

Agriculture and Agrifood: Choosing the Future

Consultation document



Commission sur l'avenir de l'agriculture
et de l'agroalimentaire québécois



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An invitation to participate

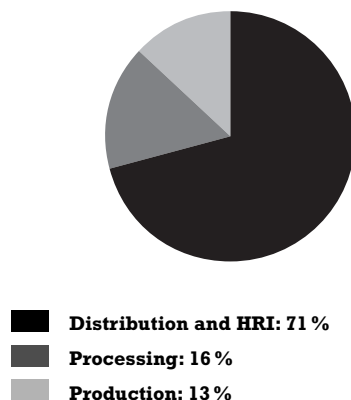
The primary mission of Quebec's agriculture and agri-food sector is to contribute toward feeding people, in Quebec and around the world. While meeting our vital need for food, the sector also produces non-comestible goods such as fibre, horticultural products and bio-energy. As a result, it is at the heart of a number of societal issues that concern everybody.

Production, processing and distribution, including activities in the hotel, restaurant and institutional (HRI) sector, are economic activities that generate wealth, jobs and exports. Currently, the agri-food sector in Quebec employs some 452,000 people.

For those who make their living from agriculture, it is a lifestyle as well as a source of great personal and family satisfaction. A number of specific skills are required to be successful. Training, advisory services, research and innovation are therefore of strategic importance.

In 2001, Quebec had approximately 47,390 farm producers working on 30,539 farming operations.

Graph 1 – BREAKDOWN OF JOBS IN QUEBEC'S AGRI-FOOD SECTOR



Agriculture is the territorial foundation of Quebec's rural fabric. By definition, it is the primary and most stable factor in the dynamic occupation of the land. It plays a significant role in shaping Quebec's landscape as well as its economic development.

Because agriculture occupies such a large percentage of Quebec's inhabited land mass, it has a major impact on our environment. Farm production methods that are respectful of water, soil and air quality therefore benefit the entire population.

Agriculture and the agri-food sector are core elements in any strategy designed to protect and promote health. Long before medical care becomes necessary, healthy living habits, including eating a variety of healthy foods, are key factors in determining our individual and collective health.

Every one of these issues comes with its own set of problems and upheavals. Some have gone so far as to use the term crisis. Yvon Vallières, Minister, Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec, had this to say when introducing the Commission members:

"Our business environment is becoming increasingly constrained as a result of elements such as the farm income crisis, chronically low cereal prices, problems in the pork sector, the mad cow crisis, threats to supply management and the strength of the Canadian dollar. There are also a number of paradoxes, such as rising land prices, soaring quota costs and continued increases in the volume of farm gate sales. At the same time, short-term crises have tended to disguise some major long-term trends, namely the leveling-off of farm prices, rising costs and increasingly strong competition."

Over the years, society's expectations of the men and women whose job it is to feed the population have increased and become more complex. The precarious financial situation of Quebec's farms, along with high debt and stress levels and the problem of inter-generational farm transfers, are the most common difficulties currently faced by the sector.

The farming profession is demanding in terms of time and training, as well as personal and financial investment. Farmers are expected to produce more efficiently, in terms of quantity and quality, to satisfy the increasingly diverse tastes of consumers, and at the same time they are asked to help improve Quebec's exports—all within a context of worldwide competition where food product prices are tending to stagnate or decline and production costs are rising steadily.

In the rural community, agriculture is no longer the only, nor even the majority, stakeholder. City dwellers are moving out to the country, and along with the peri-urban population and other rural inhabitants, they are beginning to express new values. They are also making new demands concerning the impact of farming on the quality of the environment.

Today, Quebec's farming population accounts for just 6.4% of the total rural population.

Farm size is increasing, while farm numbers are declining steadily. This has clearly had an impact on the dynamics in rural communities.

Growing public concerns about health and food quality also have an impact on agriculture and the food industry. At the same time, the trust between consumers and the food production, processing and distribution chain has been eroded.

Some people believe technological innovations, such as the introduction of GMOs, pose a threat to human health, livestock health, biological diversity and the environment.

Processing companies, for their part, feel trapped between producers, distributors and the demands of international competition.

Some observers believe it is now time to re-examine the system used to govern the sector's institutions. The question is this: should the relationships between the players in the sector be adjusted and their roles updated to meet the challenges of the future?

In light of the situation outlined above, the Quebec government has instructed the Commission

- to review the issues and challenges now facing the agriculture and agri-food sector in Quebec;
- to examine the effectiveness of current government actions;
- to make an assessment;
- to make recommendations that reflect the challenges of competition, farm incomes, societal expectations and the development of potential in the regions.

To do this, the Commission will organize public hearings throughout Quebec so that everyone who wishes to do so will have an opportunity to express their opinion. At the same time, the Commission will make a deliberate effort to examine every aspect of the problems addressed, and will systematically seek out different viewpoints. The Commission will encourage dialogue, compare opinions, seek balanced solutions and, as far as possible, articulate a viable consensus on the questions raised.

This consultation document has been prepared as part of this process. It is divided into ten chapters on specific topics, including production, processing, environment, and others. Issues such as health, innovation, profitability and the farm transfer process are woven into several different topics and are mentioned in different places. Each chapter contains some generally accepted or frequently repeated observations, data on various trends and a certain number of questions. The data are often based on average values that do not always reflect every aspect of the sector, or every feature of production, the regional situation, farm size or other elements under consideration.

The document is by no means exhaustive, and is not intended to shape the eventual conclusions of the consultation process or the recommendations to be made. Its sole purpose is to provide a summary profile that will trigger and fuel discussions. This profile has been designed to help participants identify a vision and some main themes, and to propose different options.

The Quebec government has asked the Commission to work with the population to define the main elements in a renewed vision of agriculture and the agri-food sector. The members of the Commission firmly believe that the best way to achieve this is through an open, transparent and disciplined debate.

It is with this in mind that the Commission puts forward the following observations and questions, and cordially invites you to take part in the Commission's work.

1 The food requirements of the population

Quebec's agriculture and agri-food sector ensures a secure supply of food for people both at home and abroad. In an increasingly inter-related world, it is part of an economic network that spans markets in Quebec, Canada and the world, creating a flow of exports and imports to meet the population's food requirements.

The population must not only be fed, it must also be well fed. The growing prevalence of obesity, along with the related problems of diabetes and cardiovascular disease, has led to the emergence of a number of public health issues that are of concern to the agriculture and agri-food sector. One of these issues is the need to create an environment that will encourage as many people as possible to adopt healthy eating habits.

THE QUEBEC MARKET

A number of social and demographic characteristics influence our food requirements. Since population growth and consumption are relatively stable, the volume of food consumed in Quebec is expected to level out in the future.

The portion of total income spent on food in Quebec and Canada is shrinking. Between 1997 and 2004, it fell from 13.2% to 12.5% in Quebec, and from 11.5% to 10.9% in Canada.¹

Rising life expectancy and average age, the shrinking size of households, higher education levels, changing value systems and cultural diversity will all have an impact on the demand for food.

