

*WINSTON CHURCHILL MEMORIAL TRUST*

FARM POLICY IN NORTH AMERICA AND  
EUROPE – AN AUSTRALIAN OBSERVATION

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## TABLE OF CONTENTS

<b>INTRODUCTION.....</b>	<b>4</b>
<b>SYNOPSIS.....</b>	<b>5</b>
<b>ACKNOWLEDGMENTS.....</b>	<b>6</b>
<b>1. UNITED STATES.....</b>	<b>7</b>
1.1 CALIFORNIA.....	7
1.2 MAJOR CHALLENGES FACING CALIFORNIAN FARMERS.....	7
1.3 IOWA.....	8
1.4 ILLINOIS.....	9
1.5 WASHINGTON DC.....	9
1.6 US FARM POLICY.....	9
1.7 1996 - AN ATTEMPT AT REFORMING THE FARM BILL.....	10
1.8 THE 2002 FARM BILL.....	10
1.9 EFFECT OF CURRENT US FARM POLICY ON US AGRICULTURE.....	11
1.10 THE POLITICS OF AGRICULTURE IN THE US.....	12
1.11 IF THE FARM BILL IS SO BAD IS US AGRICULTURE IN TROUBLE?.....	13
1.12 IMPLICATIONS FOR AUSTRALIA.....	14
<b>2. CANADA.....</b>	<b>15</b>
2.1 OVERVIEW OF THE FARM SECTOR.....	15
2.2 CANADIAN AGRI-FOOD POLICY.....	15
2.3 HISTORY - 1950S AND 60S:.....	15
2.4 1970s.....	16
2.5 THE 1980S.....	17
2.6 THE 1990S.....	17
2.7 CURRENT POLICY.....	18
2.8 SAFETY NET POLICY.....	18
2.8.1 NET INCOME STABILISATION ACCOUNT (NISA).....	18
2.8.2 CROP INSURANCE PROGRAMS.....	18
2.8.3 CANADIAN FARM INCOME PROGRAM (CFIP).....	18
2.8.4 SUPPLY MANAGEMENT POLICY.....	19
2.9 POLITICS OF AGRICULTURE IN CANADA.....	19
2.10 NEW DIRECTIONS.....	20
2.11 IMPLICATIONS FOR AUSTRALIA.....	20

<b>3.</b>	<b>EUROPE</b> .....	<b>21</b>
3.1	THE COMMON AGRICULTURE POLICY (CAP) .....	21
3.2	BACKGROUND - WHAT IS THE CAP? .....	21
3.3	REFORM OF THE CAP .....	21
3.4	AGENDA 2000 .....	22
3.5	RURAL DEVELOPMENT: THE SECOND PILLAR OF THE CAP .....	23
3.6	THE EU'S POSITION ON THE CAP AND THE WTO NEGOTIATIONS .....	23
3.7	FUTURE DIRECTION OF THE CAP .....	24
3.8	CASE STUDY: FARMING IN DENMARK .....	24
3.9	AGRICULTURAL TRADE NEGOTIATIONS - GENEVA .....	25
3.10	FRANCE .....	26
<b>4.</b>	<b>IMPLICATIONS FOR AUSTRALIAN RURAL POLICY</b> .....	<b>27</b>
<b>5.</b>	<b>REFERENCES</b> .....	<b>29</b>
<b>6.</b>	<b>ATTACHMENTS</b> .....	<b>30</b>
6.1	CAP REFORM: RURAL DEVELOPMENT .....	30
6.2	ADDRESS BY BEN FARGHER TO BUREAU OF RURAL SCIENCE SEMINAR .....	30

## **INTRODUCTION**

Ben Fargher is the Senior Policy Manager at the National Farmers' Federation (NFF) in Canberra, Australia. NFF is the peak national body representing the interests of Australian farmers and their families.

In mid-2001, Ben travelled for three months through the United States, Canada and Europe studying farm policy. This report describes his travels and outlines his research findings.

Specifically, the aim of his trip was to learn about the challenges facing farmers in other parts of the world, examine policies in place to overcome these challenges, and analyse possible implications for Australian agricultural policy.

## **SYNOPSIS**

Australian farmers face many challenges. Declining terms of trade, environmental issues, rural adjustment pressure, a distorted global trading environment, service reduction in regional Australia, retail dominance, a loss of young farmers are but a few. Are these challenges unique to Australia? What challenges face farmers in North America and Europe and what is the policy platform employed in these countries to overcome some of these challenges? These questions are the focus of this report.

This report analyses several aspects of farm policy in the US, Canada and Europe (with a case study on Danish farm policy). The Farm Bill in the US, safety net policy in Canada and the Common Agricultural Policy in Europe are examined in detail.

High levels of government subsidised support underpin many of these policies. These distortions not only adversely affect Australian farmers, but also penalize progressive farmers in the countries in question, not to mention domestic consumers and taxpayers.

An important aspect of this report is a focus on the political economy of agriculture in these countries - on the attitudes of farmers, lobby groups and politicians to the respective policy frameworks.

In many cases rural policy is based on politics and not economics. An understanding of these issues is extremely important in order to influence reform.

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## 1. UNITED STATES

In the United States I travelled through California, Iowa, Illinois and Washington DC for six weeks in June-July 2001. I met with farmers, rural lobby groups, industry associations, politicians, government officials and researchers. My aim was to learn about the structure of agriculture in various States, the challenges facing US farmers and some of the policy responses in place to overcome these challenges.

### 1.1 California

In California I focused on the capital, Sacramento, and surrounding areas. I met with representatives from the Californian Farm Bureau, California State Board of Food and Agriculture, California Department of Agriculture, University of California (Davis) Department of Agricultural Economics, California Agriculture Council, the House Speaker Agriculture Advisor and Helena agricultural chemicals.

Fertile soil and flat terrain, combined with a climate of rainy winters and hot, dry summers, saw wheat emerge after disgruntled miners left the Californian goldfields. Between 1890 and 1914 the farm economy fundamentally shifted from large scale ranching and grain growing operations to smaller scale, intensive fruit cultivation. By 1910, the value of intensive crops equalled extensive crops, and California emerged as one of the world's principal producers of grapes, citrus and various deciduous fruits.

