agricultural economy of Ontario?

VI Land Use

- 1) What are the early trends telling us about the **agricultural productive future of the Greenbelt**?
- 2) What is the role and models of land use planning and regulation around dealing with neighbour's **concerns about non-traditional uses and new technologies** brought on by changes to the agriculture sector – such as windmills, waste to energy conversion, small scale food processing and direct to consumer sales facilities.
- 3) What is the **role of regulation and land use restrictions in a democratic society**? What would be the economic and social impact of a move in Canada to a greater emphasis on property rights? What are the economic costs and benefits of such regulatory moves as enacting the Greenbelt?

VII Entrepreneurship and Management

- 1) Innovation and changing market conditions will require a continued emphasis on developing a more entrepreneurial attitude in the agriculture sector. How do we understand the **attitudinal characteristics of entrepreneurs**? What are the conditions to develop a more entrepreneurial culture in agriculture? How do we distinguish between “Innovation” and “Entrepreneurship”?
- 2) **Do the structure and mandate of farm organization impede innovation**? Is supply management an impediment to innovate? Do commodity based organizational structures impede fundamental changes to the production mix? Are commodity and market based organizational an impediment to product diversification?
- 3) There is increasing recognition that the individual producers need to develop networks across the value chain, and that **network/relationship management is becoming a key management skill**. What are the skills and models needed for effective business relationships within and across the value chain? Are there effective examples from other jurisdictions?
- 4) There is a trend towards an **increasing separation of ownership and management of agricultural assets**. How will this affect the industry and what are the effective business models?
- 5) Recent farm business management consultations and programs have highlighted the need for focused research into the **comparative effectiveness of various business**

information delivery models. What are the differing needs for various categories of farm operation? What is the comparative success of business information and program delivery models in different jurisdictions. What is the potential role of farm and commodity organizations in business information and innovation?

- 6) **How does research information most effectively get to the people who need it?** Who is the target of research results? What is the roll of search engines, email distribution lists, and university based knowledge mobilization networks
- 7) There is concern that a very low number of primary producers have long term Business Plans. There is a need to quantify **what if any economic benefit there is to preparing and continually updating a long term strategic business plan** for a farm business.
- 8) What are the business models which will allow producers who do not have the opportunities to “value add” themselves to become involved in **business opportunities beyond selling on world commodity markets?**
- 9) What are the models and the changes needed to be competitive in commodity agriculture? **What are Ontario’s agricultural competitive advantages?** What are the best practices for profitability in commodity agriculture?

5. Recommendations

There are no additional recommendations in this report.

Appendix I: Committee Membership

NAME	ORGANIZATION
Industry	
Patrick O'Neil	Ontario Pork
David Rose	Canadian Imperial Bank of Commerce, Agriculture Department
Glen Duff	Christian Farmers Federation of Ontario
Elbert Van Donkersgoed	GTA Agriculture Action Committee
Phil Cairns	Dairy Farmers of Ontario
John Geurtjens	Farm Credit Corporation, Agri-Business East
Dr. Wayne Caldwell	The Ontario Rural Council
Ron Campbell	Ontario AgriBusiness Association
Brian Hughes	Agricultural Commodity Corp.
Sandy Sorbara	Ontario Cattlemen's Association
Steve Byvelds	Ontario Corn Producers Association
Ted Cowan	Ontario Federation of Agriculture
Gwen Paddock	Royal Bank of Canada,
Terry Murphy	Landscape Ontario
Carol Tyler	Ontario Institute of Agrologists
John Jaques	Ontario Fruit and Vegetable Growers
Peter Mantel	Famme and Company
Dave Brown	Farm Business Consultants
Bev Leavitt	Eastern Canada Retail Farm Equipment Dealers Association
Dean Anderson	Farm Safety Association

Appendix I: Committee Membership

NAME	ORGANIZATION
Government	
Karl Michaelazzi	Agriculture and Agri-Food Canada
Alex Rosenberg	Ont. Farm Products Marketing Commission
Bruce Riddell	Canadian Agri-Renewal Services
Carl Fletcher	Ontario Ministry of Agriculture, Food and Rural Affairs
Clarence Haverson (Chair)	Ontario Ministry of Agriculture, Food and Rural Affairs
Art Zantinge	Ontario Ministry of Agriculture, Food and Rural Affairs Food Industry Division
Steve Duff	Ontario Ministry of Agriculture, Food and Rural Affairs
Art Lawson	Ontario Ministry of Agriculture, Food and Rural Affairs
Daphne Peer	Ontario Ministry of Agriculture, Food and Rural Affairs
Research	
Al Mussell	George Morris Centre
Ken McEwen	Ridgetown College U of Guelph Food, Agricultural and Resource Economics
Alfons Weersink	University of Guelph, Food, Agricultural and Resource Economics
Glenn Fox	University of Guelph Food, Agricultural and Resource Economics
Dr. Tony Fuller	University of Guelph, School of Rural Planning And Development