The population is ageing, in both Quebec and Canada. The Institut de la statistique du Québec (ISQ) forecasts that the portion of the population aged 50 and over will rise from 31% in 2001 to 44% in 2036.² The first members of the Baby Boom generation turned 60 in 2006, and are now beginning to retire. In the last 20 years, the number of people in Quebec aged 65 and over has increased, while the number aged 15 and under has declined.

According to ISQ forecasts, by 2010 the over-65 age group will have overtaken the under-15 group in terms of size.

Based on the reference scenario used by the ISQ to forecast demographic trends, the Quebec population should stop growing in 2031, at which point it will stand at nearly 8.1 million people.³ The demographic curve is then expected to descend, slowly at first, but picking up pace over time.

Because of its ageing population, Quebec's consumer food sector will probably offer some interesting prospects for the development of products that address concerns relating to health and old age.

Consumers are increasingly sensitive to the composition and nutritive value of the food they eat, and are seeking a better dietary balance. Consumers are also increasingly concerned with food quality and safety. Faced with a population that wants to remain active and healthy for as long as possible, the agriculture and agri-food sector will probably have to concentrate even more on the quality aspect of its products.

Obesity and its complications, along with many cardiovascular disorders, have food-related causes that scientists and the general public now understand fairly well. In the future, Quebec's food sector will probably offer many opportunities for the development of products that address the health concerns of the population.

Families are busier than ever before, and their time is at a premium. In many families, both spouses work and have less time to spend on preparing meals. These trends have been clear for some time, and there is every indication that they will continue in the future. Consumers are therefore seeking healthy foods that can be prepared quickly and easily.

The number of people per household is falling, and the trend now is towards households composed of one or two people (63% of all households in 2001).⁴ The number of childless couples and the growing numbers of young adults (20 to 29 years of age) who live with their parents also have an impact on consumer habits.

The impact of the cultural communities on society is significant. They have their own dietary preferences that influence, at least to some extent, the variety of foods stocked in local markets, thus contributing to changes in consumer habits.

In the 1990s, consumers gradually began to incorporate ethical, political and environmental considerations into their food and consumption choices. This ongoing trend has led to the emergence of new requirements for compliance with certain values applicable to production, processing and distribution activities. Considerations such as animal welfare, local or regional production, environmental certification, fair trade, ecological products and organic farming now have an influence on consumer choices.

The media have played, and will continue to play, a leading role in shaping eating trends. Famous chefs have become household names. The quality and nutritional value of food products, along with questions of taste, are discussed in newspaper and magazine articles and on radio and television, helping to change consumer perceptions and choices.

The Commission invites participants to think about the principal changes influencing the demand for food products:

- **Is Quebec's agriculture and agri-food sector fully prepared to respond to present and future consumer needs?**
- **What do you think of public health issues, in particular the creation of settings more conducive to healthy eating habits?**

WORLD DEMAND FOR FOOD PRODUCTS

According to studies published by the Food and Agriculture Organization (FAO),⁵ the world population is increasing by more than 70 million people per year, and will level off at roughly 9.3 billion in 2050. Most of this growth will take place in Asia, Africa and Latin America. Forty-five percent of the world's population lived in cities in 1995, a figure that is expected to rise to 60% by 2015. Clearly, this will have a significant impact on farming.

Demographic growth, rising income levels, changing diets and rising per-capita consumption all influence the demand for food. The average daily per-capita food consumption will rise in developing countries; in the developed world, it is already at peak levels.

According to FAO forecasts for the period 2000 to 2030, the demand for farm products will increase by 60%, and will have doubled by 2050.

Diets will also change. The Organisation for Economic Co-operation and Development (OECD) and the FAO⁶ estimate that most of the increase in per-capita food consumption will be for animal protein. This is due to the increase in per-capita income in many parts of the world. As incomes rise, people choose to consume meat, eggs and dairy products more frequently, instead of eating only cereals such as rice, corn and millet.

The combined effect of changing diets and demographic growth caused world consumption of meat to almost quadruple in the period 1950 to 1997. The FAO forecasts an additional increase of 23% for the period 2006 to 2015.

The FAO also forecasts that world food production should normally be sufficient to meet this demand in the coming decade. Production will be increased among other things through new production technologies, larger cultivated areas, more intense cultivation, better yields, the use of biotechnologies and more suitable varieties, better public information and research.

On the other hand, the problem of the gap in food availability, due mainly to access and distribution difficulties, will continue to exist, especially in developing countries where, even today, some 776 million people do not have enough to eat.

The Commission would like participants to reflect on and propose solutions to the following questions:

- **How should Quebec respond to the dynamics of world trade in agricultural and agri-food products?**
- **Should the anticipated increase in world demand for animal protein be seen as an opportunity for Quebec's agri-food sector?**

POVERTY, ABUNDANCE AND WASTAGE

Significant quantities of farm produce and food stuffs are lost at every level of the food chain. American research estimates that between 40% and 50% of all the food produced, processed and distributed never reaches consumers due to cumulative losses along the way.

The average American family wastes 130 kg of food per year.⁷ Although precise figures are not available for Quebec and Canada, it is reasonable to assume that consumer behaviour is more or less the same.

Food banks do their best to use safe food resources that would otherwise be discarded, directing them towards underprivileged segments of society including many children. Social groups regularly criticize the paradox of a society of abundance and waste in which Quebecers of all ages regularly miss meals because they simply cannot afford them. Consumer groups also point out the weaknesses of the distribution network in poor neighbourhoods, especially with regard to fruits and vegetables.

The Commission would like to receive comments and recommendations on this subject.

- **How can the agriculture and agri-food sector help combat under nourishment and malnutrition?**

2 Agricultural production

Quebec's cool, rainy climate is especially suited to hay and pasture crops and has conditioned the development of agriculture in the province. Nearly 75% of all agricultural production in Quebec is derived from livestock, compared to 55% of Canadian production and 40% of world production. Agriculture in Quebec first began to shift towards what would ultimately become its principal specialty area – dairy farming – in the late 19th century.

Only a small percentage of all land in Quebec (less than 2% of the total area) is used for agricultural activity. Today, 80% of agricultural production is concentrated in the St. Lawrence Valley, mostly on the Montreal plain.

Most of Quebec's agricultural production is made up of basic commodities, that is to say mass consumption products, as shown in Table 2. However, changes in consumer tastes and the arrival of new technologies have led to the emergence of products with specific features such as local and regional produce, organic products, and so on.

Table 1 – DATA ON AGRICULTURE IN QUEBEC

Number of producers¹	47 390
Number of farming operations¹	30 539
Employment¹	55 800
Farm gate sales (millions)²	5 487,8
GDP (millions \$)²	2 324,6

Sources :

1. Statistics Canada, *Agriculture Census*, and
2. Institut de la statistique du Québec and Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec, *Profil sectoriel de l'industrie bioalimentaire au Québec, édition 2005*, Janvier 2006

Farm produce in Quebec may be sold directly to consumers, used as raw materials by processing companies, or be delivered directly to distributors, retailers or restaurants for the domestic or foreign markets.

