



Perspective

ECONOMIC ANALYSIS REVIEW

Volume 18 / Winter 2008

**Québec's agricultural sector is at a
crossroads**

**Finding a second wind for Québec's
agricultural regions**



Desjardins
Economic Studies



DESJARDINS GROUP



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NOTE TO READERS: In this text, the symbols **M** and **B** are used respectively to refer to millions and billions of dollars.

IMPORTANT: The opinions and forecasts contained herein are, unless otherwise indicated, those of this document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. This publication is based on data available as at January 18, 2008.

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EDITORIAL

The agricultural sector: a work in progress

Every aspect of the agricultural sector came under the microscope during hearings held in 2007 by the Commission sur l'avenir du secteur agricole et agroalimentaire québécois (CAAAQ - the commission on the future of Québec's agricultural and agri-food sector). An impressive number of points were raised, from profitability, the next generation, the financial health of agricultural businesses, the value of quotas, production management, the environment, the healthiness of food and production methods to the recognition of work done by farmers. Why is *Perspective* tackling the subject? Because economic conditions have tightened and they have an influence on agriculture.

2008 is beginning with a roar. The pieces will rapidly take their positions on the chessboard in the first few months of the year. First, the CAAAQ report will be tabled. Given that similar work was undertaken at the end of the 1960s (the April Commission), and the work is heavily associated with the emergence of the supply management system and crop insurance, it is easy to imagine the hopes the work is raising. Similarly, the report on Québec's pig sector, to be tabled at the beginning of March by the government's agent, Guy Coulombe, is eagerly awaited.

The year 2008 will also see whether or not the World Trade Organization (WTO) will conclude an agreement on agricultural products. The talks are creating more fear than hope. If the talks were to result in an agreement, it is the types of production that are controlled by supply management (milk, poultry and eggs) that will suffer the most from a reduction in tariffs and the opening of our market. Even tariffs higher than 200% are no longer enough to limit the supply of foreign products on the Canadian market. We need to think, fast, about how we can produce at lower costs. We cannot put off the process indefinitely, even if no agreement is reached.

2008 is thus raising great expectations in the agricultural sector. Parallel to that, economic conditions will remain tight, our dollar will be strong and energy prices will be high. To add to existing difficulties, grain and oilseed prices should stay close to 2007 levels, and some could go up further.

In this context, the regions are vitally affected. While there is agricultural activity everywhere in Québec, it is more concentrated in Montérégie, Chaudière-Appalaches and Centre-du-Québec; together, these three regions represent close to 60% of agricultural receipts originating in the market.

However, other regions have more to lose in the WTO negotiations, given that their revenues are heavily concentrated in the milk, poultry and egg sectors. Rather than being paralyzed by uncertainty, the regions have gained a second wind in the last few years by developing new activities (single-species livestock production, special crops), or by extending agricultural activity into regional processing. Many of them have chosen to fight rather than letting themselves be wiped out.

Moreover, Québec is not the only province to be questioning the viability of its agricultural industry in a context that is increasingly restrictive, even stifling. The farming landscape is changing almost everywhere in Canada. The number of farms fell more quickly in the rest of Canada than in Québec from 2001 to 2006. In western Canada, more and more farm operators have jobs off the farm. Who will feed Canada and Québec? This is an important question, as food sovereignty is at the core of Desjardins' position. There will be no respite in 2008. Economic conditions will be demanding and we will have to roll up our sleeves once again to implement the recommendations that will allow Québec's agriculture sector to thrive, not just survive.

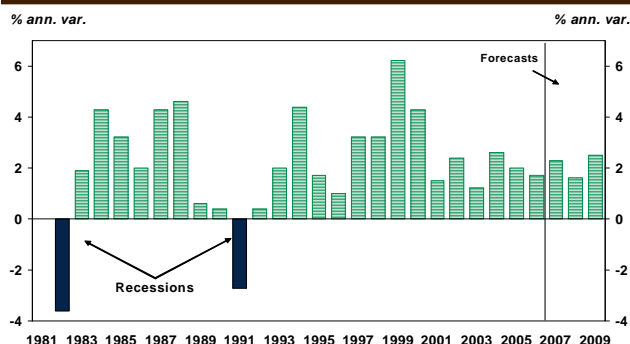
François Dupuis
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THE SITUATION IN QUÉBEC

Less favourable economic outlook for 2008; recovery is postponed to next year

As the economic slowdown shapes up south of the border and exporters begin to feel the full impacts of the Canadian dollar's appreciation to about parity, the prospects for Québec's economy are dimming. The recent problems in foreign trade should therefore intensify this year. Real GDP growth will fall off to 1.6% in 2008, after being just over 2% last year. As the American economy's soft patch will last a little longer than forecast, Québec's real economic recovery has been postponed to next year. International exports will finally turn around, giving a boost to economic growth, which will then reach 2.5%.

Graph 1 – The economy will slow moderately in 2008

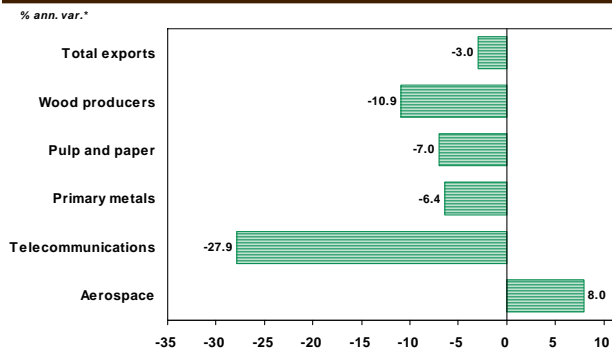


Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

FOREIGN TRADE IS BEING SEVERELY TESTED

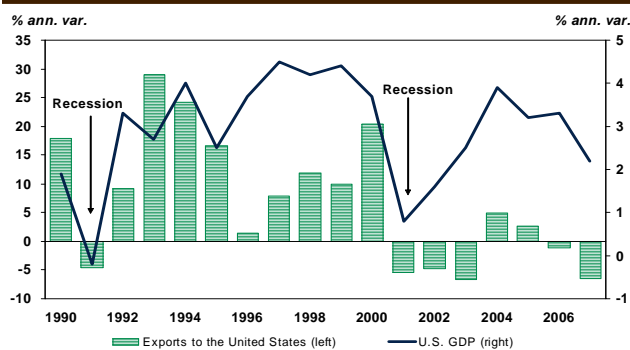
Until then, exports abroad will continue to soften. The decline in shipments to the United States has also intensified lately. As 75% of our international goods exports go to the American market, the pullback will of course continue to have a negative impact on the balance as a whole. In terms of the sectors, aerospace is booming, partially compensating for the other sectors' decline. Of the five main groups of products that Québec exports, aerospace is the only one that is growing. Telecommunications equipment, metals, pulp and paper and wood products all declined in real terms in 2007. The year 2008 will be even tougher for exports, especially since the risk of a U.S. recession is high. The last time the American economy contracted, in 2001, Québec's exports there dropped off abruptly. With our dollar much stronger than it was then, there is a real risk of greater deterioration.

Graph 2 – International exports are down, but aerospace stands out



*Variation estimated in 2007 real terms vs. 2006.
Sources: Conference Board of Canada and Desjardins, Economic Studies

Graph 3 – The decline in goods exports to the United States could intensify this year



Sources: Datastream, Institut de la statistique du Québec and Desjardins, Economic Studies

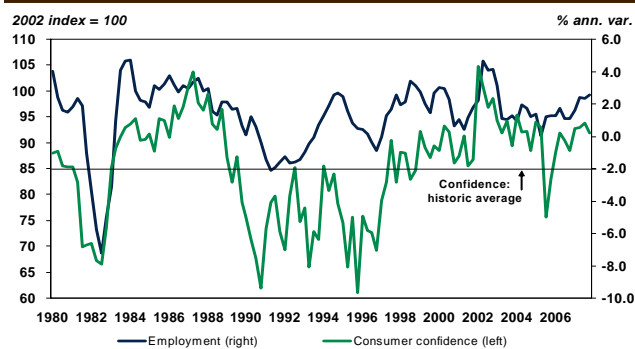
Goods exports to other provinces, which account for about one third of Québec shipments, have to date remained in positive territory, thanks to the Canadian economy's solid performance. A loss of momentum is expected in 2008, however, which will impact our interprovincial exports. As a result, our forecasts are for exports to see an overall decline of close to 1% this year, and show a slight, 2.3% recovery next year, on improvement in North America's economy.

STRONG DOMESTIC ECONOMY

Even if exports continue to drag, a number of pillars will continue to support the domestic economy, mitigating the slowdown expected in 2008. First, the five-year plan tabled by the Québec government to restore infrastructures will have a stimulating impact on economic growth. The injection of \$30B over five years will, on its own, increase real GDP growth by about one quarter of a percentage point a year until 2012. The work will also have a positive impact on Québec as a whole, acting as a salve for the economic problems faced by a number of regions affected by such things as the forestry crisis.