Appendix II: Economic Research Conducted by the Resources Management and Environment, New Directions and Alternative Renewable Fuels Programs 2003-2008

PROJ. #	PROJECT TITLE	LEAD RESEARCHER	START/ END DATE	PROJECT SUMMARY
25936	Agricultural Competitiveness and Policy Analysis.	George Brinkman	MAY-01-2003 APR-30-2007	1. To provide an integrated assessment of the competitiveness, viability, and sustainability of the Ontario and Canadian agri-food sector. 2. To identify the implications of major changes in production, technology, emerging competitors, domestic and international policy, trade agreements, and consumer demand considerations on the Ontario and Canadian agri-food sectors.
25976	Producer competitiveness and independence in a consolidating food system?	Kenneth Mcewan	MAY-01-2003 APR-30-2007	1. Bench mark farm level cost of production and efficiency for swine and cash crop sectors. Also a project will be completed comparing Ontario and U.S. farm input prices. 2. Catalogue agricultural sector concentration in Ontario for the swine, cash crop and beef industries and compare to those found in the US. 3. Search for alternative business models/strategies between producers, packers and retailers (by looking for alternative models in the US). 4. Identify critical success factors in harnessing independent producers with similar production profiles to fit specific market needs (e.g. food safety).
25937	The impact of agri-food policies and trade reforms on Canada	Karl Meilke	MAY-01-2003 APR-30-2007	1. To analyze the effects on trade of tariff and non-tariff barriers, as well as administered protection, biotechnology, technical barriers to trade, biosecurity and intellectual property within a multilateral framework; 2. To address the major trade issues within the NAFTA countries, particularly those that have caused or have the potential to cause trade disputes; 3. To analyze the effects of Canada's domestic policy framework and the policies of Canada's major competitors on the Ontario agrifood sector.; 4. To analyze the potential effects of trade rules and regulations on Ontario's supply managed industries where trade liberalization may represent the most serious threat to the established policy environment.

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PROJ. #	PROJECT TITLE	LEAD RESEARCHER	START/ END DATE	PROJECT SUMMARY
26023	Economic analysis of conservation cover programs and best management practices	Alphons Weersink	MAY-01-2003 APR-30-2007	1. estimate net farm returns for alternative best management practices (BMPs), such as tillage practices, crop rotation choices, and fertility testing; 2. assess how the returns for alternative best management practices vary by spatial location; 3. determine the tradeoffs between environmental quality and farm returns for a given set of best management practices within a given location; 4. develop an integrated modeling framework to combine the hydrological model and an economic optimization model of producer decisions for the chosen watershed using GIS;
26026	Agri-food research and innovation strategy	George Brinkman	MAY-01-2003 APR-30-2007	1. To identify strategic components of agricultural research and innovation, including commodity mix, public vs private initiatives, regional vs national focus, and priority selection of technologies to promote for innovation; 2. To provide measures of returns to existing agricultural research, prospective technologies and opportunities for innovation; 3. To provide benchmarking assessments of resources committed to agricultural research and innovation; 4. To provide measures of Canada's performance in the agri-food economy.
ARF16	Renewable and Alternate Energy Financial Strategy	William McClounie	Sep15, 2006 January 31, 2008	1. To develop risk management strategies for renewable fuel projects on farm to access capital 2. Communicate strategies to industry and lending community
SR9173	Short Supply Chains and Local Food: Adding Value through Farm Food linkages	John Smithers	July 2005 July 2008	1. To document the nature, scale and commodity-based focus of localized food systems in Ontario. 2. To elucidate the linkages (horizontal and vertical) and networks that are apparent and important in the ability of farms to participate in local food systems and to identify and characterize barriers to participation in short food supply chains.

Appendix II: Economic Research Conducted by the Resources Management and Environment, New Directions and Alternative Renewable Fuels Programs 2003-2008

				3. To explore the degree to which localized short food supply chains are intertwined with wider initiatives for local rural development (e.g. agri-tourism) and to identify specific models or promotional initiatives in either the public or private sector that provide these mutual benefits.
SR9184	Can Ontario Soybean Farmers Capture Value from Increased Bioproduct Demand?	Alphons Weersink	July 2006 December 2007	1. compare potential benefits from high-volume products made from commodity soybeans to benefits from high-priced, lower-volume bioproducts made from identity-preserved soybeans, which would be associated with additional value and thus higher prices 2. identify the changes needed in the soybean crop or production system to support bioproduct development from soybeans 3. assess the extent to which the existing industry is likely to adapt to, or support different types of bioproduct development/production 4. develop a predictive model of the factors affecting the basis for soybeans in Ontario 5. predict the impacts on the soybean basis given projected demand and supply changes identified in the interviews.