**Table 2 – MAIN TYPES OF AGRICULTURAL PRODUCTION IN QUEBEC
MONETARY RECEIPTS IN 2005 (THOUSANDS OF \$)**

LIVESTOCK PRODUCTION	RECEIPTS (thousands of \$)	PERCENTAGE*
Dairy	1 847 225	34
Pork	1 030 220	19
Poultry and eggs	586 651	11
Other animal production including beef, sheep and lambs	555 565	10
Total cattle and animal production	4 019 661	74
CROPS		
Corn, oilseeds, cereals	423 620	8
Horticulture (vegetables and potatoes)	394 342	7
Flowers and nurseries	249 701	5
Fruit and other	228 897	4
Maple products	151 673	3
Total crops	1 448 233	27
MARKET RECEIPTS	5 487 780	100

* Percentages are rounded off.

Source : *Activité bioalimentaire au Québec, Bilan 2005*, Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec, Appendix, page 41.

PRODUCTION METHODS AND STRUCTURES

Over the years, agricultural production has been taken over by specialized farming operations. Production volume, business size, capital invested, and productivity from agricultural labour and land have all increased considerably. Between 1941 and 2001, the number of farms in Quebec fell from 155,000 to 30,539.

Table 3 – DEVELOPMENT OF AGRICULTURE IN QUEBEC

	1961	2001	Variation
Total area of agricultural land ('000 hectares)	5 746	3 417	- 41 %
Cultivated area ('000 hectares)	2 110	1 850	- 12 %
Number of farms	95 777	30 539	- 68 %
Average farm size ('000 hectares)	60	106	+ 77 %
Average cultivated area per farm ('000 hectares)	22	71	+ 223 %
Average revenue per agricultural operation (Current \$)	4 359	179 029	+ 4 007 %
Capital per operation (Current \$)	17 000	668 000	+ 3 830 %

Source : Statistics Canada, *Agriculture Census*

Livestock yields have also increased significantly. For example, the average milk yield per cow increased by 14% over a ten-year period, from 7,102 kg/year in 1996 to 8,115 kg/year in 2005.¹ For pigs, overall sow productivity increased by 15%, from 20.1 weaned piglets per year in 1995 to 23.2 in 2003.²

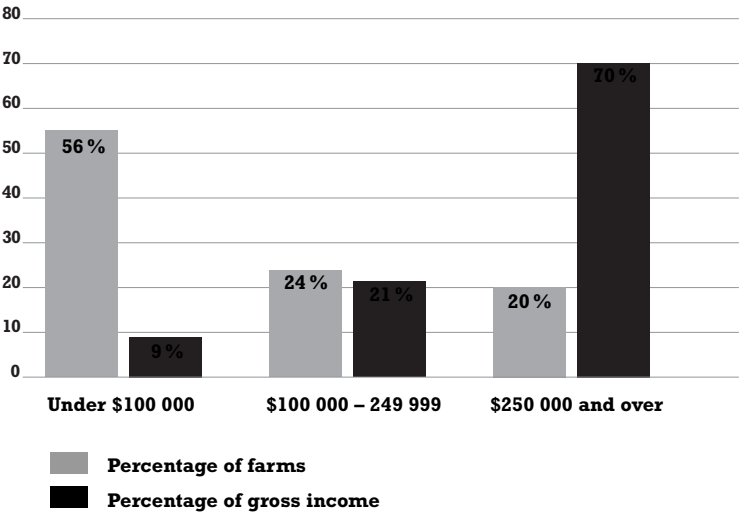
As Graph 2 shows, production has become concentrated among a small number of producers with the result that, in 2001, 20% of producers—those with gross incomes of more than \$250,000 per year—generated 70% of total agricultural revenue. The majority (56%) contributed only 9% of total revenue in that year.

The introduction and adoption of new production technologies and methods have been factors in the modernization of agriculture in Quebec. Some of these technologies are generally well-received whereas others have triggered fear and suspicion, in particular those involving the use of pesticides, antibiotics, growth hormones and genetically modified organisms, which are perceived as risks to health, the environment and biodiversity. Technologies associated with resource conservation and preservation, such as direct seeding, precision farming and organic production methods have been received more favourably.

More stringent regulatory requirements, combined with the level of investment required by modern technology, have led to an increase in the size of agricultural operations and their need for capital. This trend has been strengthened by the fact that food processing and distribution companies need regular supplies in much greater quantities.

These changes are not unique to Quebec and are observed in the rest of Canada and the developed world as well.

Graph 2 – FARM SIZE AND GROSS INCOME, QUEBEC



Source: Statistics Canada, *Agricultural Census 2001, Quebec results*

CONCERN ABOUT THE INCOME OF FARMS AND FARMING FAMILIES

The income of farmers and farming families is a constant and major concern. Farm families have similar needs to their city-dwelling counterparts. On the other hand, rising investments have caused them to accumulate increasingly significant financial liabilities. Farm incomes can also vary from year to year as a result of price fluctuations, bad weather, natural disasters and other uncontrollable phenomena.

Agriculture is a capital-intensive activity. In other words, the amount of capital required per unit of product sold is generally higher than in other sectors. In Canada's economy as a whole, a company needs approximately \$2 in assets for every \$1 in sales, whereas in the agricultural sector, the ratio is between \$4 and \$6 in assets for every \$1 in sales.³

Net farm income, including payments from government programs, is more stable and slightly higher in Quebec than elsewhere in Canada.⁴ However, without subsidies from government programs, net farm income would have been negative in recent years. Low farm incomes are not confined to Quebec since this is a characteristic of most developed economies.

The debt ratio (total debt/total assets) of farms in Quebec has risen steadily since 1994 and is now even higher than that of other provinces.⁵, increasing from 21% in 1994 to 28% in 2004 (compared with 14% to 19% for Canada as a whole.) Although the debt ratio in Quebec appears to be an indicator of the sector's fragility, it is lower than Canada's general economy (74%) and therefore does not seem to be as elevated in comparison.⁶

The incomes of farming families in many developed countries are comparable to if not higher than those of non-farming families, as studies by the Organisation for Economic Co-operation and Development (OECD) have shown.⁷ In Quebec, in 2000, farming families had an average income of \$59,696, compared to \$59,297 for Quebec families in general.⁸ In Canada, in the same year, farming families reported average incomes of \$66,270 compared with \$66,160 for non-farming families. This is explained by the fact that, in 2000, Quebec's farming families earned 57.6% of their income outside the farm. In Canada, the figure was 73.5%. This trend has continued; in 2003, off-farm revenues accounted for 62.2% of the incomes of farming families in Quebec, compared with 78.8% for farming families in Canada as a whole. In comparison, in the United States, off-farm revenue as a percentage of the total revenue of farming families rose from 53% in 1960 to 95% in 2000.⁹

Although farm owners in Quebec have higher debt levels than their Canadian counterparts, the value of their assets has also increased; the average net value of a farm in Quebec (assets minus liabilities) was \$170,000 in 1981, but had risen to \$725,000 in 2004 (including production quotas).¹⁰

All the above data are averages, and the situation of individual farms may differ significantly.