Today, agriculture plays a vitally important role in the Californian economy; agriculture generating approximately US\$26.7 billion per annum and providing one out of 10 jobs in the state. Two of the major commodities are dairy and wine. Dairy, with an average herd size of 665 cows, produces 19 per cent of milk receipts in the US; Californian wine accounts for 91 per cent of US grape receipts.

California comprises 89,000 farmers with an average farm size of 312 acres per farm. While this constitutes four per cent of total US farms, it accounts for 13 per cent of national gross cash farming receipts.

Approximately 16 per cent of Californian agricultural production is shipped to foreign markets. In 1998-99 almonds, wine, cotton, table grapes and milk were the top five ranked export commodities [California Department of Food and Agriculture, Resource Directory, 2000].

### 1.2 Major challenges facing Californian farmers

Perhaps not surprisingly, many of the challenges facing farmers in California are the same as those of concern to Australian producers; water rights, low prices, market access and a loss of young people from agriculture.

Several main priorities for Californian farmers emerged:

#### 1.2.1 Water

California is a dry state (24 inches per annum in the Sacramento Valley), therefore access to abundant high quality water is essential for agriculture. Major competing pressures exist as residents in LA and other cities would like the water to wash their cars, environmental activists to preserve nature areas and farmers to produce commodities.

I was told that one large cotton producer did not plant a crop in 2000 but determined it was more profitable instead to trade his water rights to LA (he also sold his energy back to the supplier). This has a flow-on effect to the rural community through reduced machinery sales, chemical application, fuel use etc). Another issue has been a lack of investment in water infrastructure over many years.

### 1.2.2 Urban encroachment

Unlike in Australia, where rural populations are declining (note: this is also happening in other States across the US), in California urban encroachment on agricultural land is a real issue for farmers. Aside from concern about good agricultural land being used as housing developments, the high prevalence of people from the city buying houses in rural areas has implications for chemical use, waste disposal etc. Regulation has subsequently increased significantly.

### 1.2.3 Availability of farm labour

Much of Californian agriculture remains labour intensive, particularly the horticulture sector. Rural poverty issues exist and uncertainty about continual supply, particularly from Mexico, was discussed often.

### 1.2.4 Others

Further issues of concern included over-production leading to lower prices, energy supply, market access, imports (particularly from Latin America), succession planning problems and a loss of young farmers.

## 1.3 Iowa

After leaving California I travelled to Des Moines, the capital of Iowa, and met a range of groups and individuals, including the Iowa Area Development Group, Iowa Department of Agriculture, a row crop farmer west of Des Moines, the Iowa Deputy Secretary of Agriculture, the Agribusiness Association of Iowa and Successful Farmer Magazine. I then worked for a week on a row crop and large farrow-to-finish hog farm south of Des Moines.

While in Iowa I gave the key-note address to the Iowa Farm Bureau Federation Annual Conference, on Farm Policy in Australia.

Iowa is the largest producer of hogs, corn, soybeans and eggs in the US. Low commodity prices, Genetically Modified Organisms (GMOs) and conservation all emerged as major themes. I had the opportunity to examine first-hand several farmers' markets (referred to as Community Supported Agriculture) and the Conservation Reserve Program (a scheme whereby a farmer receives a payment from the Government for setting aside land deemed important to environmental sustainability).

#### *1.4 Illinois*

From Iowa I travelled to Bloomington and Chicago in Illinois and met with representatives from the Illinois Farm Bureau, Department of Agriculture, Corn Marketing Board and Soybean Association. I also visited Nufarm Americas and Capital Agricultural Property Services, a firm managing rural properties on behalf of corporate investors.

Two interesting topics for farmers and industry bodies in Illinois were:

- the strength of the US exchange rate was cited as a real concern affecting the competitiveness of US agriculture exporters. Indeed, market access generally was a focus of discussions as Illinois exports 60 per cent of its soy production and 41-49 per cent of the corn crop; and
- the opportunities surrounding ethanol, or more specifically, the production of ethanol from corn, is viewed as a real opportunity for an important alternative market for that product.

#### *1.5 Washington DC*

In Washington I met with a range of contacts, including the CATO Institute (a think tank), National Farm Family Coalition, State Department, Office of Congressman Scott McInnis, National Association of Conservation Districts, Deputy Chief Economist USDA, USDA Office of Rural Development, American Farm Bureau Federation, National Association of State Departments of Agriculture and the World Bank.

Although many areas pertaining to US agriculture were covered, including the proposed Free Trade Agreement with Australia, the main focus was the 2002 Farm Bill. The remainder of the US section of this report focuses on this important piece of legislation.

#### *1.6 US farm policy*

For many decades the US Government has provided support to farmers through a variety of programs. The basis for all US farm legislation is 1949 permanent legislation which establishes several benchmark positions for farm programs. Every five years or so the US Congress passes a subsequent Farm Bill. To date these “bills” have been an amendment to the permanent legislation for a specific period of time, rather than a replacement to it [Brinkman, 1999].

The period 1973-1995 saw US farm policy based on several major provisions:

- price support (for wheat, feed grains, rice, cotton, soybeans, tobacco, peanuts, sugar and honey) achieved through a non-recourse loan to eligible producers;
- additional income support through a target price and deficiency payment system for wheat, feed grains, rice and cotton;
- acreage reduction (“set-aside”) provisions relating to an acreage base; and
- storage of excess production by the Government through the Commodity Credit Corporation and/or assistance in on-farm storage through programs such as the Farmer Owned Reserve.

Program eligibility was determined by a producer's record of consistent production for specific commodities (production records were used to establish an acreage base for program coverage) [Brinkman, 1999].

### *1.7 1996 - an attempt at reforming the Farm Bill*

In 1996, the Federal Agricultural Improvement Reform Act was introduced. This Farm Bill represented a departure from previous farm program legislation, in that:

- the target price was removed;
- acreage reduction provisions were removed;
- full flexibility to plant most crops was granted;
- decoupled transitional payments to farmers were introduced (payments based on historical crops and production); and
- the Farmer Owned Reserve was removed.

Despite these changes, the 1996 Farm Bill retained the loan rate and Export Enhancement Program. Further, conservation and environmental provisions (including the Conservation Reserve Program) were strengthened.

Under 1996 Farm Bill provisions, farmers voluntarily sign up for “production flexibility contracts”, to receive guaranteed annual payments for feed grains, wheat, cotton and rice, based on a producer's historical mix of crops and base acreage. The payments to an individual producer are based on 85 per cent of the product of:

- the farm's contract acreage;
- the farm's program payment yield; and
- the payment rate for the commodity.