In consumption, although the retroactive pay equity payment (close to \$2B paid in the spring of 2007) is behind us, a number of factors will support spending this year. The promised federal and provincial income tax cuts, as well as the January, 2008 GST cut will take up the slack. Although job creation is expected to decelerate somewhat over the next few quarters, 2007's outstanding gains have bolstered the labour market. The jobless rate also slid below 7% last fall, a threshold last seen in 1974. All of these factors will help to keep consumer confidence strong, despite oil prices that crossed the US\$100/barrel mark.

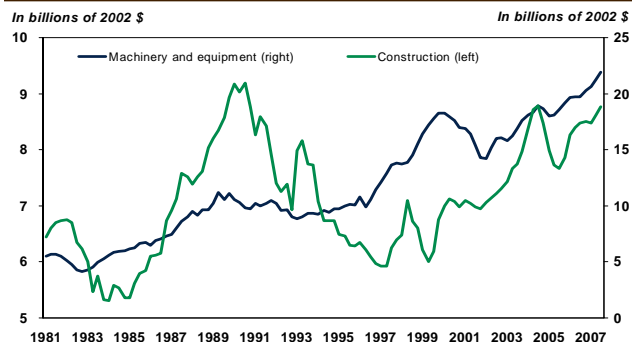
Graph 4 – Strong consumer confidence is in line with the employment boom



Sources: Conference Board of Canada, Statistics Canada and Desjardins, Economic Studies

Detailed forecasts are on page 22.

Graph 5 – Business investment is up



Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

BUSINESS INVESTMENT IS UP

Despite the manufacturing sector's tough context, business investment is surprisingly strong in Québec. The period of construction lethargy is over. Many major projects are underway, and several others could start up this year. Industrially, investment is focused in the mining, oil and metals sectors. Now that the two methane tanker terminals have received government approval, they could be launched in 2008. In the commercial sector, the development of numerous poles goes forward, while office building construction is beginning a soft recovery in Québec City and Montréal. Lastly, according to the Commission de la construction du Québec, the planned 2008 ramping up of the Eastmain-1-A-Rupert hydroelectric site will offset the drop in activity on other projects.

In all, thanks to lively consumer spending, work on infrastructures, and dynamic business investment, domestic demand will be strong in 2008. Québec's economy thus has a variety of assets that will help mitigate the economic slowdown associated with foreign trade problems this year.

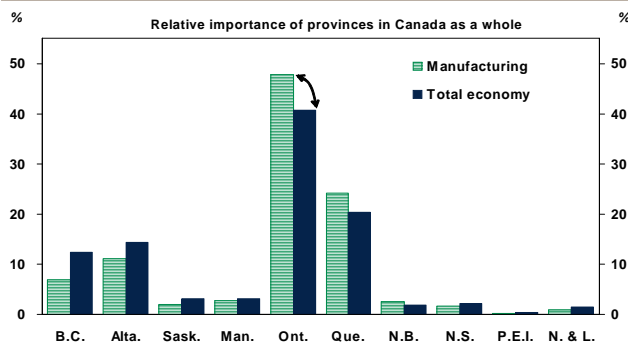
Hélène Bégin
Senior Economist

THE SITUATION IN ONTARIO

Ontario is limited to slower economic growth

Ontario's economy is still hard hit by major structural changes. The loonie's lively appreciation, restructuring of the automotive sector, increased energy costs, decrease in U.S. demand, and intensifying global competition are all challenges Canada's largest province must face. The difficulties are being reflected in foreign trade: Ontario is the province with the largest drop in its trade balance since the year began. Compared with most of the other provinces, manufacturing plays a big role.

Graph 6 – Manufacturing plays a bigger role in Ontario

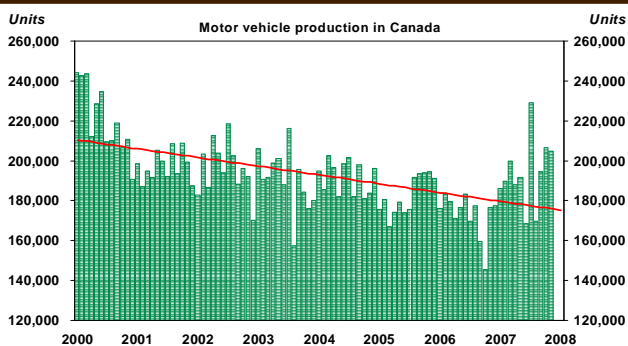


Sources: Statistics Canada and Desjardins, Economic Studies

THE AUTOMOTIVE INDUSTRY CONTINUES TO RESTRUCTURE

The problems in Ontario's manufacturing sector are also exacerbated by the automotive industry's restructuring. The renewal of the collective agreements of many workers in the U.S. automobile industry will reduce the comparative advantage of Canadian labour due to a smaller gap between

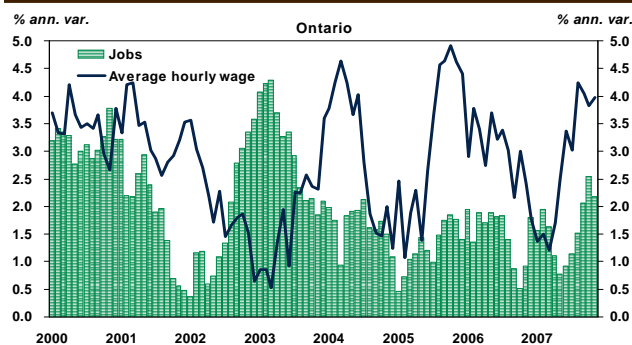
Graph 7 – The automobile sector's struggles will continue



Sources: Statistics Canada and Desjardins, Economic Studies

Detailed forecasts are on page 21.

Graph 8 – Ontario's labour market conditions remain favourable



Sources: Statistics Canada and Desjardins, Economic Studies

health costs, without considering the stronger loonie's negative impact. What's more, ongoing adjustments and layoffs by the three North American manufacturers mean that the outlook for the Ontario automotive sector is bleak. Executives from one of the three leading American carmakers recently told the union at its Windsor plant that they could interrupt work for six weeks in the first half of 2008 if sales growth is too low.

STRONG DOMESTIC DEMAND

As elsewhere in the country, these struggles are, however, offset by strong domestic demand. Employment and wage growth in recent months favour a substantial advance by consumer spending. After having declined throughout 2006, non-residential investment has regained some strength since last spring, and is making a positive contribution to economic growth. What's more, the restructuring of the automotive industry will require substantial investment from now until 2009.

ECONOMIC GROWTH WILL LAG BEHIND GROWTH FOR CANADA AS A WHOLE

The continuation of structural change in the years to come will limit Ontario's economy to growth that is below the national average for our forecast horizon. Ontario's real GDP should grow by 2.2% this year, followed by increases of 1.7% in 2008 and 2.4% in 2009.

Benoit P. Durocher
Senior Economist



REPORT: ECONOMIC CHALLENGES

Québec's agricultural sector is at a crossroads

Like the manufacturing sector, the agricultural sector has seen economic conditions tighten quickly since the decade began. The poor situation has raised many questions about the viability of Québec's farming operations. Should we sound the death knell? How much have economic conditions had to do with the storm that is shaking Québec agriculture? The economic question involves more than simply prices and interest rates: it also involves trade negotiations. Here, do we have a lot to lose?

AN ECONOMIC SNAPSHOT OF THE AGRICULTURAL SECTOR

According to Statistics Canada's latest Census of Agriculture, in 2006, Québec had 30,675 farms, 1,464 fewer farms than in 2001, a decline of 4.6%. This trend toward a reduction in the number of farms did not begin yesterday. However, it appears to be fading, since, between 1996 and 2001, 3,852 farms were recorded as lost. In case a comparison might help us feel better, for Canada as a whole, the decrease for the 2001 to 2006 period was 7.1%.

Note that, with just a few differences, the "20-80" rule applies in this sector, as in many others. In 2006, Québec had 8,011 large operations, representing 26.1% of farms. These operations were responsible for 79.1% of gross farm receipts in 2005.

Simultaneously, the average area of Québec farms has grown from 263 acres in 2001 to 279 acres in 2006. Is the reduction in the number of farming operations in favour of larger-scale operations good news? Yes, if economies of scale can be leveraged to successfully lower our production costs. No, if the purchase of farms leads to so much debt that the economies of scale achieved cannot cover the expenses incurred to achieve them. At this time, economic conditions can mean the difference between success and a money pit.

ECONOMIC CONDITIONS ARE TOUGHER

Among the problems that have afflicted the agricultural sector in the last few years, for example, bovine spongiform encephalopathy (BSE, or mad cow disease) and porcine circovirus, to name only two, came some economic catastrophes. These include the skyrocketing Canadian dollar and runaway oil prices. (see Table 1).