Accordingly, the Commission would like to hear participants' reactions to the following questions:

- **What do these trends mean for the future of small, medium-sized and large farms in Quebec?**
- **What strategies are required to manage the consequences of these trends?**
- **What role should be played by the State?**

AGRICULTURAL POLICIES

Agricultural policies cover many different aspects of agriculture. The best-known include food safety, plant and animal health, soil and environmental protection, income improvement and stabilization, financing, training and labour, research and development, outreach and technology transfers, farm support, and property tax reimbursements. Some of these areas fall under the authority of both levels of government.

In 2003-2004, Quebec ranked second among Canada's provinces for government spending in the agricultural sector, with \$704 million, the equivalent of 12.9% of agricultural revenue generated by farms. Alberta ranked first with \$886 million and 13.4% of farm revenue, while Ontario was fourth, with \$455 million or 5.6% of farm revenue.¹¹

Quebec's agricultural policies, like those of most industrialized countries, are aimed mainly at improving and stabilizing farmers' income and providing citizens with a regular supply of food at a price they can afford to pay.

Quebec and Canadian agricultural policies are directed towards three main areas of focus, namely collective marketing, farm income improvement and stabilization, and farm financing.

COLLECTIVE MARKETING

Traditionally, farmers sold their own produce to a fairly small set of intermediaries, who set the conditions of sale. In the 1950s, the Quebec government created the *Comité d'enquête pour la protection des agriculteurs et des consommateurs* (commonly known as the Héon Commission), which tabled its report in 1955. Its main recommendation was to establish mechanisms that would allow farmers to market their products collectively. The report stipulated that its recommendations were designed to trigger a significant increase in the agricultural sector's real net revenue and purchasing power.

Collective marketing, by strength of numbers and centralized sales operations, helps improve the negotiating power of farmers. It can be put into practice in a variety of ways, but there are three approaches in particular that appear to be most popular. The first is the voluntary approach through a marketing group or cooperative, with no mandatory membership. The second involves setting up a single, mandatory sales organization for a given product, known as a joint plan. Once accepted, the joint plan must be used by all units of production supplying the commodity in question. The third approach is also based on the joint plan, with the addition of production quotas, which are allocated among producers.

In 1956, the government followed up on the Héon Commission's recommendations by adopting the *Act respecting the marketing of agricultural, food and fish products* which allowed for the creation of joint marketing plans for agricultural products. Since then, producers have developed joint plans for dairy, poultry, turkeys, table eggs, hatching eggs, pork, maple, beef, blueberries, cash crops (grains), rabbits, cannery crops (vegetables), apples, potatoes, goat and lamb. To implement the joint plans, marketing boards have been set up at the producers' request. They are generally controlled by federations of producers.

The federal government added a quota-based supply management system to the joint plan formula throughout Canada. Supplies for milk, table eggs, hatching eggs, chicken and turkey are all managed in this way. The system serves to control and limit production in Canada as a whole and by province, based on the requirements of the domestic market. Supply is set based on estimated demand in order to obtain a price calculated on the cost of production.

When a system like this is introduced for a given product, the Canadian quota is divided among the producing provinces based on historical production figures. The provincial marketing boards administer the quotas and allocate them to producers based on individual production histories, and then take care of marketing.

The power to set quotas for production is associated with the ability to control imports. The Canadian government protects its domestic market by setting high customs tariffs for imports: 192.3% for table eggs, 280.4% for whole chickens, 289% for cheddar cheese, and 351.4% for butter. Despite these tariffs, significant quantities of all these products are imported into Canada. This is especially true of eggs from the United States.

Generally speaking, quotas are transacted individually between producers, or when farms are sold. Their total value in all supply managed sectors in Quebec was estimated at approximately \$9.2 billion in 2005.¹¹

Milk is an exception to this general rule. Quotas are sold through the Fédération des producteurs de lait du Québec which has created a centralized quota exchange system. Quota values have risen steadily. In October 2006, the quota for the yield of roughly one dairy cow was selling at a historical high of over \$33,000. The rise in quota prices has become of increasing concern to the producers' federations, especially in the dairy sector in Quebec and other Canadian provinces. The high cost of a quota now constitutes a barrier to anyone wishing to purchase a farm. It is also one of the main causes of indebtedness for dairy farmers.

The emergence on the market of products not covered by the same tariff requirements has, in some cases, become a way of circumventing the customs barriers protecting sectors with quotas.

Some new products that were not foreseen when the barriers were erected can now be found on the Canadian and Quebec markets, including concentrated milk proteins which cost less and are used mainly as substitutes in the production of cheese and yoghurt, as well as butter oil-sugar combinations that are used to manufacture ice cream.

Supply management and collective marketing methods are not popular in every quarter. One of the criticisms often directed at this type of mechanism is the fact that it does not adjust quickly to changes in demand. It has been claimed that product prices would decline and consumer demand would increase if quotas were eliminated, allowing processing companies to become more competitive. In contrast, there are claims that deregulation experiments in other countries have caused a decline in the price paid to producers with no obvious benefit to consumers. There are also those who would like other stakeholders, including processing companies, distributors and consumers, to be involved in the management of Quebec's marketing boards.

The Commission therefore poses the following questions:

- **Do the current collective marketing mechanisms in force for agricultural products allow the agri-food industries to respond quickly and adequately to market needs in Quebec, Canada and abroad?**
- **Do they leave sufficient room for new products and niche production?**
- **Do marketing strategies based on supply management have a place in the present context of market liberalization? If so, what are their advantages and disadvantages, and how could they be improved?**
- **Which measures should receive priority for helping supply-managed production sectors to deal with international competitors who succeed in circumventing Canada's high tariff barriers?**
- **Should the structure of the marketing boards, currently under the authority of agricultural producers, be expanded to allow for the involvement of other interests, such as those of consumers and processors?**
- **Should agricultural policies leave more room for the goals of healthy eating and public health?**

INCOME IMPROVEMENT AND STABILIZATION PROGRAMS

The two levels of government have introduced a set of intervention measures aimed at reducing the impact of the inherent risks of agricultural production and improving producers' revenues. Quebec, for example, has crop insurance programs and farm income stabilization insurance programs.

The first level of intervention with regard to income improvement and stabilization is the Canadian Agricultural Income Stabilization Program (CAIS), created in 2003. Its purpose is to stabilize overall farm income on the basis of historical net income regardless of actual production volume. This type of program is described as "decoupled" because it is not based on production level and does not offer guaranteed prices for products. Accordingly, it is considered to be in compliance with the standards negotiated in international agreements.

In Quebec, the Program is administered by La Financière agricole.¹³ It is funded by the federal (60%) and Quebec provincial (40%) governments. Financial participation by farmers varies from year to year, depending on differences in insured income. In 2004, the Program paid a total of \$181 million to agricultural producers. It is currently under review, as part of a new Canadian framework strategy for agriculture, expected to come into force in 2008.

Farm Income Stabilization Insurance (known by its French acronym ASRA) is a Quebec program that was launched in the late 1970s. It is administered by La Financière agricole and supplements the federal program for 20 commodities.* Its purpose is to protect producers from market risks. Producers themselves provide one-third of the funding, and the government provides the other two-thirds. The program recorded a deficit of \$373 million in 2005-2006.

ASRA has paid out compensation every year on 12 of the 20 products it covers. There is no ceiling per farm on the amount of compensation payable.

