

SUMMARY

Overall annual spending by Canada's federal and provincial governments in support of the agri-food sector is approaching \$8 billion. The OECD assigns the majority of this spending to standardized categories. Over the last 10 years, the average annual spending of \$6.3 billion, as summarized by the OECD, has been distributed as follows:

- ❑ \$3.7 billion on producer support (59% of spending)
- ❑ \$707 million on inspection services (11% of spending)
- ❑ \$681 million on marketing and promotion (11% of spending)
- ❑ \$457 million on R&D (7% of spending)
- ❑ \$448 million on infrastructure (7% of spending)
- ❑ \$273 million on agricultural schools (4% of spending)

The OECD also estimates that the financial equivalent of interventions to support market prices – such as tariffs and TRQs (tariff rate quotas) – adds another \$3.7 billion in producer support. This generates a PSE (producer subsidy equivalent) value of 20% for Canadian agriculture, which means government intervention supplies 20% of farm receipts.

The net benefit of program spending on the farm sector, as well as on the overall agri-food supply chain, can vary by type of program spending. Specifically, the benefits of one dollar of public funds spent on supporting producer income can have a different return than the same dollar spent on inspection services or R&D that supports innovation.

Tariffs and TRQs generate high returns to production agriculture. However, this benefit ignores costs imposed on consumers. When considering only expenditure programs, R&D has the highest return; the benefit in the agri-food sector is much greater than the expenditure, and the internal rate of return is as much as 20% or

more. The next highest return to public funds is in the area of market facilitating activities, which includes inspection services, traceability programs, and market development activities. The benefit to the agri-food sector also exceeds these program costs. Program spending on producer support (which includes business risk management programs) has the lowest return within production agriculture. When the support dollars are decoupled from production decisions, the benefits of spending on these programs remains in production agriculture. When programs are not decoupled, the “transfer efficiency” is much less, with estimates ranging from 25% to 50% of the spending in support of producer income. Consumers and input suppliers receive benefits from coupled programs through higher production, increasing input usage, input prices, and to some degree through lowering output prices.

A significant portion of expenditures designed to stabilize or protect farm sector incomes remains in the farm sector, and is capitalized into farmland values. Studies indicate that up to 50% of farmland value can accrue from the capitalization of benefits. This benefit accrues to landowners. An analysis of aggregate data indicates that the ability to stabilize incomes ranges from 25% to 50%, depending on the commodity, with support levels growing over time.

This study strongly suggests that if there are public funds for spending on the agri-food sector, they should be directed to its highest return area, which is research and development. The study also suggests that, with fewer taxpayer dollars available, funding should be taken out of business risk management programs. An inference can be made that governments can enhance the benefits of intervention by redirecting funds from business risk management programs into investments in areas such as R&D and marketing and promotion. However, from a short-term political perspective, the longer-term benefits may not exceed the current costs.