The loonie began to ascend in 2003, to the great detriment of agricultural producers who export some or all of what they produce abroad (\$3.8B in biofood exports in 2006). Note that a portion of the agricultural commodities are denominated in American dollars. Every Québec producer who sells products in U.S. dollars takes in less when the Canadian dollar is at parity with the greenback than he does when the loonie is

trading at 65 or 70 cents U.S. In this kind of context, the sales receipts of Québec and Canadian producers are down from what they were taking in a few years ago. Sometimes, the price of an export good (e.g., pork, lettuce, etc.) is so low that, once converted into Canadian dollars, it does not even cover production costs. This puts producer-exporters in an even more delicate situation. Naturally, the Canadian dollar's five straight years of growth above 5.5% have created a shortfall, helping to undermine the situation of producer-exporters.

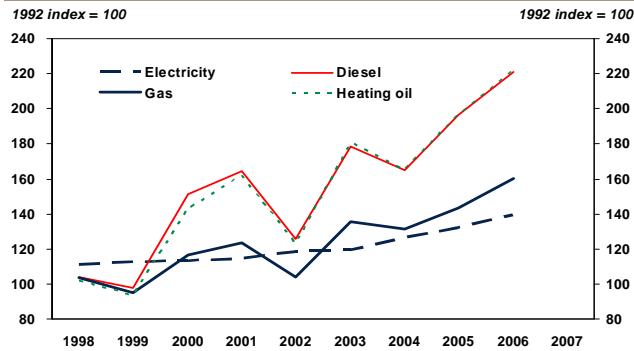
The situation can be handled temporarily, but the outlook for the Canadian dollar does not suggest it will pull back to any great extent in the next few quarters. The Canadian dollar's movement is based on a number of major parameters, such as the U.S. dollar, the price of crude oil, the price of metals, and the spread between American and Canadian key rates. For now, there are not many factors to suggest any resurgence by the American dollar; the American economic and financial situation does not hold anything that would prod investors to rush for the currency. Simultaneously, energy prices and, in particular, oil prices will remain high, for reasons we will explain later. Canada is a major metal producer, and metal prices could correct downward. Nonetheless, they will remain higher than they were at the beginning of the decade, due to pressing demand from countries like China and India.

Table 1 – Appreciation by the loonie and oil have put sand in the works

	US\$/CAN\$	Oil		% annual change	
		US\$/barrel	Loonie	Oil	
1998	0.67	14.37	-6.7	-30.2	
1999	0.67	19.24	-0.2	33.9	
2000	0.67	30.34	0.0	57.7	
2001	0.65	25.93	-4.1	-14.5	
2002	0.64	26.11	-1.4	0.7	
2003	0.71	31.14	12.1	19.3	
2004	0.77	41.43	7.7	33.0	
2005	0.83	56.48	7.4	36.3	
2006	0.88	66.08	6.8	17.0	
2007	0.93	72.34	5.5	9.5	

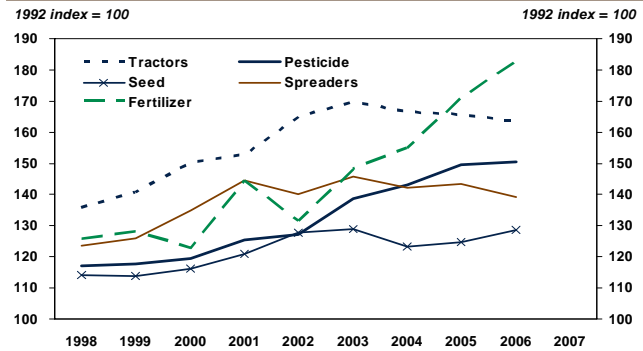
Sources: Datastream, Bank of Canada and Desjardins, Economic Studies

Graph 9 – Price increases for electricity are more moderate than those for heating oil and natural gas



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 10 – Fertilizer prices are up substantially



Sources: Statistics Canada and Desjardins, Economic Studies

In the short term, for 2008, the Canadian dollar will see major fluctuations, but the loonie will stay close to par with the greenback. For 2009, our forecasts put its annual average at close to US\$1.01 and in the neighbourhood of US\$1.03 in 2010. This means we should not expect any respite from the Canadian dollar, unless there is a drastic change in economic conditions. It would then take either a U.S. recession that could topple the Canadian economy, or a recession in China that would stifle demand for oil and drive the price back below US\$60/barrel.

HIGH OIL PRICES INFLATE GAS, DIESEL, HEATING OIL AND FERTILIZER PRICES

Oil prices have heated up, especially since 2002. It now costs more to fill up, run farming machinery and heat barns and greenhouses during the winter. Graph 9 is an eloquent depiction of how prices have advanced in recent years. Gas, diesel and heating oil prices have gone up by 50% since 2002. This situation cuts into producers' leeway. It increases costs and creates an even greater gap with competitors who do not have to deal with the costs created by winter. The increase in oil prices is also having an impact on fertilizer prices (see Graph 10). These are the components that have seen the fastest growth since 2002.

How high can oil prices go? This question has not yet been resolved. It will be hard to carry on with oil over US\$100/barrel. Emerging nations will not be able to show the same appetite for fossil fuels, which will push prices back. However, as crude prices have already flirted with the US\$100 mark, there is reason to wonder about what the future holds. A number of scenarios are possible. The most plausible one is a price that oscillates between US\$75 and US\$95 a barrel in 2008. We should also note that the elevated Canadian dollar is still helping limit increases in prices at the pump in this country. It's slim consolation: here, some would prefer a lower dollar and higher energy prices.

THE PICTURE IS NOT COMPLETELY BLEAK

Although the loonie's rise and oil price fluctuations are creating headaches, the situation for inflation and interest rates is calmer. Since this decade began (2000 to 2007), the inflation rate has been on average 2.1%, slightly higher than the rate that prevailed for the previous eight years (1.5%). Similarly, interest rates have not been very high. From 2000 to 2007, the prime rate was on average 5.3%, whereas it was 6.7% from 1992 to 1999.

What's more, prices for electricity have not gone up as fast as heating oil or natural gas prices, giving a break to heavy users of this kind of energy (see Graph 9).

THE CURRENT ECONOMIC CHALLENGE

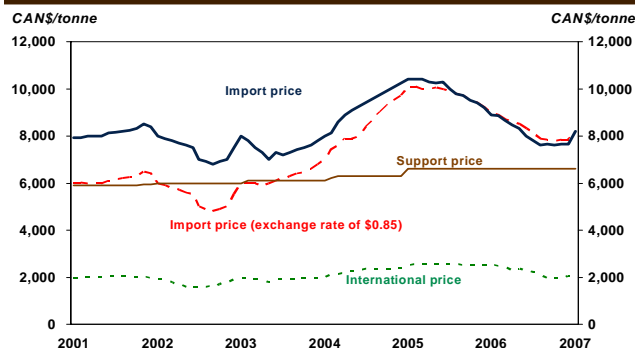
Without trying to minimize the impacts of the loonie's appreciation and energy price increases, there is another economic issue that could wreak profound change in the Québec farm production picture: the opening of markets.

Table 2 – Over-quota tariffs on the primary dairy products

	Tariffs		
	Current	-12.6%	-90%
Fluid milk	241.0	216.0	24.1
Yogurt	237.5	207.6	23.8
Butter	298.5	260.9	29.9
Skim milk powder	201.5	176.1	20.2
Cheese	245.5	214.6	24.6
Ice cream	277.0	242.1	27.7

Source: Canada Border Services Agency, Canada Customs Tariffs, 2006

Graph 11 – International price, import price and support price for butter in Canada, at an exchange rate of US\$0.85



Sources: Agéco Group, Support price, CL 2007; International price, f.o.b. price Oceania, United States Department of Agriculture 2006

The arrival of international competition in the Québec market is making waves, and creating fear. All sectors of the economy face this reality: from milk production to the production of galvanized iron and plastic bags, no one is completely safe. The manufacturing sector is currently screaming because products from China, Vietnam, Pakistan, Mexico, Brazil and India are taking up a growing share of the room on store shelves.

The agricultural sector has not been spared. However, certain sub-sectors have some protection regarding the inflow of competitors' products. The barrier takes the form of import tariffs and quotas. This is true of milk, eggs and poultry (including turkey, chicken and broiler hatching eggs), which are governed by what is commonly called "supply management." This production management system is partially derived from the recommendations in the report of the Royal Commission on Farming in Québec (the April Commission), tabled in 1967. One of the Commission's goals was to examine "the means to take so that farmers could earn a

Table 3 – Production's share by type of production - 2006

Type of production	Québec	Ontario	Other provinces
Grain and oilseed	8%	15%	31%
Fruits and vegetables	10%	14%	8%
Ornamental horticulture	5%	12%	4%
Maple growing	3%	0%	0%
Other crops and livestock	4%	6%	9%
Beef and veal	10%	12%	26%
Pork	16%	10%	9%
Milk	35%	19%	7%
Aviculture	11%	10%	5%

Sources: Statistics Canada and Ministère de l'Agriculture, des Pêches et de l'Alimentation du Québec

balanced income with respect to what other classes of society earned." In addition to supply management, crop insurance (1967) and farm income stabilization insurance (1975) are other achievements often associated with the April Commission.