Because ASRA applies to specific products and is based on the prices received by producers for the products covered, it is more open to challenge under international trade rules. Although product support programs reduce income variability, the OECD feels they also distort market rules and allow production to be maintained independently of market needs. In other words, they do not encourage producers to question their production choices. This form of income support is included amongst those that are susceptible to being reduced by virtue of the agreements reached within the framework of the WTO negotiations.

The FAO,¹⁴ for its part, believes farm support should foster environmental protection and social aspects rather than production objectives.

Other measures also exist to help manage the inherent risks of farming, including crop insurance, which protects against natural disasters. The crop insurance program covers only 16 types of production and certain types of risks. It paid out nearly \$56 million in coverage in 2005.

The programs managed by La Financière agricole du Québec (FADQ) are funded in part by the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec. The department provided the FADQ, in 2005-2006, with \$305 million which represents about half of its \$637.4 million budget. In addition, \$93.5 million was disbursed to producers in the same year by the department to cover the reimbursement of a portion of their property taxes.

The property tax reimbursement program takes into account the high level of capital investment in the farming sector compared to other economic sectors, and the return on capital which is lower than in other sectors. The program ensures that the farming sector is not unduly penalized.

The Commission proposes reflection in the following areas:

- **To what extent should the State intervene to support or increase the income of agricultural operations?**
- **What form should State interventions take, in terms of type of agriculture, type of farm and type of production?**
- **What should the State's priority goals be?**
- **What type of assistance should the State offer to producers?**
- **Should financial assistance depend on the nature and volume of the farm produce, the operation's total income, size or development stage, or other criteria?**
- **Should the State continue to support types of production that have been in deficit for 10, 12 and even 20 years?**
- **What could farmers do to make their farms less vulnerable and increase their flexibility?**

* Finished hogs, cow-calf, finished beef, grain-fed veal, milk-fed veal, lambs, milk lambs, heavy lambs, grain corn, soya, barley, oats, wheat silage, wheat for human consumption, feed wheat, barley, potatoes (fresh and stored), apples.

3 Food processing

The food processing industry comprises two manufacturing sectors, food and beverages, with three processing levels.

Animal carcasses and wheat flour, for example, result from primary processing. Preparing meat cuts is a secondary processing operation. Tertiary processing involves combining previously-processed products and ingredients—for

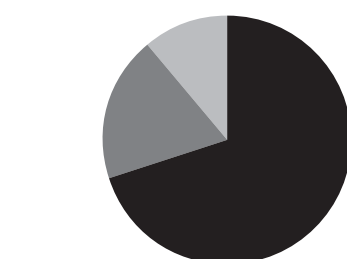
example, the manufacture of frozen pizzas, pies and biscuits.

From 2000 to 2003, the processing sector recorded higher levels of growth than Quebec's economy as a whole, an average of 4% compared to 2.5%. The food processing industry is present in most regions, and is often a central player. The Montréal and Montérégie regions generate roughly 50% of all jobs and 70% of all added value in Quebec's food processing sector.⁴

THE AGRI-FOOD INDUSTRY: A KEY SECTOR IN QUEBEC'S ECONOMY

The food processing industry is the leading employer in Quebec's manufacturing sector, accounting for 70,000 jobs and making a significant contribution to Quebec's economy. With total sales of over \$18 billion in 2005,¹ food processing accounted for 1.9%² of Quebec's GDP and 11%³ of its manufacturing sector.

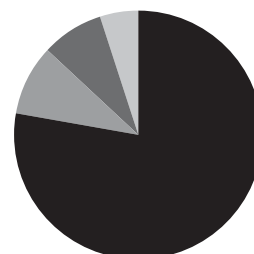
**Graph 3 – SOURCE OF INPUT PRODUCTS
USED BY THE FOOD PROCESSING
INDUSTRY**



■ Quebec: 70 %
■ Other provinces: 19 %
■ Outside Canada: 11 %

2005 data, source: MAPAQ, *L'activité bioalimentaire au Québec - bilan 2005*

**Graph 4 – SIZE OF FOOD PROCESSING
COMPANIES**

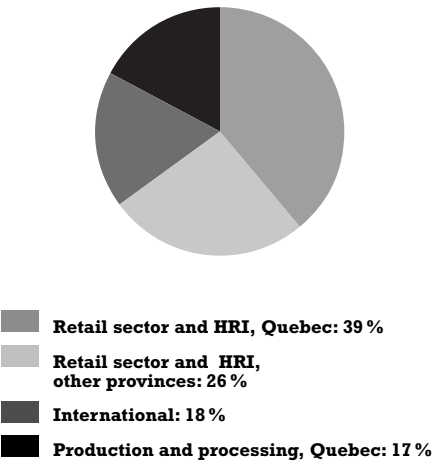


■ Under 50 employees: 78 %
■ 50 to 99 employees: 9 %
■ 100 to 249 employees: 8 %
■ Over 250 employees: 5 %

Sources: ICRIQ, April 2004; Statistics Canada and MAPAQ

Twenty-two percent of operations with less than 50 employees have fewer than five employees, 38% have five to 19 employees, and 18% have 20 to 49 employees. Together, they provide 19.5% of all jobs in the sector.

Graph 5 – PURCHASERS OF PRODUCTS PROCESSED IN QUEBEC



The cooperative sector occupies a key position in Quebec’s food processing industry, accounting for roughly 25% of processed shipments. Cooperatives process around 85% of the poultry and over half of the milk and pork produced in Quebec.⁴

The processing industry is located at the junction of two highly structured systems, downstream from agricultural production and upstream from food distribution, both of which are key links in the agri-food chain.

PROCESSING AND AGRICULTURAL PRODUCTION

It is generally recognized that Quebec processors can rely on a secure, well-structured supply of raw agricultural materials. A feature of Quebec’s processing industry is its strong ties to production, especially in the sectors directly connected to livestock production (milk, meat, eggs and poultry) which account for 53% of the value of processed shipments; these sectors spend 70% of their revenue on the purchase of raw agricultural materials.¹

A high percentage of Quebec’s agricultural production is marketed collectively. This gives farmers a degree of leverage in their transactions with Quebec processors. The food processing industry in Ontario is more diversified and less dependent on the cost of the raw material supply. Some observers have pointed out that Quebec and Canada’s joint marketing mechanisms may, in some cases, place upward pressure on supply costs making processors less cost-effective than their foreign competitors. Others consider that the joint marketing systems are not suited to the needs of processors producing niche products.

PROCESSING AND FOOD DISTRIBUTION

Over the last two decades, in both Quebec and Canada, there has been a trend towards concentration and consolidation in the distribution sector. Market access has become more difficult, in particular for small and medium-sized processing firms that cannot always supply the volumes required by the major distribution networks. Concentration in the distribution sector has reduced competition. In addition, many strategic decisions in the distribution sector are now made outside Quebec.