These changes were an attempt at “weaning” US farmers off high levels of support and proceeding towards a more market-based policy framework. Despite this aim, when world prices fell in 1998 US farmers under pressure lobbied for additional government assistance. They were effective – US\$28 billion has been provided to farmers in emergency payments over the past four years. With these additional payments, US farm support reached record levels by 2000. So much for reform!

### *1.8 The 2002 Farm Bill*

As the 1996 Farm Bill must be reworked by October 2002, discussions have been underway in the US for several years regarding a 2002 Farm Bill. This is a highly detailed, not to mention political, process. On 5 October 2001 the US House of Representatives approved a US\$170 billion Bill over 10 years. The Senate Agriculture Committee has also finalised its Bill, although at the time of writing this had yet to pass to the Senate.

Both Bills would result in increases in support for program crops (e.g. wheat, feed grains, rice and cotton) when world market prices decline. These so-called “countercyclical payments” would be additional to continued underlying support through fixed payments.

Although the two Bills will need to go to Conference before the final legislation is agreed, it appears certain that the 2002 Farm Bill will remain highly distortionary and offer little relief for Australian farmers or, indeed, reform minded agriculturalists in the US.

### *1.9 Effect of current US farm policy on US agriculture*

Protectionism hurts Australian farmers. This is a well-known fact and why Australian producers fight so hard to liberalise world agricultural trade. Less clear to an Australian observer is how US farm legislation affects the shape of US agriculture.

In the long-term, current US farm policy may well do more harm than good to US agriculture. Consider the following observations:

- Many farmers who are efficient producers may be disadvantaged, as government support has enabled farmers in marginal areas to increase production of certain commodities. This has led to overproduction and downward pressure on prices. Production in marginal areas may also lead to environmental problems;
- Rental rates and land values have increased as Government subsidies (e.g. value of the transition payments) are capitalised into land values. This not only adds costs but makes it more difficult for young people to enter farming;
- Intervention leads to a distortion of market signals, which may slow diversification into new crops and new markets, and indeed the process of structural adjustment. This effect may not be immediately evident but if the US Congress does eliminate or drastically reduce support to US farmers at some time in the future the adjustment pressure will be significantly more pronounced at that time;
- Supporters of farm subsidies in the US advocate they are needed to save the family farm. This argument does not stand, however, because eligibility is based on historical acreage planted; therefore the biggest farms benefit the most. ABARE (Current Issues, October 2000) found that in 1997 the top four per cent of farms by value of sales received 20 per cent of the support. Further, the US Environmental Working Group, in an analysis covering production flexibility contracts over the 1996-98 period, found that 10 per cent of farms received 61 per cent of the payments;
- Much of the support under the Farm Bill is directed toward the fixed asset, that is, land. In several States visited, absentee landholders were extremely common. Support, therefore, is not going to the family farmer in many cases.

Several groups I spoke with explained that times were tough for US farmers; that they could not compete against imports from Latin America due to the strength of the US dollar; and that costs and government regulation were increasing and terms of trade declining. Because of this, many advocated government support was essential to ensure cheap food for all Americans, and, importantly, to “save the family farm”.

On the other hand, when presented with the issues raised above nearly everyone I spoke to explained they understood all too well the problems. Indeed, many agreed with the argument that many aspects of current policy hurt US farmers.

The obvious question then is why does the US Congress continue to vote for high levels of government support for agriculture? It was explained to me that US farm policy is about politics, not economics. That there is a belief that “the family farm built this nation and we will protect it”. Thus a paradox exists, because as already explained above, the Farm Bill does not target this aim, as price and production support favours large commercial farms.

### *1.10 The politics of agriculture in the US*

The following points summarise some observations in regard to the dynamics of the political economy of agriculture in the US:

1. The farm lobby in the US is highly organised, well-funded and extremely effective. According to Bruce Babcock, from the Iowa State University, farmers have “out-manoeuvred nearly every other interest group in the country”. Many agricultural lobby groups utilise Political Action Committee funds to support candidates and are extremely effective in mobilising their membership base for campaigns on important legislation. [For an explanation of the structure of the American Farm Bureau Federation see [www.fb.org](http://www.fb.org)). The structure is indeed very similar to that of the National Farmers’ Federation in Australia, with farmers being members of a County, through a State Farm Bureau to the national body].
2. The Farm Bureau is not the only farm group in the US; many industry and commodity groups are particularly strong. A wide range of views exist; consider a proposal from the National Family Farm Coalition for a Food From Family Farms Act (April, 2001), the first component of which includes a scheme to ensure returns achieved in the 1970s are maintained:

Price support through a Commodity Credit Corporation non-recourse loan for wheat, feed-grains, soybeans, oilseeds, cotton and rice. Loan rates will be based on an “Agricultural Equity Formula” indexing system, that reflects average gross income per acre received during the decade of the 1970s (adjusted for inflation and higher per/acre productivity).

3. The Current Administration, under Secretary Ann Veneman, has been advocating a more market-orientated policy approach. In a speech to the Sparks Companies Annual Conference in Washington DC, April 17 2001, Veneman outlined the new Administration’s priorities:

Expanding trade is the President’s top priority for US agriculture. With 96 per cent of the world’s population living outside the US, the world market is essential to the future of the American food chain...agricultural trade barriers and production-distortion subsidies continue to inflict heavy costs on consumers, producers and exporters around the world. Recent analysis by USDA’s Economic Research Service shows the average global tariff on agricultural products is over 60 per cent, compared to about 12 per cent for products coming into the US. Clearly, the US has much to gain from further reform.

Despite this viewpoint, it is unclear whether the Administration can be successful in influencing members of Congress sympathetic to the rural lobby that reform of the Farm Bill is necessary.

Given criticism levied at Secretary Veneman by members of Congress following the release of a “Statement of Principles” in September 2001, which questioned aspects of farm support, this seems problematic.