In general, we estimate that supply management affects approximately 14,000 Québec milk, poultry and egg producers on over 8,000 farms. Note that, in Statistics Canada's 2006 Census, the number of operators (people) was estimated to be approximately 47,500 in Québec. The sectors covered by supply management represent \$2.6B in farm receipts in Québec (over \$7B in Canada), i.e., more than 40% of the value of Québec's farm output. If we include jobs in the milk, poultry and egg processing sector, over 60,000 jobs are associated with these three types of production in Québec alone. As soon as production is involved, we must consider the processing sector, which is closely associated with production. If we expand the picture, we can also add 14,000 jobs upstream from production (mills, machinery dealers, etc.) that are both directly and indirectly involved in this type of production.

ISSUES ASSOCIATED WITH MARKET OPENNESS

The primary purpose of trade negotiations is to facilitate the circulation of goods among nations. The negotiations currently being carried out under the auspices of the World Trade Organization (WTO) have the same end, to open markets further. In 1986, for the first time, talks began to include agricultural products. At the time, the talks were carried out under the GATT organization (General Agreement on Trade and Tariffs). Debate was turbulent and acrimonious. In 1995, an agreement was reached to change the "import quota" system, which limited the quantities of products coming into the country, transforming the quotas into import tariffs and initiating proportions of imports (5% of the domestic market) that would be exempt from tariffs, or subject to very low tariffs.

In 1995, the WTO took over from the GATT organization. A country that joins the WTO follows its rules of conduct, and must abide by WTO decisions and arbitration by WTO panels if other countries contest its practices. The new organization acts as a GATT with more bite. It takes more than initials at the bottom of a contract: it requires adherence to and respect for rules. The organization also has the power to sanction.

The current round of negotiations, commonly called the Doha cycle, began at the start of this decade. The goals remain about the same: open markets. This prospect sends shivers down the spines of local producers. Local producers believe the talks are jeopardizing supply management. Supply management

controls supply based on the needs of the Canadian and Québec markets, while limiting imports. Local producers believe that the current system makes it possible to cover production costs in a specific context (due to winter, in particular), eliminates farm price fluctuations for production and distribution, and provides for a safe, efficient supply that conforms with Canadian health and safety standards. Others do not share this view, deeming that the current system infringes on the rules of competition and the free market. For every argument raised by either of the parties, there is another argument to contradict it.

What would happen to our dairy production if the existing trade rules were softened? Determining various scenarios is a complex exercise; they cannot be slapped together. There are many parameters involved (Canadian dollar, price of milk here, price of milk on the international market, price of other dairy products, etc.). However, researchers at AGÉCO Group¹ took on the task on behalf of the Conseil des industriels laitiers du Québec² and their conclusions provide food for thought. The portrait is not a pretty one.

WHAT IF NEGOTIATIONS RESULT IN GREATER LIBERALIZATION OF THE QUÉBEC MARKET?

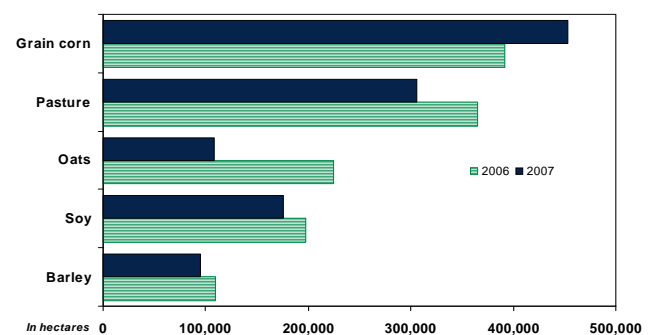
Researchers developed three scenarios; one in which the prevailing situation continued, meaning that the current negotiations failed; a second scenario in which negotiations resulted in moderate liberalization, and a third with substantial open trade.

Note that, to date, import tariffs and "over-quota" tariffs³ have been enough to keep dairy products from flooding into the Canadian market. Table 2 provides a view of the tariffs that are currently in force, according to different products. Inter-

national prices, with tariffs added, are higher than the prices for Canadian products sold on the Canadian market. The situation when our dollar was worth about US\$0.63 was much better than it was with a dollar at US\$0.85 or US\$0.90. Imagine the problems posed by a loonie that is at parity, flirting with the US\$1.00 mark. The conclusion is that the current system can maintain a relative balance if international prices for dairy products remain high and the Canadian dollar does not appreciate too fast. There are no guarantees for either eventuality.

In the second scenario, moderate liberalization, working assumptions were based on the WTO working proposals that were on the table in June 2006 (Falconer proposal). Dairy products could be considered to be "sensitive products" that require special trade safeguards in terms of the tariff cuts demanded (in the case we are looking at, a tariff cut of 12.6% instead of 40%). In exchange for softening the terms, the market must be more open, and tariff quotas (tariff-free influx of foreign products into the Canadian market) would go to 11%, 2.2 times more than they are now. Import tariffs would be lowered, and the market share reserved for Canadian producers would be reduced. With lower import tariffs, Canadian and Québec producers would be even less competitive than they are now. The conclusion does not change much: to ensure we remain competitive, international prices would have to be high and our dollar would have to lose ground from where it is now, around parity with the American dollar. What's more, international prices for dairy products are cyclical (with highs and lows), promising tough times in Canada when international prices go down.

Graph 12 – Did the ethanol effect have an impact on the distribution of seeded acreage in Québec?



Source: Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec

Table 4 – The ethanol effect is felt in seeded acreage

	Seeded acreage in Québec		
	In hectares		
	2006	2007	% var.
Grain corn	392,000	453,000	+15.6
Pasture	365,000	306,000	-16.2
Oats	225,000	108,000	-52.0
Soy	197,000	176,000	-10.7
Barley	109,000	95,000	-12.8

Source: Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec



Finally, the third scenario, which would lead to substantial liberalization, proposes decreasing over-quota tariffs by 90% from 2010 to 2015, and increasing access to the domestic market from 5% to 10%. This type of tariff cut (see Table 2) does not allow us to compete with other international producers and jeopardizes Canadian and Québec production.

Talks have not concluded. The most recent negotiations showed that nations would have a transition period in which to adapt. While we do not know how far the changes will go, the direction is very clear: It is more in the direction of trade liberalization than protectionism. Beyond the dismantling of supply management that some are asking for, there is a challenge: decreasing the costs for making dairy products from where they are now. Can we do otherwise? Note that 6,945 farms were involved in raising dairy cattle and dairy production in 2006, 22.6% of all Québec farms. Five years previously, there were 8,522 dairy farms.

THE POULTRY AND EGG SECTOR IS ON THIN ICE

The dynamic in the poultry and egg sector is similar. More than 700 farms specialized in raising poultry and producing eggs, 2.3% of Québec farms in 2006. This type of production also comes under supply management, and tariffs on "over-quota" imports are also very high.

AGÉCO Group did the same exercise for poultry and eggs⁴ that it had done for the dairy sector. Three scenarios are put forward, based on WTO negotiations: the status quo, "modest" opening, and substantial opening. The exercise was done objectively, without trying to make the picture prettier, and its key conclusions provide food for thought. Researchers did consider that these types of output could fall into the "sensitive product" category, which receives smaller tariff cuts than other categories.

At the time of writing, if tariffs are kept at current levels, egg production is jeopardized by imports when the American price is low. For whole chicken, Québec production is threatened when prices for Brazilian chickens are low. It is immediately clear that, when Canada's currency rises, our relative position weakens. The conclusions are even more worrisome where our markets are more open. In short, despite continued high tariffs, foreign products, especially products from the United States and Brazil, would easily make a place for themselves on grocery store shelves. We have our work cut out for us to successfully reduce production costs.

CHALLENGES SPECIFIC TO EACH TYPE OF PRODUCTION

Market openness confronts all types of production to different degrees, given the other challenges they are dealing with. For example, hog production is not subject to supply management, but is just as affected by market liberalization. The factor that had made it prosper and grow—broad access to foreign markets thanks to quality production at affordable prices due to a weak Canadian dollar—has become a thorn in its side. The loonie's rapid appreciation is among the problems the sector is facing (porcine circovirus, moratorium on production, slaughter capacity, intense and growing competition, complaints from people living near pig farms, price of land, grain prices, environmental issues, etc.). The situation is not a simple one: this sector, already subject to competition and hard hit by its reverses, has also arrived at a crossroads. The number of farms is declining: there were 1,932 farms in 2006, a decline of 301 farms from 2001.