Agri-food companies must face the twin challenge of competitiveness and productivity. Processing firms in Quebec are less productive than their counterparts in Ontario. Statistics Canada reports that the combined productivity of the agricultural production/processing chain in Ontario is higher than in Quebec. GDP per employment is also regarded as a strong indicator of productivity. In food processing, this figure is 27% lower in Quebec than in Ontario. It has been suggested that this productivity gap can be explained, at least in part, by the fact that there are fewer large companies (500 employees and over) in Quebec (2.8% of the total) than in Ontario (5%) and elsewhere in Canada (4.2 %).⁵

Technology is also an important vector for productivity. In this regard, Quebec’s smaller domestic market hinders access to cutting-edge technology, creates fewer opportunities for economies of scale, and reduces purchasing power.

The gross margin for Quebec's food processing industries averaged 23% between 2000 and 2003, compared to 27% in Ontario and 20% for all other Canadian provinces. Other analyses show that the profitability of Canadian processing companies is 50% below that of firms in the United States.

Quebec firms are also vulnerable to tariff and non-tariff trade barriers, especially in the United States and Japan, which are Quebec's two main export markets.

Worker availability is another important factor in productivity. Like several other manufacturing sectors, the food processing sector is finding it difficult to hire workers.

For both overseas and domestic markets, the strength of the Canadian dollar has increased foreign competition, particularly from the United States.⁵

Quebec food processing firms can, however, rely on a network of institutional resources to meet their training and research and development needs. The scope and quality of Quebec's effective, well-structured social programs, designed to meet the needs of their employees, are another significant advantage. Quebec offers some of the most advantageous production factors in the world, including a reliable, abundant and competitively-priced energy supply, as well as access to a plentiful supply of high-quality water.

The Commission's questions concern the measures that should be taken to improve the productivity and competitiveness of Quebec's food processing industry:

- **How can Quebec's food processing companies put their advantages to better use and improve their competitive capacity in domestic and foreign markets?**
- **Is the cost of raw agricultural materials a problem? If so, how is it a problem and what are the consequences?**
- **How can specialized processors be given better access to distribution networks?**
- **How can companies be assured of the manpower they need?**

NEW MARKET DEVELOPMENT

Several stakeholders have mentioned that few Quebec companies own or control brands that are recognized throughout the Canadian market. On the other hand, the Quebec market is open to products sold under brands controlled by Canadian corporations outside Quebec, or international corporations.

Distributor brands are gradually increasing their market share, and the most productive firms are given preference when sub-contracts are awarded. As a result, recognition for national brands controlled by Quebec firms is a strategic issue.

In several sectors of activity, including mass-market products, it is hard for Quebec firms to compete with large Canadian or foreign corporations, especially in export markets. The need to supply large volumes on a regular basis prevents many small firms from gaining access to these markets.

It has been suggested that the processing industry in Quebec can be developed by focusing on niche markets with higher added value, such as luxury products, including foie gras, ice cider and fine cheeses, health products such as prepared vegetarian dishes, organically-certified products and health-enhancing foods, and products of high practical value such as pre-cut apples, prepared meats and dishes, etc.

To capture a market niche, businesses must exhibit creativity, a highly-developed sense of innovation, and a strong ability to adjust quickly to a particular context. Many firms have in fact been successful in niche markets showing that versatility, creativity and the ability to innovate can allow an enterprise to seize new business opportunities.

The Commission would like participants to respond the following questions:

- **What are the most promising market sectors?**
- **What conditions must be developed in order to seize business opportunities?**
- **What measures can be introduced to ensure that organizations at different levels in the agri-food chain read the market signals and work jointly to prepare a response?**
- **What role should the State play?**
- **How can processors be encouraged to develop products with positive impacts on health?**



Food products are distributed through two main but separate channels: retail sales, and the “HRI” sector, made up of hotels, restaurants and institutions.

Distribution of food produce

In 2004, the two distribution sectors had total sales of over \$18 billion and employed over 152,000 people.¹ The retail and HRI distribution networks purchased over 45% of their food outside Quebec, including 27% from other Canadian provinces.²

CHANGES IN THE RETAIL FOOD SECTOR

In the 1950s, food was distributed by retail chains such as A&P, Dominion, Steinberg and Union, and by small, independent grocery stores. This was followed by a period of consolidation, which accelerated at the beginning of the 1990s and led to the enlargement and modernization of food retailing infrastructures.

Today, three companies control 75% of retail sales in Quebec, and 57% in Canada: Loblaw's (Loblaw's, Provigo, Maxi, Maxi & Co., etc.), Sobeys (IGA and IGA Extra, Sobeys, Tradition, BoniChoix, Rachelle-Béry, etc.), and Métro (Métro, Super C, Loeb, A&P, etc.).²

The rest of the market is partly occupied by independent grocers, regionally-based chains small stores offering frozen foods, and specialized stores that are either independent or affiliated with larger chains found mainly in the niche markets for luxury, organic or health food products. A significant portion of the market is also occupied by non-specialized stores such as Costco, Wal-Mart, Zellers, convenience or corner stores, and pharmacy chains.

The boundary between specialized and non-specialized stores is increasingly thin. Some food distributors have extended the range of non-food products they offer in response to sales of food products by non-specialized chains.

The retail food market in Canada and Quebec is characterized by a high level of concentration, especially compared to the United States where the market is still relatively segmented.

Despite their large market shares, the major Canadian distributors are relatively small in worldwide terms. For example, in 2004, Wal-Mart as the world's largest food distributor, had total sales of US\$309.4 billion compared to US\$22.5 billion for Loblaw's, which ranked 30th worldwide.³

There are three categories of food retailers:

- stores wholly-owned by a distribution chain (corporate or integrated stores);
- independent stores affiliated with a chain and trading under a banner (associated independent stores);
- independent stores.

The type of connection between a store and its chain influences its purchasing decisions. In particular, it determines the freedom the store has to choose its suppliers and its ability to purchase products from local producers or processors.

According to the magazine *Canadian Grocer*, integrated or corporate stores control a larger market share in Canada (60.7%) than in Quebec (36.7%). However, the combined sales of stores integrated or associated with the major chains account for a similar market share, 95% in Canada and 95.9% in Quebec.³ Over the last 20 years, the number of non-associated independent stores has decreased significantly. In both Quebec and Canada, they now represent around 5% of the market.²

Processing industry representatives have voiced their concern about commercial practices that increase the difficulty of placing products in supermarkets. The major chains charge access fees, called "slotting" fees, and demand large volumes, regular deliveries at fixed times to distribution centres, product standardization and negotiation through a purchasing department. For companies located in outlying regions, the distance to the decision-making centre compounds these difficulties.

A WIDER RANGE OF FOOD PRODUCTS

The supply of food products has never been so extensive and varied. In 2005, 30,000 products could be found on the shelves of a typical supermarket, compared to 6,000 in 1953. This is due to the willingness of distributors to respond to the needs of consumers from a range of cultural backgrounds, and to a growing diversity of consumer habits. Consumers are also better informed and more receptive to new products. This market shift partly explains the trend towards the modernization and enlargement of supermarkets in Quebec. It offers business opportunities for producers, processors and distributors that are able to anticipate trends and offer innovative, competitive products.

Although these trends create business opportunities for manufacturers, they also increase the marketing challenges. Quebec processors must now advertise their products and brands and persuade consumers, who are short of time and surrounded by numerous other products, to buy them.