4. Public questioning of US farm programs via the mainstream press does exist (although it could be considered rare) – it makes interesting reading. Consider, for example, the following excerpt from an article titled *The Program That Will Not Die*, written by Sebastian Mallaby in the Washington Post (16 July 2001):

It certainly costs tons (the US farm program): \$US32 billion in direct payments to farmers last year, probably \$27 billion this year. Its purpose is unclear: it fails to address rural poverty, it does little for the environment and it promotes overproduction that drives prices down, making farmers even more subsidy dependent than they were in the first place, and, quite remarkably, farm spending scarcely benefits most States whose Senators vote for it repeatedly...if the 28 States where farmers get just 5 cents or less on the dollar were to vote against farm bills, not one would make it through the Senate, but last year's enormous supplemental spending bill went through the Senate on a 91-4 vote...

And again in an article titled *Far From Dead, Subsidies Fuel Big Farms*, by Elizabeth Becker in the New York Times (14 May, 2001):

Mr Bezner says the key to his family's prosperity is federal farm subsidies (government documents show that in the last four years of the 1990s, he received US\$1.38 million in direct federal payments). Most remarkably, Mr Bezner and the other big farmers here in Hartley County and across the country received those record-breaking payments in an era when farm subsidies were slated for extinction.

Under the Freedom to Farm Act of 1996, (program crop) farmers were freed from government production controls. In exchange for being able to plant what they wanted, they were told they would have their subsidies gradually phased out...

While farmers embraced their new freedom...they balked at accepting the rigors of the market. When prices for their crops held stagnant and their costs rose, farmers lobbied Congress for emergency payments. Their friends in Congress relented. Instead of diminishing, the subsidies have nearly tripled with steep emergency payments that reached \$US22 billion last year...

5. Congressional terms in the US are now two years. It was explained that this makes a reform agenda even harder to run, as looking ahead strategically to the next ten years for US agriculture is difficult as planning for the next election must begin immediately following an election within a two year cycle.

#### *1.11 If the Farm Bill is so bad is US agriculture in trouble?*

Although many components of this paper are critical of US farm policy, not only for its impact on Australian agriculture but indeed the competitiveness of US agriculture, it is important to note that many rural policy schemes I encountered in the US were innovative, effective and well-targeted. Examples include several environmental programs, components of USDA and State programs, succession planning models and regional development programs. The utilisation of leading edge technology, whether it be satellite farming systems or genetically modified crop varieties was extremely impressive.

Moreover, the US farmers I met were like farmers I met all over the world - good natured, hard-working and resilient.

I met with many farmers running well-structured, efficient enterprises. My argument is that the Farm Bill slows these progressive producers down - they would be, in the long-run, better off without the high levels of support.

### *1.12 Implications for Australia*

Australian agriculture, like the US, has undergone enormous change over the past few decades. Change, be it as a result of new technology, globalisation, changing tastes and preferences or government policy, will mean for agriculture that only the most efficient and well-structured enterprises will survive. People will leave agriculture, new industries will flourish, others will decline. Policies such as those found in the Farm Bill will affect this adjustment process but they will not stop it.

Many of the challenges facing US farmers are the same as those faced by Australian farmers. However, high levels of government subsidised domestic support is not the answer for Australian agriculture. Not only can Australia not afford it, because of our population and economic size, it is not in the long-term interests of good farmers or the community in any country to embrace protectionism.

Australia will be much better placed continuing to manage a structural adjustment process within a reform agenda in agriculture. We could be doing this better. For example, we need to ensure Australian farmers have access to effective management tools to allow them to manage risk. Moreover, we need to ensure our farm adjustment programs act as a “trampoline” back into the workforce, not just offer a safety net. For adjustment policy to be fully effective it must be wholistic and take account of social and family decision-making factors, not just consist of an economic incentive.

Let these considerations, rather than Farm Bill type subsidy policies, be our domestic agricultural focus.

## 2. CANADA

In Canada I visited the province of Ontario (Ottawa and areas around Guelph) for two weeks in July 2001. I met with various individuals and groups, including the Canadian Public Policy Forum, Canadian Federation of Agriculture, Dairy Farmers of Canada, Canadian AgriFood Trade Alliance, Agriculture and Agri-food Canada, Senator Murray Calder (Chair, Rural Caucus), Lewis Farms, the University of Guelph and the Ontario Ministry of Agriculture, Food and Rural Affairs. I also attended the Agricultural Institute of Canada (AIC) 2001 Sustaining Rural Canada Conference in Guelph.

### 2.1 *Overview of the farm sector*

Agriculture continues to play an important role in the Canadian economy, contributing over C\$100 billion in 2000 and generating employment for almost 2 million people [Agriculture and Agri-food Canada, 2001].

The Canadian farm sector has been undergoing a significant transformation for several decades to larger, but fewer, farms. This change has resulted in a steady decline in the farm population, from 2.9 million in 1951 to 867,000 in 1991 (a decline in the overall share of total population from 20.8 per cent to 3.2 per cent during this period). With this decline in numbers, farms have increased in average size (from 237 acres in 1941 to 608 in 1996) [Brinkman, 1999].

Importantly, farms with C\$100,000 or more in gross sales, while accounting for only 30.1 per cent of all farms, generated 83.2 per cent of all sales.

### 2.2 *Canadian agri-food policy*

Canada's domestic agricultural strategy varies greatly between the export-orientated sector (grains and beef) and the supply-managed industries (dairy and poultry). This dynamic greatly influences both Canadian agri-food policy and politics, often resulting in what appears as conflicting priorities and policy responses.

A significant dynamic in regard to Canada is that Federal and Provincial governments are jointly responsible for agricultural policy and share the budgetary cost of agricultural measures. This differs from US agricultural decision making, which is much more centralised at the Federal level.

### 2.3 *History - 1950s and 60s:*

Brinkman (1999) advocates that a discussion on the evolution of Canadian agricultural policy begins with the mid 1950s and 60s as several programs were developed during this time that helped form the basis of modern day policy. During this period, Canadian agriculture consisted of a large number of small-sized farms, and commercialisation of the sector was an important priority. According to Drummond et al (1966), agriculture policy focused on three major areas:

1. Increasing the productivity of farming;
2. Stabilising prices and incomes; and
3. Promoting the sale of agricultural products.

Improvements in productivity were promoted through the formalisation in the 1950s of publicly funded research and extension. Research stations were established across Canada to develop research technology for family-sized farm units. Further, the Farm Credit Corporation was established in 1959 to provide an adequate supply of reasonably priced credit to the farm sector [Brinkman, 1999].