The term "pork crisis" is not too strong. It is to agriculture what the forestry crisis is to the Québec economy. Expectations are high regarding the action to be taken in response to the recommendations of the Commission sur l'avenir de l'agriculture et de l'agroalimentaire québécois (CAAAQ, or the commission on the future of Québec's agriculture and agri-food industry), whose report is to be tabled at the end of January. Expectations are even higher regarding the conclusions and recommendations for the pork sector to be given to the Québec government in March by Guy Coulombe, whom the government asked to review the issue.

Market openness is not only making life difficult for livestock producers: fruit and vegetable operations, and grain and oilseed producers are also exposed. Chinese, Indian and Brazilian food products are real threats to local production.

NOT EVERYONE IS UNHAPPY ABOUT OPENING MARKETS

Although open trade is a threat to some, lately, it has helped grain and oilseed producers. Current prices are, to a degree, the result of market interpenetration. Soaring wheat and corn prices, among others, are very closely tied to the American (not Canadian) venture into biofuel. The impact of the American policy for gradually reducing dependence on oil products by using more ethanol has sent ripples right into Canada. Increased production of biofuel and the proliferation of ethanol plants in the United States have literally triggered a run on corn and wheat for industrial purposes. As a result, prices have begun to climb. The agricultural landscape has even been transformed here: corn seeding area has grown by over 15%, to the detriment of other crops. It is much easier to track market movements in this sector than in livestock production.

However, this year's gains do not give us any guarantees for next year. The venture into making ethanol with corn and wheat is already making people cringe. Should we be farming to drive, or to feed people? Are the disadvantages of intensive corn production (depletion of the soil, impacts on the water table, etc.) winning out over the biofuel's advantages? How long will this windfall last? Keep in mind that the winds could change.

IS TRADE OPENNESS INEVITABLE?

The agricultural sector is already subject to international competition, but to different degrees, depending on the type of production. The economic circumstances of recent years have helped exacerbate the irritants created by the rules of the game that are set beyond our borders. Is it possible to escape from this dynamic? With difficulty. However, we cannot remain passive. In the fall of 2007, in conjunction with 40 agricultural associations, Desjardins tabled a statement before the CAAAQ demanding that the governments of Québec and Canada make food sovereignty the cornerstone of their food and agricultural policy, and play an international leadership role in promoting the agricultural exception and people's right to food sovereignty. Even if this proposal got the nod from WTO negotiators, even if current barriers were maintained, our relative position is fragile with respect to the major producer nations. We are still under an obligation to challenge our methods and try to reduce our production costs.

Joëlle Noreau
Senior Economist

¹ AGÉCO Group: A group of professionals that specializes in economics and marketing; they conduct impact studies, policy and regulatory analyses, studies of production costs, surveys and agri-environmental snapshots.

² AGÉCO Group: *Perspectives pour l'industrie de la transformation laitière québécoise*, final report, April 2007. 101 pages.

³ Over-quota: Over the 5% of the market share granted to foreign products.

⁴ AGÉCO Group, "Le point sur les négociations de l'OMC et l'impact potentiel sur la gestion de l'offre dans le secteur aviaire, Le Rendez-vous avicole," AQINAC, 2007.



REPORT: REGIONAL ISSUES

Finding a second wind for Québec's agricultural regions

Québec agriculture is going through troubled times. The whole environment is changing, from trade conditions to the weather. There are fewer and fewer farms, and we're wondering about our ability to produce. The regions are being hit head on. Which regions are most affected? Are the problems the same everywhere? Do the regions want to invest in their agricultural sectors? These are the kinds of questions we will try to answer.

QUÉBEC AGRICULTURE: DIVERSIFIED AND SCATTERED

Statistics Canada's latest Census of Agriculture, done in 2006, provides a good snapshot of the diversity of Québec production. In the section on economic challenges (pages 7 to 12), we noted that the number of farms had declined 4.6% between 2001 and 2006, which represents a loss of 1,464 establishments. This means that, on an annualized basis, an estimated 300 farms are vanishing each year. There are many reasons for this: a farm may be sold to another producer, abandoned because there is no one to take over, or because of particularly trying problems (disease in the herd, purchasing policies of the major grocery store chains or processors, sales to other producers, production quota prices, Canadian dollar, uncertainty regarding the World Trade Organization (WTO) negotiations, etc.).

Table 5 – Farms in Québec according to Census of Agriculture

Farms categorized by industry group ¹	2001	2006
	Farms reporting	
Québec		
All farms	32,139	30,675
Cattle farms	13,552	11,628
Pig farms	2,233	1,932
Poultry farms and egg prod.	779	710
Sheep and goat farms	709	780
Other livestock	1,590	1,895
Grain and oilseed farms	3,271	3,432
Vegetable and melon farms	1,140	1,131
Fruit and nut growers	1,146	1,273
Greenhouse crops, nursery and floriculture	1,514	1,478
Other agricultural crops	6,205	6,416

¹ The type of farm is based on the categories of the North American Industry Classification System (NAICS), which is periodically revised. The 2001 data on the type of farm are taken from the 1997 NAICS, while the 2006 data are taken from the 2002 NAICS. The two classifications are identical for Canada's agricultural industry, meaning there is direct comparability between the data for the two reference years.

Source: Statistics Canada, Census of Agriculture 2006

LIVESTOCK CONTINUES TO DOMINATE

Despite the decline in the number of establishments, Québec is maintaining a sizeable proportion of dairy farms. There were 6,945 in 2006, 22% of the 30,675 establishments counted in Québec. However, the dairy sector's relative importance has declined: it accounted for 26.5% of farms in 2001. There are now 1,577 fewer dairy farms than there were five years ago.

Second place goes to cattle farms (meat-type cattle and veal). There were 4,683 farms in 2006, just over 15% of the total. This is about the same percentage as in 2001, although the number of cattle farms fell by 347 during the 2001 to 2006 period.

Hog farming is in third place, with 1,932 farms in 2006, or 6.3%. There were 2,233 establishments in 2001, 301 more than in 2006. They stood at 6.9% five years earlier.

In all, the dairy, beef and pork sectors alone have lost 2,225 farms in five years. As the total loss is 1,577, some sectors must have made gains. Not poultry and egg production, as the number of farms declined from 770 to 710. In fact, it was in sheep, goats, horses and mixed livestock operations. There were also gains among soy producers, and grain crops other than soy, wheat and corn. There are also more producers growing fruits and nuts. Production seems to be diversifying, along with Québécois' tastes and food habits.

The agricultural sector contains just under 60,000 jobs. In turn, it generates over 70,000 jobs in the food and beverage manufacturing industry. For many years now, farm employment has been declining. However, Statistics Canada's data are up slightly for 2006. Is this a blip, or a new trend? The greater mechanization of operations, fairly grim outlook for trade negotiations, and substantial problems in recruiting farm labour are tipping the balance toward a reduction in employment in the next few years.

Table 6
Agricultural sector's relative importance in each region's GDP

Average over 5 years (2001 to 2005 – Importance relative to the Québec average as a %)

	Above		Below
Centre-du-Québec	4.9	Capitale-Nationale	0.5
Chaudière-Appalaches	4.3	Outaouais	0.4
Bas-Saint-Laurent	4.0	Côte-Nord	0.4
Gaspésie-Îles-de-la-Madeleine	3.6	Laval	0.4
Lanaudière	2.4	Montréal	0.1
Estrie	2.3	Abitibi-Témiscamingue	Confidential
Montérégie	2.2	Nord-du-Québec	Confidential
Mauricie	1.8	Laurentides	Confidential
Saguenay-Lac-Saint-Jean	1.4		
Québec	1.2		

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

**FARM RECEIPTS:
THE LIVESTOCK SECTOR CONTINUES TO WIN OUT**

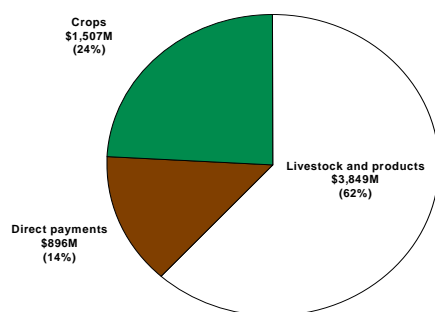
The livestock sector also dominates Québec agricultural earnings. The dairy sector leads the way, with farm cash receipts of \$1.8B in 2006. The hog sector comes in second, even though it contains fewer establishments than the beef sector. Their respective receipts were \$0.8B and \$0.5B in 2006. Poultry and eggs reaped \$0.7B in 2006, with the hen and chicken sector very dominant in this category. Vegetable and corn crops each contribute about \$0.3B.