Traditionally, major processors have invested heavily to acquire high-volume production equipment and try to maintain stable, high-volume production for as long as possible. However, product life cycles are tending to become shorter. Businesses that are slow to adapt lose market share to more flexible businesses that are able to adjust quickly to new trends. This is the case for the highest-performing small and medium-sized businesses, which have become market leaders and have quickly scored impressive business successes with major distributors.

PRIVATE-LABEL BRANDS

The strong competition between Canadian distributors, combined with a fear of US competition, has generated a range of strategies to develop consumer loyalty. One strategy involves promoting products under the distributor's own brand name; the products in question are obviously not available in competing stores. In designing their own-brand strategies, major distributors can use first-hand information on the expectations and behaviour of their consumers, and can adapt swiftly to new trends. As a result, private-label brands such as *President's Choice*, *Our Compliments* and *Sélection Mérite* can compete with national brands owned by processors. Among other things, these strategies have created business opportunities for Quebec companies that do not control dominant national brands.

According to Deloitte & Touche (*Benchmarking for Success 2000*), private-labels processed foods and beverages held 27% and 28% of the Canadian market respectively in 1998. It is important to note that private brands are stronger in Canada than in the United States. According to AC Nielsen,⁵ Canada ranks ninth worldwide for the market penetration of private-label products at 19% compared to 16% in the United States. Switzerland ranks first at 45%.

The gradual opening up of international trade in agricultural and food products offers additional business opportunities for major distributors as they take advantage of lower-cost supplies, especially for their private-label products. A strong Canadian dollar has reinforced this trend. Competition from US distributors obtaining supplies from the international market has encouraged other distributors to follow the same path.

The competitive capacity of the production-processing chain is a major issue for Quebec's agri-food sector. The Commission would like to hear participants' thoughts on the following question:

- **What steps or measures could be implemented to ensure that Quebec businesses of all sizes (small, medium and large), and suppliers of niche or local products, are able to increase their presence within the current food distribution system?**

FOOD PRODUCT LABELING

The labeling of food products falls under the responsibility of the Canadian Food Inspection Agency (CFIA). It has requirements relating to nutritional information, and nutritional and health claims. In Canada, labels must give nutritional information for most food products. This represents a considerable burden for some producers, who see it as a relatively costly extra expense. However, the new requirements may open the way to new business opportunities by highlighting the nutritional quality of certain products.

Increasingly, consumers want to know what their food contains, and some go even further and demand information on the origin, production and processing of the food stuffs they eat. This has been a factor in the problems caused by the introduction of genetically-modified organisms (GMOs) in the food system, and a debate about the compulsory, as opposed to voluntary, labeling of GMOs is now under way.

HOTELS, RESTAURANTS AND INSTITUTIONS (HRI SECTOR)

Hotel, restaurant and institutional food services have grown considerably in Quebec and represent a key segment of the market. The percentage of HRI food spending by the Quebec population is increasing although it remains below the level in the United States.

In 2004, for the first time in the US, the percentage of HRI spending by consumers exceeded the percentage for grocery stores. That same year, Quebec's restaurant sector had sales of around \$7 billion each year, a 4.5% increase over 2003. Food services in hotels and institutions accounted for another \$2 billion. The HRI sector employs approximately 161,000 people.⁶

The Commission would like to receive opinions and comments on the following elements:

- **What is the role of labeling? How far should it be taken?**
- **What information is essential for consumers, and what information should labels contain?**
- **Should voluntary GMO labeling be made compulsory?**
- **How can the labeling burden imposed on processing and distribution companies be taken into account?**

The Commission would like to receive opinions and comments on the following questions:

- **How can Quebec's agriculture and agri-food sector develop a true partnership with the HRI sector to take better advantage of the opportunities it offers?**
- **Should the call for bids issued by public institutions place more emphasis on Quebec products?**
- **How can distributors be encouraged to pay more attention to Quebec products?**

The purchasing policies of hotels and restaurants differ from those of the retail sector. Traditionally, they involve locating specific products and a more direct business relationship. There is a clear trend towards consolidation of the HRI distribution sector, in both Quebec and Canada, and also of the management of the major institutional accounts and cafeteria services of large corporations. Consolidation increases the purchasing power of the distributors and tends to distance manufacturers from the decision-making centres. One of the effects of the shift is to add entry barriers for small producers and processors who are unable to supply large volumes of their products.

Independent restaurants and small regional chains are often still serviced by local or regional distributors. Quebec reports the highest percentage of firms that are independent and not affiliated with a chain.

STRATEGIC IMPORTANCE OF THE HRI SECTOR

The positioning of processing companies with HRI distributors has often proved to be a strategic choice. Consumers who are introduced to Mexican food, sushi or gastronomy by their experience in a restaurant or through the media will often seek out similar products on store shelves.

A number of institutions, including the Institut de tourisme et d'hôtellerie du Québec (ITHQ) and the media, play a key role in guiding consumer trends and raising the visibility of local products. The ITHQ has made a significant contribution to the development of know-how in the restaurant sector, and has helped raise Quebec's profile in this area.

Some stakeholders are still concerned that the HRI market is neglected by processors despite the fact that, in addition to being strategic, this market is generally considered to be less costly and less of a risk. In addition, Quebec's hotel and restaurant sector is dynamic and creative, and contributes to the evolution of consumer trends.

5 Foreign trade in agricultural and agri-food products

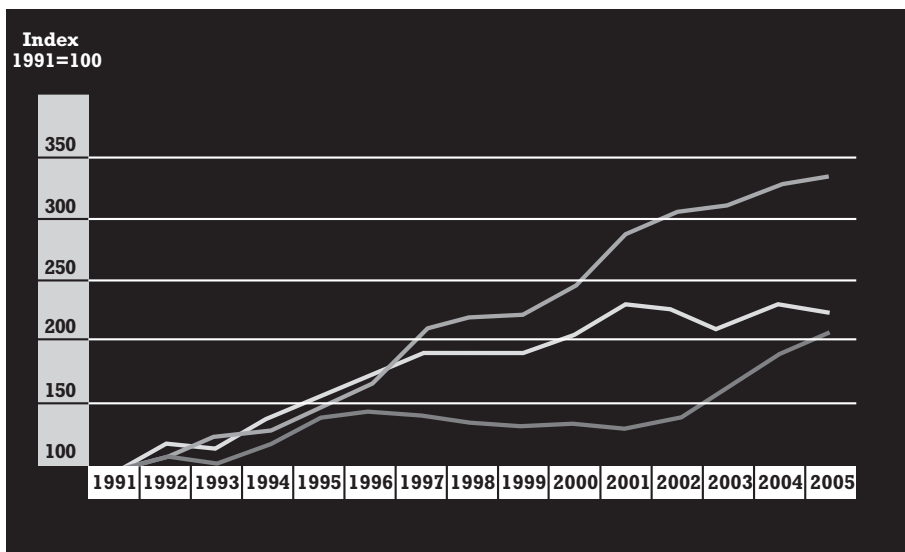
Quebec exports 53% of the food it produces, and relies on imports for 45% of its food requirements.¹

FOREIGN MARKETS

Interprovincial and international markets are becoming increasingly important as destinations for Quebec's agri-food production; their share increased from 34% of total sales in 1999 to 53% in 2005. In fact, these markets have become the principal source of growth in the agri-food sector, with an annual increase of more than 10% in shipments, compared to an increase of just 4% for the Quebec domestic market.