Price and income stability was promoted through the development of several safety net programs. In 1958, the Agricultural Stabilization Act (ASA 58) was introduced. This program guaranteed the price of nine key commodities (eggs, oats, barley, wheat (produced outside the Canadian Wheat Board area), butter, cheese, hogs, sheep and cattle) at 80 per cent of a moving average of the last ten years. Crop insurance was also introduced in 1959.

This period also saw the establishment of supply management marketing boards, to facilitate orderly marketing and higher selling prices and incomes for farmers. Brinkman (1999) explains marketing boards were established initially on a provincial basis; the Ontario Tobacco Board being established in 1957.

In the 1960s the Canadian Government introduced programs specifically to help small farmers and lagging regions. In 1961 the Area Rehabilitation and Development Act (ARDA) was introduced as a shared Federal-Provincial scheme to deal with the problems of small and low income farmers. The program provided assistance for small farmers to expand by buying marginal units, or converting them to alternative uses. In 1966 the Fund for Rural Economic Development (FRED) was introduced for large scale regional development projects in designated areas. In 1969 ARDA and FRED were incorporated into the Department of Regional Economic Expansion (DREE). The purpose of DREE was to provide industrial incentives, infrastructure assistance, and social adjustment programs for development in rural areas.

A third program was introduced under exclusive Federal control to provide assistance to small farmers under the Small Farm Development Program. The SFDP contained similar provisions to the ARDA program for farm enlargement and consolidation, but also provided assistance and training for marginal operators to leave agriculture [Brinkman, 1999].

#### 2.4 1970s

In the early 1970s demand was weak, commodity prices low, grain supplies high and farm incomes low. In 1970, Canada instituted Operation LIFT, which took a significant acreage out of production in Western Canada. Shortly after the LIFT program was introduced, however, a series of events (USSR grain failures, oil shortages) led to rising prices and incomes for grain farmers, but falling incomes for livestock producers.

Farmers experienced rising land values, increasing costs of production and growing income instability.

In response to these events, Canada implemented several policy changes in order to insulate the agricultural sector from these influences. These included:

- In 1973, Canada introduced a two-price wheat system which set domestic prices of wheat at different levels to international prices;

- In 1975 the Agricultural Stabilization Act (ASA 75) amended the previous 1958 Act to provide coverage at a 90 per cent level of a five year moving average price (rather than the previous 80 per cent level of a 10 year average). Moreover, the new Act introduced cost indexing, whereby the 90 per cent level of support was indexed to variable cash costs of production. This program was funded by the Federal Government;
- In 1976 the Western Grains Stabilisation Act (WGTA) was introduced as a voluntary program to stabilise aggregate cash flow of western grain producers; and
- Supply management systems were modified, following the “chicken and egg wars”, so that national supply management systems were established.

### 2.5 *The 1980s*

In the 1980s commodity markets weakened. The 1985 US Farm Bill led to reduced prices caused by lowering the US loan rates, which had provided an international price floor. The 1985 Farm Bill introduced the Export Enhancement Program (EEP) to provide subsidised exports. Further, interest rates rose leading to debt problems and as a result land values fell. These factors led to the farm financial crisis of the 1980s. Brinkman (1999) explains that the policy response to these events was a massive influx of government funding and credit modifications by the Federal and Provincial Canadian Governments. For example, subsidised interest rate programs were developed, and the Federal Government imposed a six-month foreclosure moratorium.

### 2.6 *The 1990s*

Brinkman (1999) argues that Canadian agri-food policy in the 1990s was strongly influenced by government fiscal deficits, trade negotiations, and the global internationalisation of agriculture.

In 1991 the Farm Income Protection Act was introduced and established the Gross Revenue Insurance Program (GRIP) and Net Income Stabilisation Account (NISA) programs to provide assistance to non supply-managed commodities. (Note: as a result of the GRIP and NISA programs, the Farm Income Protection Act repealed the Agricultural Stabilization Act and Western Grains Stabilization Act).

Trade agreements also played a major role in reshaping policy. Over the 1991-95 period Canada signed and implemented the Free Trade Agreement with the United States (CUSTA), the North American Free Trade Agreement (NAFTA) and the 1995 agreement under the General Agreement on Tariffs and Trade (GATT).

These three agreements all required the reduction of domestic subsidy programs and trade protection measures. Importantly, all three agreements contained provisions that enabled Canada to maintain its supply managed dairy and poultry industries.

## 2.7 *Current policy*

Two interesting components of current farm policy in Canada include safety net policies and the supply management system.

## 2.8 *Safety net policy*

In July 2000, Canada and the Provinces signed the Framework Agreement on Agricultural Risk Management, which provides a federal commitment to safety net funding of \$1.1 billion over three years (2000-02). Of this annual amount, C\$665 million is allocated to the Net Income Stabilisation Account (NISA), crop insurance, fall cash advances and provincial companion programs. The remaining C\$435 million is provided for disaster assistance, to be provided through the Canadian Farm Income Program (CFIP), and for the payment of interest on producer loans under the Spring Credit Advance Program (SCAP) [Agriculture and Agri-food Canada, 2001].

### 2.8.1 *Net Income Stabilisation Account (NISA)*

The purpose of this program is to encourage producers to save a portion of their income for use during periods of reduced income. The calculation of the amount that a producer may contribute is based on 'eligible net sales' - gross sales of qualifying commodities minus the purchases of qualifying commodities. Most agricultural products are included in the calculation, the main exception being supply-managed commodities. On producer deposits up to three percent of eligible net sales, the federal government matches two-thirds and the provincial government matches one-third of this amount. The federal and provincial governments also pay bonus interest on the amount in the producer's account in addition to interest paid by the financial institution where the account is held. Producers may make deposits greater than the amount eligible for matching government contributions.

### 2.8.2 *Crop insurance programs*

This program provides insurance protection against crop production and quality losses caused by natural perils (drought, flood, hail, frost, excessive moisture and insects). Premiums for the insurance coverage are cost-shared 50:25:25 by producers, federal government and provincial government. Federal contributions to the Crop Insurance Program are provided under the authority of the Farm Income Protection Act (FIPA).

### 2.8.3 *Canadian Farm Income Program (CFIP)*

This program provides producers with ongoing protection against dramatic drops in farm income. The Program is designed to cover all agricultural production by providing income stabilisation at 70% of an historic average.

For more detailed information on Canadian safety net programs see [www.agr.gc.ca](http://www.agr.gc.ca) and search for "safety net programs".