The livestock sector is still the most important pillar in terms of receipts. In all, receipts are 2.5 times higher than for crops. The dairy sector is privileged because price evolution is predictable: the trend is for gradual increases, and the sector has a guaranteed price thanks to supply management. Receipts in the pig sector fluctuate up and down based on many contingencies (disease, international prices, Canadian dollar, competition, situation in slaughterhouses, etc.). Receipts for

cattle farming fell somewhat in 2003 after a case of bovine spongiform encephalopathy (BSE) was discovered, then slowly recovered in 2004 for veal and 2005 for beef, after the U.S. embargo was lifted.

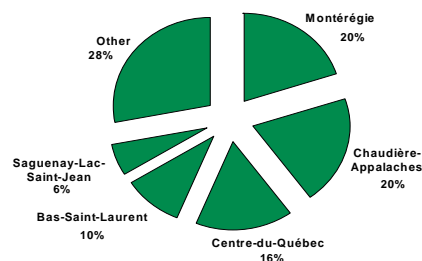
In poultry, receipts peaked in 2004 and have retreated since then. In short, no clear trend can be established: there are too many factors that producers have no control over (international prices, international inventories, value of our currency, trade negotiations, disease in the herds, consumers' tastes, etc.). For example, this year, corn and grain producers should see receipts go up because prices for these commodities have risen. The race for energy, particularly the production of corn-based ethanol in the United States, has literally catapulted prices skyward. However, 2008 could be less favourable as many producers will be tempted to sow corn, thus helping increase the supply, which could eventually slow price increases.

Graph 13 – Distribution of agricultural revenues: livestock dominates – Québec, 2006



Source: Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec

Graph 14 – Dairy is less concentrated than the other sectors (no. of head as a %) in 2006



Source: Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec

In short, livestock farms had to date earned the largest proportion of receipts, and their numbers are declining, while the number of crop growers is increasing. We could believe that it is the operations that are the most threatened by WTO negotiations that are closing shop. It's a premature conclusion. For one, the decrease in the number of farms does not necessarily mean the sector is weakening. Larger farms with greater capitalization are emerging from mergers and acquisitions. Moreover, the proportion of farms with capitalization of more than \$1 million went from 18% in 2001 to 26% in 2006, according to the Statistics Canada Census. During that time, farms with capitalization of more than \$500,000 and less than \$1 million went from 18% of farms in 2001 to 26.1% in 2006. Moreover, as we saw in the previous section, the threats to the agricultural sector are not solely associated with the trade negotiation process.

Note that the decrease in the number of farms was observed in particular in sectors that are very open to competition. The pig sector is an eloquent example of this phenomenon. In addition to a strong loonie, and intensification of competition within Canada and from abroad, the pig sector was confronted with disease problems, and organizational problems in the slaughter sector, to name but a few. The pursuit of economies of scale to lower production costs, and the resulting indebtedness, led a number of operators to abandon production. The spinout around the discovery of a case of bovine spongiform encephalopathy (mad cow disease) hurt all Canadian beef producers. We cannot be surprised at the ensuing disaffection.

AGRICULTURE IS ENTRENCHED ACROSS QUÉBEC

Agriculture occurs in all regions of Québec, but the intensity varies. In some regions, it has a greater weight in the overall economy. Table 6 shows that there are 9 regions out of 17 in which agriculture's relative importance is above the average for Québec as a whole. To keep the data from being overly volatile, we opted to work with a five-year average. We selected the 2001 to 2005 period, as 2005 is the last year for which regional sector data is available. Centre-du-Québec is in the lead, followed by Chaudière-Appalaches. Bas-Saint-Laurent and Gaspésie-Îles-de-la-Madeleine take third and fourth places in terms of farming's relative importance in the region's total GDP.

Lanaudière, Estrie and Montérégie are a second group in which agriculture is more prominent than it is for Québec as a whole. Mauricie and Saguenay are close behind. There is farming in the more urban regions but, on the face of it, it is less obvious than it is elsewhere in Québec. In the major centres, the existence of public markets may inflate the agricultural sector's share in tabulation of the GDP. What's more, the small number of producers in the Abitibi-

Témiscamingue, Nord-du-Québec and Laurentides regions imposes limits with respect to confidentiality.

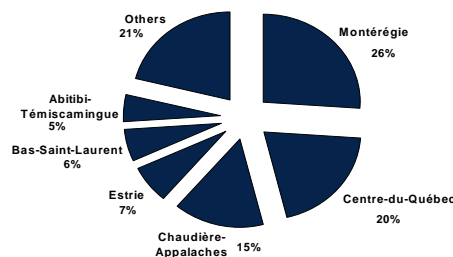
AGRICULTURAL RECEIPTS: MONTÉRÉGIE, CHAUDIÈRE-APPALACHES AND CENTRE-DU-QUÉBEC HEAD THE PACK

There is another way to draw up a ranking of agricultural regions: by tabulating the value of the farm's agricultural receipts. Using this system, Montérégie, Chaudière-Appalaches and Centre-du-Québec predominate, with close to 60% of agricultural receipts from the market. They are followed by Estrie and Lanaudière (14.98% for the two regions).

We can also try to create a hierarchy based on the concentration of the number of animals in Québec's totals of dairy cow, pig, beef and poultry stocks. Montérégie, Chaudière-Appalaches and Centre-du-Québec also stand out in livestock and crop farming. The dairy sector is the least concentrated. About 20% of Québec's dairy cows were at farms in Montérégie in 2006, and the same percentage was concentrated in Chaudière-Appalaches. Centre-du-Québec had 16% of the dairy cows, while Bas-Saint-Laurent and Saguenay-Lac-Saint-Jean each had 10% and 6% of Québec's herd (see Graph 14). These regions are especially concerned about the current WTO negotiations and about the potential impact of tariff cuts on dairy products.

Three regions dominate the beef and veal sector. Montérégie is in first place with 26% of Québec cattle in 2006; Centre-du-Québec is close behind (20%) and Chaudière-Appalaches is in third place (15%). (See Graph 15). These regions were especially hard hit in 2003 and 2004 by the U.S. boycott that followed the discovery of a case of BSE in western Canada. The loonie's rise is an additional concern. Our exports become less competitive and, parallel to that, imports do not cost as

Graph 15 – Montérégie maintains its lead in cattle production (beef and veal) (no. of head as a %) in 2006



Source: Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec

much. A strong currency gives processing plants and grocery store chains additional purchasing power, and they are tempted to look beyond local producers.

THE PIG SECTOR IS CONCENTRATED

The pig sector is much more concentrated, with Montérégie and Chaudière-Appalaches fighting for first place. They each have a little over 30% of the pig herd. These two regions thus have a 60% share (see Graph 16). Centre-du-Québec has 14% of the heads. As we saw, pork producers have been sorely tried in the last few years.

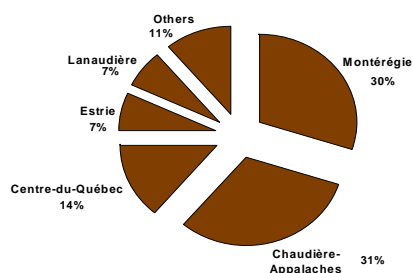
In crops, once again, Montérégie dominates in terms of sown area. With 44% of the Québec land in crops, it is well ahead of the other regions. Centre-du-Québec is in second place with 14%, followed by Chaudière-Appalaches, with 7% (see Graph 17). This sector has had a profitable year, due to skyrocketing prices. However, nothing indicates that grain and oilseed prices will appreciate that much in 2008 and remain at the high levels seen in the summer of 2007. What's more, the gains made in 2006 and 2007 are not enough, on their own, to patch up all of the agricultural sector's problems.

SHARED CHARACTERISTICS COMBINE WITH REGIONAL DIFFERENCES

Before reporting on the differences, let us first spotlight the similarities between the regions. As there is negligible agricultural output in the Montréal area, we used 16 regions for comparison purposes. At first glance, in terms of receipts, dairy production comes first in 11 of 16 regions. This means that the WTO negotiations and their potential results could lead to major changes in 11 out of 16 agricultural regions: when milk is affected, all of Québec feels it.

Pig production comes second in 8 out of 16 regions. In third place, it is much more difficult to trace the connections: there is no homogeneity. Climatic conditions, soil quality, farming tradition, proximity to markets have in turn shaped agricultural practice in each region. This is why it is best to do an overview of each region and the challenges it faces.

