

# SUMMARY

The Canadian agri-food sector is by and large an export-focused sector, with bulk unprocessed agri-food exports equal to 35% of the farm gate value of agricultural production, and semi-processed and consumer-ready exports representing 37% of the value of shipments from Canada's food manufacturing facilities. Viability and growth depends on being competitive in international markets. This is not a choice. It is a requirement.

The value of the Canadian dollar directly affects Canada's competitiveness. Export volume and earnings grew when the dollar was weaker. The competitiveness of the processing sector, with its smaller scale of operations and critical mass issues, affects the competitiveness of the agri-food supply chains in export markets, as do the size of the domestic market and costs of major non-farm inputs. Overall productivity is another important determinant of competitiveness. Data indicate that Canadian food manufacturing operations contribute a lower percentage of value-added expenditures to R&D than their major international competitors. Canada has competed primarily on a low-cost basis. As Canada differentiates its product offerings into higher value markets to address ongoing challenges, a focus on innovation is needed in order to support competitive positioning strategies.

More than half of Canada's total agri-food export value is from the US market. Consequently, the agri-food sector faces currency value risks and border closure risks, both of which recently caused a serious adjustment in the Canadian red meat sector. A challenge for the sector is to diversify future growth in export volumes away from the US and to increase the amount of economic value that can be added to primary products before they enter the export market.

Competitiveness at the farm level for any commodity is driven by a few basic factors. These include the size of operations, efficient use of capital and fixed assets, price of inputs, best practices and technologies used to utilize inputs

efficiently, and having a business management focus to operations. Policies and programs are in place to enhance the competitiveness of the supply chain. These include trade liberalization, trade agreements to secure market access, actions to prevent border closures, and business risk management programs that reduce producers' risk and provide for stability of production for the supply chain. They also include financial incentives for capital investments, R&D expenditures, innovation, and commercialization of new products.

Competitiveness can be further enhanced through agri-food policies. A strategy is required for increasing both public and private investment in research and development, a strategy that is particularly focused on Canadian advantages. Two factors make investment in Canada's processing sector essential. Firstly, the sector is losing ground in efficiency and needs modernization. Secondly, the opportunities for higher value exports will exist in generating processed products such as meats, rather than in sending live animals to the US. Currently, relatively few policy and program resources are directed at food processing. Market access is fundamental, and policies are needed that will continue to improve access to the nearby US market and limit trade barriers. As well, investments are required in export market development in growth areas such as India and China, while opportunities for higher value-added products should also be explored.

The bulk of agri-food expenditures are focused on business risk management programs at the farm sector. Investments in innovation, R&D, market development, and market access are required to maintain and enhance the competitiveness of the agri-food supply chain. This would require a shift in government support. Instead of allocating taxpayer dollars to directly support farm income, Canada should be investing in future competitiveness, helping mitigate and offset uncontrollable risks, and supporting farm incomes in a less direct manner.