#### 2.8.4 *Supply management policy*

Supply management marketing boards are non-voluntary, producer-controlled marketing organisations established under federal and provincial legislation by 2/3 majority vote of producers. Supply control marketing boards typically control output through production or marketing quotas, and operate quota exchanges. The general objectives of producer marketing boards in Canada are to balance the power in the marketing of agricultural products, thereby improving returns to producers.

Brinkman (1999) explains that when the supply management marketing boards were first established, production quotas were normally allocated at no cost to existing producers on the basis of historical production. Originally, production quotas were non-transferable. Over time, however, policies were developed to facilitate quota exchange; quotas now representing a capital investment and a cost of production.

The supply management system in Canada has its critics, both internally and externally (for example, note the recent US/Canada WTO case on dairy exports), however I found no evidence of any serious internal policy move to dismantle the supply management system in Canada in the near future. Time, and international trade reform pressure, will tell if this remains the case!

#### 2.9 *Politics of agriculture in Canada*

If one found the study of US agricultural politics complicated, unfortunately no solace will be found in an examination of Canada.

In 2000 the Federal Canadian Government announced emergency funding of C\$500 million in agricultural support, as well as increasing funds available for interest free loans to farmers. This move brought total Federal support to C\$1.6 billion for 2001. Combined with provincial funding of C\$1 billion agricultural support in 2001 totalled C\$2.6 billion.

This support followed extensive lobbying by farm groups and rural politicians. C\$900m was requested based on the premise that “we support free markets but need to stay in business meantime”. I was told the C\$900m was based on a calculation in the difference in support between Canada and US payments (about C\$63/acre).

As mentioned previously, due to the often conflicting views of the export-orientated sector (grains and beef) and the supply managed industries (dairy and poultry), Canadian agri-food policy often results in what appears as conflicting priorities. Consider a discussion outlined in the *Western Producer*, June 14 2001:

Prairie agriculture Ministers were in Ottawa June 5 with a common message that their grain and oilseeds sectors are in trouble. But there was an ideological divide when it came to solutions...Manitoba's Rosann Wowchuk said Ottawa should send the sector another \$500 million and not expect agriculture dependent provinces like hers to contribute more...Alberta Conservative Minister Shirley McClellan (on the other hand) stated “we need to get away from the discussion of subsidies”...McClellan said she is more frustrated by Ottawa's regulatory inertia than its lack of cash support. She complained that despite good recommendations...on how to deregulate grain transportation and end the wheat board's role, Ottawa reacted with half-measures that made the situation worse...

### *2.10 New directions*

Farmers and the agricultural sector in Canada face many of the same challenges as those faced by Australian farmers. Interestingly, in Whitehorse on June 29, 2001, Federal, Provincial and Territorial agriculture ministers released a national action plan for agriculture. Under a section titled “Renewal”, the following was stated:

Agriculture is in transition. The sector is facing rapid change and is becoming an increasingly knowledge-intensive industry. At the same time, a demographic turnover will occur over the coming years as a significant number of farmers retire.

Ministers agree that it is important for governments to help farmers adapt to this changing environment. For beginning farmers, this means ensuring that they have the tools to prepare for successful careers in agriculture. For established farmers, this means ensuring that they have the tools to assess their situations and to make choices of which options are best for themselves. Governments agree to help farm families to pursue options including: maximizing income through improvements to the farm operation, accessing capital, enhancing income through additional economic activities on-farm, enhancing the capacity to earn off-farm income, transferring the farm to the next generation, or choosing non-farm options.

The context of this text could be changed from Canada to Australia and it would be as relevant. Australian agriculture already has a range of rural adjustment policies in place along the lines outlined above. Australia and Canada should be working more closely together to overcome these shared challenges.

### *2.11 Implications for Australia*

Australia and Canada should establish a Joint Rural Policy Taskforce. Many of the challenges facing agriculture and rural communities in Australia and Canada are almost identical (e.g. loss of services from rural communities, depopulation of rural areas, adjustment pressure on agriculture, export market distortion, loss of young farmers, succession planning concerns, a need for more risk management tools in agriculture).

NFF has raised this directly with the Canadian Undersecretary of Agriculture – progression of this initiative would yield tangible benefits to Australian and Canadian farmers and rural communities.

### 3. EUROPE

In Europe I visited Denmark, Belgium (Brussels), Switzerland (Geneva) and France (Paris). The focus of my trip was two-fold. First, to gain an appreciation of European agriculture and the Common Agricultural Program (CAP), and second, to analyse various Governments priorities in regard to the next World Trade Organisation Round of agricultural trade negotiations.

#### 3.1 *The Common Agriculture Policy (CAP)*

To analyse policy aspects of the CAP I visited Brussels, meeting with the following groups: EU Commission (Regional Development and Trade sections), Belgium Farmers Association, Danish Agricultural Council, European Young Farmers Group (CEJA), World Wildlife Fund, Committee of Agricultural Organisations in the EU (COPA), the Netherlands Counsellor for Agriculture, US Mission to the EU and UK National Farmers Union.

#### 3.2 *Background - what is the CAP?*

The European Commission explains that when the Treaty of Rome created the European Economic Community (EEC) in 1957, it contained provisions for a 'common agricultural policy' (the CAP). This policy sought to increase the productivity of European agriculture, ensure reasonable living standards for farmers, stabilise farm produce markets and guarantee a stable food supply at fair prices for consumers.

The Stresa Conference in 1958 laid down the key principles underpinning the CAP:

- single markets (guaranteeing free trade between the Community's Member States);
- Community preference (priority for the Community's agricultural products, without stopping the flow of imports from countries outside the Community); and
- financial solidarity (a common agricultural budget under the CAP).

#### 3.3 *Reform of the CAP*

In its four-decade existence, the CAP has undergone several reforms.

The first attempt at reform came ten years after its creation. In 1968, the Commission published a 'Memorandum on the reform of the CAP', commonly known as the Mansholt Plan. The Plan sought to reduce the number of people employed in agriculture and to promote the formation of larger and more efficient units of agricultural production.

In 1972, structural measures were introduced into the CAP, with the aim of modernising European agriculture. But despite continued structural changes in the following years, problems persisted; the supply and demand of agricultural products were not in balance, resulting in an ever-growing surplus.