Graph 16 – Over 60% of pork production is focused in two regions (no. of head as a %) in 2006



Source: Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec

A DISTINCT CHARACTER FOR EACH REGION: THE THREE LEADERS

The magnitude of agricultural receipts will set the order of presentation. Montérégie thus comes first as it alone accounts for more than 25% of Québec's total agricultural receipts. For receipts, dairy production comes in first, with pig production a close second, followed by grain and protein crops, which battle for fourth place with poultry. The fifth largest sector is fruit and vegetable growing. However, the region stands out for its role as the main producer of grains, vegetables and ornamental horticulture. It also dominates for the number of animals at dairy farms, pig farms (with Chaudière-Appalaches), poultry farms and horse farms in Québec. Montérégie faces many challenges as it is highly diversified in terms of agricultural production. However, this diversity could be an asset as the difficulties are not all the same. For example, corn, wheat and soy producers had an excellent year in 2007, whereas the problems in the pig sector only multiplied. However, the strong loonie hurt exporters as the region is a major supplier of export products.

The two main agricultural pillars in Chaudière-Appalaches are dairy and pig production. Well behind are beef and veal and poultry farms, neck and neck. Maple production is a distinctive characteristic of the region: it is in fifth place. Pork and beef are two sectors that have been somewhat tested in the last few years. If the dairy sector were also to be affected, however, the region would be sorely tested: two thirds of agricultural receipts are associated with dairy and pig production. Note that over 10,000 jobs are associated with production, and there are another 7,000 in food processing. The challenges are sizeable.

Centre-du-Québec's profile is similar to that of Chaudière-Appalaches. Dairy farming dominates, followed by pig farming, with half the receipts. Together, these two types of production account for about 60% of the region's farm receipts. Beef and veal are in third place. Cereal and protein seed crops are in fourth, whereas there is not much of a presence in Chaudière-Appalaches. Poultry is fifth. The challenges are sizeable here, too, as there are over 6,000 production jobs and about 4,000 jobs in processing, where the region has earned itself an enviable place, especially in cheeses. About 5% of Centre-du-Québec's regional GDP is attributable to the agricultural sector alone.

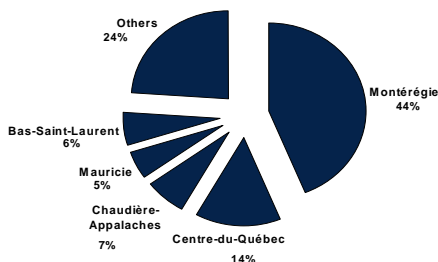
CHALLENGES THROUGHOUT QUÉBEC

Estrie has two major sectors, dairy and pig farming, with over 60% of agricultural receipts. In order, forest products, beef and veal and maple production follow, with smaller receipts. The region stands out for its maple production, Christmas tree farms, and organic farming. There are 5,000 workers in regional agricultural production, as well as 1,500 jobs in processing.

The Lanaudière region is neck and neck with Estrie in terms of receipts. The poultry sector ranks first. For this type of production, it is the second most important region in Québec. The dairy and pig sectors are tied for second. Together, these three types of production account for 60% of the value of the region's receipts. The rich soil and weather conditions mean the region can have a large crop of vegetables and ornamental horticulture, helping to diversify the risks associated with the livestock sectors somewhat. However, fierce international competition threatens local production. And there is no guarantee that the crop farming sector will be an invincible fortress in the face of changes in trade rules. There are about 3,200 workers in the agricultural sector, which in turn generates almost 2,500 processing jobs.

Bas-Saint-Laurent is in fifth place (if we consider that Lanaudière and Estrie are both in fourth). Year in and year out, dairy production alone has a 55% to 60% share of regional agricultural receipts. This is the region that has the greatest exposure to potential tariff cuts in the dairy sector. The four following sectors jostle for second place: pigs, beef and veal, maple growing and grains and protein crops. Between 3,500 and 4,000 farm workers operate in the region. The food manufacturing industry features about 1,500 jobs.

Graph 17 – Montérégie wins hands down in terms of seeded acreage in Québec in 2006 (as a %)



Source: Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec

REGIONAL EXPERTISE IS NOT WELL KNOWN

Three regions rank sixth: Saguenay-Lac-Saint-Jean, Mauricie and the Laurentides. Dairy production leads in each region. In Saguenay, it has 45% of the receipts, in Mauricie it earns just over 35%, and in the Laurentides, it earns just over one quarter. Saguenay has no major pig sector. The second ranked activity is the berry industry, which earns about 20% of the receipts from the market. What leaps to mind is the blueberry crop. Grain and protein crop production is in fourth place, followed by beef and veal farming, and potato growing. Just over 2,000 people work in the agricultural sector, and there are 1,000 in processing plants.

In Mauricie, a large proportion of the activity is in livestock: Including the dairy sector (38%), close to 80% of agricultural revenues are associated with it. Pigs and poultry each represent about 16%. Cattle raising is fourth (11% of revenues). Crops are in fifth place: it is highly diversified, with grain corn, soy, oats and barley. There are about 2,000 agricultural workers and 1,300 to 1,500 in food processing plants.

In the Laurentides, receipts from vegetable production and ornamental horticulture (33%) are greater than from dairy farming (26%). With vegetable production in third place, the region is the second most important in terms of greenhouse crops. However, it is in strong competition with foreign products. Beef and veal farming comes fourth, but does not compare with that of Centre-du-Québec and Chaudière-Appalaches. The region also stands out for its varied livestock (large game, in particular). There are 2,600 agricultural workers in the Laurentides. Processing is important there, with 3,200 people working in the sector.

The Abitibi-Témiscamingue, Outaouais and Laval regions have farm receipts of less than \$100 million a year. In the first two regions, dairy farm receipts account for over 40% of the total. This means that they are concerned about the WTO negotiations. Beef and veal farming is second, with just about 30% of the receipts. The other types of production are smaller.

All of the regions have reason to be vigilant: economic and trade conditions will evolve over the next year, not always to their advantage. However, some of the regions have opted to focus on agricultural production and regional processing to increase their chances.

A SECOND WIND

Ten regions have opted to take on an "agricultural" or "food-processing" component in the framework of the ACCORD¹ process put forward by the Québec government early in this decade. This means they were successful in convincing all regional partners and government bodies of the projects' merit. Among them, some are in the evaluation stage, while others are already underway. They are designed to further entrench some regions' agricultural vocation and, in some cases, bolster the existing agri-food pipeline. These are not "defensive" actions. What's more, a region's efforts to stand out will not come at the expense of others that may opt to focus on the same niche.

Abitibi-Témiscamingue chose the "grass-fed beef" (natural beef) niche, given the importance the beef sector already has in the region (second-most important production). A research program has already been set up. This is an emerging niche, which is exclusive to the region.

In the Capitale-Nationale region, the "health food" niche is based on agri-food and bio-food processing. It will be focused on consumers' growing demand for health food. The many food production establishments will thus be able to work even more closely with the region's Instituts de recherche.

In Centre-du-Québec, the emphasis will be on the cheese-making operations that are already a feather in the regional and Québec caps. The work will be done in partnership with the producers who have a good milk supply, processors, educational establishments that already offer training specific to this niche, and research centres.

In Chaudière-Appalaches, the decision was made to work on environmental technologies for animal production and processing. This is an emerging sector whose first aim is to develop waste-processing technologies so as to increase production and processing. The by-products could be used as fertilizer elsewhere in Québec, and even in foreign markets.

Côte-Nord chose to work on photogenetics and the production of potatoes and Nordic berries. This avenue is being evaluated. The development potential for producing berries is promising (blueberry fields, cloudberries, cranberries, etc.).

Estrie is working on health biotech. The region already has substantial research and development infrastructure in the life sciences sector. Here, the region could also partner with other regions working on health foods, such as Capitale-Nationale and Montréal.

There are two primary niches in Lanaudière: Food processing (partner) and plant processing and plant biotechnology (emerging). The agri-food industry is already well developed: a diversified, specialized training network is associated with it, which will help enhance its garden produce. In terms of plant biotechnology, the focus is on developing value-added products and technology. Growing medicinal plants is one example of this.

In the Laurentides, the niche selected was prepared foods and meals. This is a growth sector which delivers added value. A cluster of businesses is already working in secondary and tertiary food processing, using Québec farm products.

In Montérégie, the niche selected is biofood. The region has the raw materials, processing capacity, research infrastructures, and support for workforce training. The proximity of the Montréal and American markets positions the region strategically for distribution.

Saguenay-Lac-Saint-Jean is weighing the possibility of northern agriculture. The region has a climate that is conducive to growing berries, and has also developed unique know-how in the processing of plant products.

Despite the problems assailing the agricultural sector, the regions have decided not to throw in the towel. Efforts to conserve Québec production and linking with international-calibre regional processing will give the agricultural sector a second wind. Expectations are high. The WTO negotiations could upset the agricultural picture, but producers and processors are not sitting on their hands: they've already rolled up their sleeves. Will this be enough to keep Québec's agriculture sector healthy? Upheaval can be expected, with or without an agreement.