Quebec experienced a markedly higher increase in international agri-food exports than the rest of Canada, as well as for all other exporting nations combined, as is shown in Graph 6.

Graph 6 – EVOLUTION OF THE VALUE OF INTERNATIONAL AGRI-FOOD EXPORTS* QUEBEC, OTHER CANADIAN PROVINCES AND THE WORLD – 1991 TO 2005 (%)

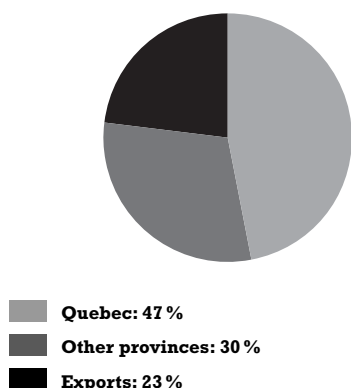


* Comprised of foodstuffs and raw materials

■ Quebec: 323
 ■ Canada excluding Quebec: 221
 ■ World: 205

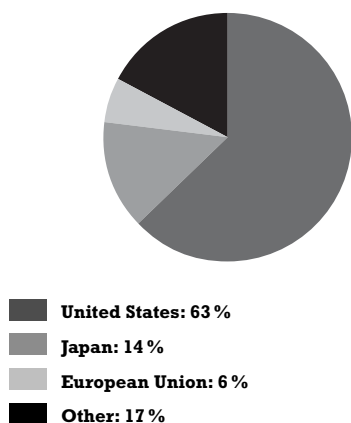
Sources: WTO, international trade statistics. Statégis and ISQ, international trade statistics for Canada and Québec. MAPAQ, Intergovernmental and trade policies directorate, December 2006.

Graph 7 – DESTINATION OF QUEBEC'S FOOD PRODUCTION (2005)



Quebec's overall international balance for agri-food trade has been positive since 1997 mainly as a result of its exports to the United States. The balance of trade with all other countries continues to be in deficit; in other words, Quebec imports more products from those countries than it exports to them.

Graph 8 – DESTINATION OF QUEBEC'S FOOD EXPORTS (2005)



Quebec's international exports increased by 16% between 2002 and 2005. Quebec contributes more than 12% of Canada's total international exports, ranking behind Ontario (28%) and Alberta (16%).

International exports rose by more than 14% in the period 2001 to 2005, and imports by 19%.² Export growth was achieved despite a slowdown in 2003 that was due, among other things, to mad cow disease (bovine spongiform encephalopathy) and the strength of the Canadian dollar. However, export growth was only 1% in 2004-2005. Data for the first quarter of 2006 indicates a drop in the value of exports. Quebec's agriculture and agri-food exports accounted for more than 6 % of its total exports in 2003.

A NEW INTERNATIONAL MARKET DYNAMIC

Countries such as Mexico, Chile, Brazil, India and China⁴ are playing a much more important role, offering products at lower prices. These countries enjoy certain advantages, including a labour force and a climate that allows them to produce raw materials and processed products at little cost. Their growing presence on the international stage has emphasized the existing downward pressure on prices and will probably alter many aspects of international trade. However, the increased supply of products has occurred in a context where worldwide demand is also growing. In addition, the cost advantage enjoyed by these countries may be counterbalanced by disadvantages in other areas such as quality, safety, traceability and reliability of shipments.

Competition on international markets is likely to intensify. As a result, Quebec's farms and processing companies will need to be efficient, innovative and flexible to adjust to these changing conditions if they are to maintain or improve their market position. In addition, the probable erosion of tariff protection due to international pressure, especially in the trade negotiations undertaken by the World Trade Organization (WTO), will fragment the domestic markets currently under supply management.

Most of the products that are exported are processed products, which in 2005 accounted for nearly 85% of Quebec's exports, compared with 76% for Ontario and 60% for Canada as a whole. The principal agri-food exports from Quebec are composed of the following notable products of animal origin: fresh or frozen pork, poultry meat, eggs, animal by-products, dairy products, and livestock. The principal exports from plant origin are: cocoa products, miscellaneous food products, fruits and vegetables, honey, maple products and sugar, cereal grains, beverages.

In 2005, Quebec exported animal products for a value of \$1.6 billion, including \$1 billion in fresh or frozen pork.⁴

Animal products accounted for 43% of total agriculture and agri-food exports, and pork alone accounted for 33%. The vast majority of these exports went to the American market. Pork exports to the United States rose by 58% between 2000 and 2005. Exports of crop products were valued at \$2.2 billion in 2005. The most important individual products were cocoa, with exports valued at \$340 million or 18% of total food exports, followed by miscellaneous foodstuffs and food products, fruits and vegetables, cereal products, beverages and maple products.¹

It is worth noting that this export growth occurred even as the Canadian dollar soared in value. In the period 2002 to 2005, the Canadian dollar rose by 38% against the American dollar, by 32% against the Yen and by 11% against the Euro.⁶

The pork industry is Quebec's primary export sector. It is currently experiencing some difficulties and is also facing new international competitors, including Brazil.¹ Meat exports, made up mostly of pork, have declined 20% between 2003 and 2005.⁵

Exports of cocoa derivatives, although less at risk for the time being, nevertheless depend on American sugar policy and the cost of other production factors.

The Commission would like to receive comments on the following elements:

- **What importance should Quebec's agriculture and agri-food sector ascribe to exports and foreign markets?**
- **Should our strategies emphasize the importance of processed products?**
- **In view of worldwide competition, what should Quebec do to maintain or strengthen its position on world markets?**
- **What can be done to ensure that processing companies are familiar with foreign market trends?**
- **What kind of balance can be struck between supply management and exports?**

IMPORTS

Quebec's food product imports from other provinces and other countries totaled \$3.5 billion in 2005, and increased by 17% in the period 2002 to 2005.⁷ Imports now satisfy 45% of our food needs and represent 16% of the total value of all Canadian imports. Ontario receives 57% of Canada's imports (\$12.5 billion).¹

Quebec mainly imports processed products (more than 70%). The most important imports are beverages (23%), fruits and nuts (19%), cocoa, coffee and tea (12%), honey and sugar (11%), products containing dairy ingredients (7%) and vegetables (6%).⁸

The strong Canadian dollar has meant that imports are more competitive on the Canadian market. The higher the value of the dollar, the more it erodes tariff protection measures, especially in a context where domestic prices are rising and world prices are falling.⁹ This could lead to an increase in imports of certain products, even those that are supply-managed and are protected by high tariff barriers.

Clearly, then, Quebec's economy is fairly dependent on foreign markets, for both consumption and its own food production.

Participants are invited to submit their views on the following points:

- **How important is a secure food supply in your vision of the agriculture and agri-food sector in Quebec?**
- **Do you think the importance of imports in Quebec is a threat to its own production and to a secure food supply?**
- **How should the agriculture and agri-food sector deal with the world trend towards lower tariff barriers and falling prices?**