In 1983, the Commission made a proposal for fundamental reform, which was formally expressed two years later with the publication of the Green Paper on 'Perspectives for the Common Agricultural Policy' (1985). The Green Paper sought to bring supply and demand into balance, to introduce new ways of reducing production in problem sectors and, generally, to analyse alternative solutions for the future of the CAP.

In 1988, the European Council agreed on a package of reform measures, including the 'agricultural expenditure guideline', which limited the percentage of CAP expenditure in the overall budget.

In 1991, the Commission, under Ray MacSharry as Agriculture Commissioner, put forward two discussion papers on the development and the future of the CAP. These papers were the basis for a political agreement on the reform of the CAP, adopted by the Council on 21 May 1992. The reform of 1992 marked a change in the CAP and had as its principal elements: the cutback of agricultural prices to render them more competitive in the internal and world market, the compensation of farmers for loss of income, as well as other measures relating to market mechanisms and the protection of the environment.

The reform of 1992 was generally regarded as successful in Europe, with positive effects on European agriculture. However, developments in the ensuing years - international trends, the enlargement towards Central and Eastern Europe, the preparation of the single currency causing budgetary constraints, the increasing competitiveness of products from third countries and a new round of World Trade Organisation negotiations, forced further adaptation of the CAP. This led to Agenda 2000 [European Commission].

### 3.4 *AGENDA 2000*

In July 1997, the EU Commission proposed reform of the CAP within the framework of Agenda 2000, which was a blueprint for the future of European Union policy in view of the expected enlargement of the common market. Negotiations on Agenda 2000, and thus the agreement on CAP reform, were concluded at the Berlin European Council in March 1999.

In particular, the reform comprises measures for:

- the reinforcement of the competitiveness of agricultural commodities in domestic and world markets;
- the promotion of a fair and decent standard of living for the farming community;
- the creation of substitute jobs and other sources of income for farmers;
- the formation of a new policy for rural development, which becomes the second pillar of the CAP;
- the integration of more environmental and structural considerations into the CAP;
- the improvement of food quality and safety; and
- the simplification of agricultural legislation and the decentralisation of its application, in order to make rules and regulations clearer, more transparent and easier to access.

The EU Commission believes reform, as envisaged in Agenda 2000, will create conditions for the development of multi-functional, sustainable and competitive agriculture in the EU.

### *3.5 Rural development: the second pillar of the CAP*

As outlined above, under the Agenda 2000 reforms a new pillar of the CAP was introduced - rural development. Under this pillar several measures exist which member countries can utilise, as follows:

1. Investments in farm businesses;
2. Human resources: young farmers, early retirement and training;
3. Less favoured areas;
4. Forests;
5. Processing and marketing of agricultural products;
6. Agri-environmental measures; and
7. Various measures for the general development of rural areas (article 33 measures).

All rural development initiatives are co-financed by the European Commission (via the European Agricultural Guidance and Guarantee Fund – EAGGF) and the Member States.

For a more detailed outline of the Rural Development Component of the CAP see **Attachment 1**.

### *3.6 The EU's position on the CAP and the WTO negotiations*

In October 1999, the EU Agricultural Ministers agreed on their common position for the forthcoming 'Millennium Round' of WTO negotiations. The agricultural negotiations in the WTO framework began in March 2000.

According to the EU Commission, the EU's objectives and interest in these negotiations lie in the following:

- that the non-trade aspects of agriculture should be addressed: agriculture has a multi-functional role to the extent that, apart from food production, it is involved in preserving the countryside, environmental protection, food safety and quality, animal welfare etc. A balance is, therefore, needed between trade-related and non-trade issues of agriculture;
- the need for special and differentiated treatment for developing countries, taking into account, in particular, the great importance of food and agriculture in these countries; and
- the improvement of access to market opportunities: the EU, being a major food exporter, seeks to obtain improvements in opportunities for its exporters and to reduce unjustified customs barriers. In this way, the EU seeks to share in the expected expansion of world trade in agricultural products.

### 3.7 *Future direction of the CAP*

The European Union is under great pressure for further reform of the CAP, for several reasons, notably:

- Eastward enlargement;
- WTO and other trade negotiations;
- Food safety issues (BSE, dioxin, foot-and-mouth disease, public resistance to GMO food); and
- Community environmental concerns.

### 3.8 *Case study: farming in Denmark*

In order to examine the practical implications of the CAP I visited Denmark.

The total area of Denmark is 4,308,000 ha, of which 62 per cent is agricultural land. During the first half of the last century, the number of farms was around 200,000. Since the 1950s, the number of agricultural holdings has decreased - during the 1980s and 1990s this decrease was at the rate of 2,300-2,600 farms per year. In 1999, the average farm size was 46.8ha [Agriculture in Denmark, 2000].

In Denmark I worked on a farm near Praeste (Island of Zealand) for two weeks. The main enterprise on the farm was a hog operation (turning off 100 pigs @100 kg (live) weekly), with a supporting cropping enterprise (wheat, oats, sugar beet).

What was extremely interesting were farmer attitudes to my assertion that they “had it easy” compared to Australian farmers, because of the subsidies. Consider the following comments from Danish farmers:

1. “You don’t have subsidies, but you are much better off than us because you are much more able to do as you wish, to make your own decisions, to run your business. We are regulated and taxed out of existence. I will swap you the subsidy for the regulation any time”. It should be noted this view comes from a farmer who has lived and worked on Australian farms several times over the past twenty years.
2. And a more protectionist view: I asked, if you are a good farmer and want to expand it is hard for you to buy your neighbour’s farm because the subsidies are capitalised into land values and the cost of land is therefore very high. Surely this is frustrating?. To which I was told, “The Government has regulated to the extent that I cannot buy any more land anyway. I am only allowed a certain land holding so your question is irrelevant”.
3. And a more promising view: a Danish farmer said to me, “What is the least supported industry in Denmark? Pork. And what is the most successful industry in Denmark? Again, pork. Do you think that is a coincidence? I say remove the support”.
4. Farmers consistently told me their biggest challenge was increased regulation, particularly in regard to the environment.

While in Denmark I also visited Copenhagen and met with the Danish Agricultural Council (DAC) and Danish Ministry for Food, Agriculture and Fisheries.

It was explained to me that Denmark is a “reform-friendly” country. That they, along with Sweden, Holland and the UK proposed a reduction in market support, and an increase in rural development funding, as part of their Agenda 2000 proposals. They advocated that surplus funds could then be directed to fund enlargement. The French opposed this option, Germany voting with them to defeat it.

### *3.9 Agricultural trade negotiations - Geneva*

To gain an understanding of agricultural trade negotiations I travelled to Geneva in Switzerland. Over several days I met with the Permanent Missions from Ireland, the Netherlands, the Philippines, New Zealand, Australia, Denmark, Canada and the EU. I also met with representatives from the World Trade Organisation Secretariat and the South Centre (a developing countries think tank).

Some of my observations of trade issues include:

- Cairns Group countries were advocating that a New Round was required to add impetus to the already-underway mandated negotiations. Several European negotiators did not share this view.
- The issue of “multi-functionality” was discussed with most negotiators. Cairns Groups countries were explaining, rightly, that the right of Governments to support rural communities was not in question, but the way in which that support was delivered (i.e. instruments must be decoupled from production). This issue of de-coupling, and whether any support can really be totally decoupled, is occupying the minds of many analysts around the world.
- Non-trade concerns, such as animal welfare, were often raised. I could not find any negotiator that could justify, or even explain fully, the concept of the Precautionary Principle.
- Developing country issues will be critical in any new round of negotiations. Developing countries make up the majority of WTO members and decisions in the WTO are made by consensus. Some issues for developing countries, as explained to me by the South Centre include:
  - The need to maintain food security in developing countries.
  - Special safeguards for developing countries were required as a quid pro quo for liberalisation.
  - Green Box criteria (measures that have no or ‘minimal’ trade distorting affects) need to be tightened as rich developed countries are simply transferring support through this mechanism. After all, Green Box support is ‘minimally’ distorting, not necessarily ‘non’ distorting. Is \$10 dollars of Amber Box support (trade distorting support) really worse than \$100 dollars of Green Box domestic support?
- Politics is very important in Geneva. It was explained to me that Brussels is for policy, Geneva for politics. “We need an outcome in Geneva that our Minister can sell back at home”.

### 3.10 France

At the conclusion of my trip I spent several days in Paris. I met with various groups, including: staff at the Organisation for Economic Co-operation and Development (OECD) (including the Head of the Division of Policies, Trade and Adjustment, Directorate of Food, Agriculture and Fisheries); officials from the French Ministry of Agriculture; representatives from the International Federation of Agricultural Producers (IFAP); and staff from two French farming organisations, the Cambres D'Agriculture and the Fédération Nationale des Syndicats d'Exploitants Agricoles (FNSEA).

Several issues were discussed during my visit to Paris, the following themes emerging as significant:

1. The extent to which France uses second pillar components of the CAP was discussed with the Ministry of Agriculture. I was told particularly important components were environmental payments (compulsory for member States), disadvantaged area payments and diversification/innovation programs.
2. France has a program called Land Manager Contracts. This comprises two components, an economic and an environmental component. I was informed by FNSEA that they had encouraged their members to utilise this program. I understood that farmers who had this contract were paid based on lost output due to the implementation of program measures.
3. It was explained to me that yes, there is an agreed move toward second pillar programs, but that the first pillar of the CAP, that is traditional support mechanisms, was still the most important component. I was told that while the WTO negotiations were a priority for French farmers, it was not as high on the agenda as issues surrounding enlargement and the mid-term review of the CAP.
4. A particular issue of interest at the OECD was the concept of 'de-coupled' support. That is, how can governments support farmers without affecting production and therefore distorting trade? Indeed, can support ever be totally de-coupled?

#### 4. IMPLICATIONS FOR AUSTRALIAN RURAL POLICY

1. Contrary to many myths, a majority of the challenges facing farmers in North America and Europe are the same as those faced by Australian farmers. Declining terms of trade, adjustment pressure on agriculture, a loss of young farmers from agriculture, environmental challenges and changing customer tastes and preferences mean challenges, and opportunities, for farmers around the world, not only in Australia.
2. High levels of government subsidised domestic support is not the answer to overcoming these problems. Farm numbers are declining in Europe and the United States despite the subsidy programs in place. Not only do subsidies not stop the inevitable adjustment process, they harm progressive farmers, not to mention domestic taxpayers, consumers and farmers in other countries around the world, particularly in developing countries.
3. Australia will be much better placed continuing to manage a structural adjustment process within a reform agenda in agriculture. We could be doing this better - let this, rather than ever embracing a subsidy approach, be our domestic agricultural focus.
4. How then could we be doing this better? Australia still has work to do in regard to agricultural programs. For example, if farmers are to be self-reliant they must have access to effective risk management tools. A range of tools exist in Australia (e.g. futures contracts, farm management deposits, training schemes etc); these tools require constant examination to ensure they are as efficient and well targeted as possible.
5. Moreover, we need to keep working on our rural adjustment policies. These policies must act to trampoline farmers back into the workforce, not simply to act as a safety net. For example, a re-training component was introduced to the Commonwealth's Farm Help program when it was amended recently – this is a step in the right direction.
6. Adjustment policy must take social and family decision-making processes into account, not just simply offer an economic incentive. We have not done all we can in this important area. Also, as I have mentioned, the use of leading edge technology by farmers overseas, as in many parts of Australia, is impressive and imperative if productivity growth is to be maintained. We know that a big determinant of technology uptake is the level of education in the sector. In Australia we face many disadvantages in this regard and this must be fixed – it will hurt us if we don't improve.
7. In terms of influencing trade reform, given the similarities facing farmers in other countries, a collaborative approach to overcoming shared problems, rather than an adversarial one, is often warranted. It is not good enough for Australia to simply criticise the CAP and the Farm Bill. Options for reform, and an explanation of how reform has benefited the agricultural industry in this country, need to be explained. There are reform-minded farmers and policy makers in the US and Europe; these people must be sought out and stronger links and alliances established with them.

8. Due to the political economy of agriculture in the US and Europe, change from within will always be more effective than outside pressure, particularly from a small country like Australia.
9. In conclusion, Australia's agricultural policy framework is well placed as we move into the new millennium, but we are by no means perfect and many policy challenges remain in many areas. We can always learn from other countries, from their mistakes as well as their successes.



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**Note:** Much of the information on CAP reform was sourced from the European Commission Directorate-General for Agriculture website.

**6. ATTACHMENTS**

6.1 *CAP Reform: Rural Development*

6.2 *Address by Ben Fargher to Bureau of Rural Science (BRS) Seminar*