Joëlle Noreau
Senior Economist

¹ ACCORD: Action concertée de coopération régionale de développement (concerted regional cooperative development action)



INTERPROVINCIAL SHOWCASE

From east to west, the face of agriculture is changing

Agriculture static? Not really... We tend to think that this sector of economic activity stays with the tried and true from century to century. Nothing could be more wrong: this is a world that is constantly evolving and, despite appearances, it is going through many changes. Agriculture is also not a well-understood sector: many people are not aware that Ontario is the province with the biggest number of farms. Here are a few details to shatter preconceived notions about Canada's agricultural landscape.

BEYOND STATISTICS

From 2001 to 2006, the number of agricultural operations in Canada fell from 246,923 to 229,373. The loss of 17,550 farms represents a drop of 7.1%. However, more than 80% of the farms pinpointed in 2001 were still there in 2006. What changed the picture was the fact that about 62,000 farms disappeared, while almost 45,000 farms were new on the scene. Existing enterprises tended to grow in size, whereas new enterprises were for the most part smaller. The newcomers had average receipts that were lower than those of existing farms, or abandoned operations. The creation of new agricultural enterprises goes against the general impression that the sector is going to ruin and stagnating. This perception is mainly supported by the trend for the number of farms to decline, which dates back to 1941 in Canada.

Table 7 – Number of farms and agricultural area, Canada and provinces

Provinces	Number of farms		Var. %
	2001	2006	
Newfoundland / Labrador	643	558	-13.2
Prince Edward Island	1,845	1,700	-7.9
Nova Scotia	3,923	3,795	-3.3
New Brunswick	3,034	2,776	-8.5
Québec	32,139	30,675	-4.6
Ontario	59,728	57,211	-4.2
Manitoba	21,071	19,054	-9.6
Saskatchewan	50,598	44,329	-12.4
Alberta	53,652	49,431	-7.9
British Columbia	20,290	19,844	-2.2
Canada	246,923	229,373	-7.1

Source: Statistics Canada, Census of Agriculture, 2001 and 2006

Each Canadian province recorded a decrease in the number of agricultural operations between 2001 and 2006. However, the decrease is more obvious in Newfoundland and Labrador (-13.2%), Saskatchewan (-12.4%), Manitoba (-9.6%), New Brunswick (-8.5%), Alberta and Prince Edward Island (both at -7.9% (see Table 7)). In absolute numbers, Saskatchewan has taken the heaviest losses, dropping over 6,000 farms in

five years. It is followed by Alberta (about -4,000), Ontario (about -2,500) and Manitoba (about 2,000). The defection of western farmers is due to an array of factors: bovine spongiform encephalopathy (mad cow disease), with the first case detected in Alberta in 2003, avian flu threats, drought and flooding, increase in the costs of fertilizer and fuel, to name but a few. The effervescence triggered by the energy boom has also multiplied the supply of very lucrative jobs in sectors as diverse as construction and oil and gas extraction.

FARM AREA: A DIMINISHING ASSET?

The area of farms in Canada has barely changed. However, the overview hides some important differences. The biggest declines were recorded in Newfoundland and Labrador (-10.8%) and Prince Edward Island (-4.1%). In Prince Edward Island, the Canadian dollar's rise prompted U.S. potato processing facilities to buy on the U.S. market rather than in Canada, and this led to a reduction in seeded acreage here, among other things. The biggest gains were noted in British Columbia (+9.6%) due to the increase in greenhouse crops and expansion of the area devoted to nurseries.

Table 8 – Ratio of expenses/gross agricultural receipts by province

Provinces	2000	2005
Newfoundland / Labrador	0.87	0.86
Prince Edward Island	0.85	0.90
Nova Scotia	0.84	0.87
New Brunswick	0.86	0.86
Québec	0.83	0.82
Ontario	0.86	0.86
Manitoba	0.87	0.86
Saskatchewan	0.85	0.88
Alberta	0.90	0.89
British Columbia	0.91	0.90
Canada	0.87	0.86

Source: Statistics Canada, Census of Agriculture, 2001 et 2006

FINANCES: AN INTERESTING COMPARISON

In its last financial picture of farms, Statistics Canada compared the ratio of expenses and gross farm receipts by province. We should, at the outset, note that the ratio varies depending on the type of production. For example, in 2005, the year of the last financial picture of farms, dairy production incurred \$0.73 in operating expenses for every dollar of receipts. Also note that the ratio can vary substantially with the size of the operation, and that it includes both operations that are making a profit, and operations that are incurring losses. Canada-wide, the receipts class with the best ratio is the one in the \$250,000 to \$1 million a year category.

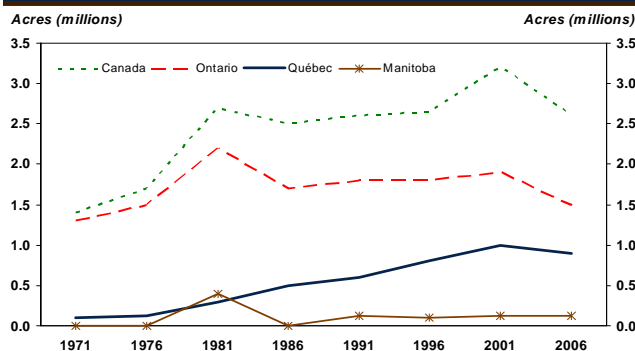
The Canadian average for 2006 is \$0.86, down slightly from 2000 (\$0.87). Québec heads the list but, as it had 47.4% of Canada's dairy farms in 2006, we should not be surprised that it got the best ratio (see Table 8). Ontario also ranks well: the province has 38.4% of Canada's dairy farms. Milk prices, which are controlled by supply management, do not fluctuate substantially, as the international markets do. It is easier to modify production based on relative price stability. This is not the case with pork, beef, grain and oilseed, which must deal with the randomness of international prices.

SPECIALTIES THAT AREN'T EXCLUSIVE

For a long time, we believed that western Canada focused only on growing wheat and raising beef. Although these two activities still dominate, they do not take into account the agricultural diversity that is present across Canada. For example, the provinces that are the most active in pork production are Ontario, Québec and... Manitoba.

What's more, grain production is not the sole purview of the Prairies. Corn, which has become the market's darling over the last two years, mainly grows in central Canada.

Graph 18 – According to censuses, Ontario has the largest corn area



Source: Statistics Canada, Census of Agriculture, 1971 to 2006

Note that Québec and Ontario have a stronger concentration of productions that are subject to supply management (milk, poultry and eggs). As a result, these two provinces are more concerned about the outcome of the World Trade Organization (WTO) negotiations. This is why Canada's negotiators are not in a very tenable position. On one hand, they are demanding more openness for pork, beef and grain, and on the other, they're defending the supply management system that limits the entry of dairy products, chicken and eggs. There is dissatisfaction on both sides. This question will continue to be at the heart of debate in the agricultural sector in 2008.

FARMERS, LIKE THE GENERAL POPULATION, ARE AGING

Canadian society is aging, and farmers are no exception to this trend. Their average age in Canada was 52 in 2006, while it was 49.9 in 2001 and 47.5 in 1991. Québec has the lowest average, at 49.3 years. British Columbia and Nova Scotia have the highest (with 53.5 years and 53.2 years respectively). The under-35 group has declined from 11.5% of producers in 2001 to 9.1% in 2006. In exchange, the 55-and-up cohort is growing: it went from 34.9% of all operators in 2001 to 40.7% in 2006.

A LITTLE-KNOWN PHENOMENON: OFF-FARM JOBS

Since 2001, more farm operators have jobs off the farm, and they are working longer hours every week in their parallel jobs. Close to half (48.4%) of all Canadian farm operators had a job or business outside of the farm in 2006. This is a substantial proportion, and it is up from 2001 (44.5%). Full-time employment (over 40 hours off the farm) has increased, going from 17.6% to 20.2% in five years.

The biggest increase was seen in Alberta and Saskatchewan. In fact, the job opportunities and attractive wages provided by the oil boom and all the activity generated in the construction sector have seduced farm operators.

Canada's agricultural sector is a mosaic. But it is a mosaic that is evolving over time. Soaring energy prices have changed the game in Saskatchewan and Alberta. In exchange, Québec and Ontario have taken a little more room in the Canadian agriculture sector since 2001. However, the picture will shift again: The effects of the loonie's appreciation could make the position of Québec and Ontario producers more fragile. Even if the WTO trade negotiations were to fail, the agricultural sector would still mutate.

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FORECAST TABLES

Table 9
Canada: Major economic indicators

	2005	2006	2007f	2008f	2009f
Annual average in % (except if indicated)					
Real gross domestic product*	3.1	2.8	2.6	2.4	3.0
Personal consumption expenditures	3.8	4.2	4.1	3.9	4.2
Residential construction	3.5	2.1	2.6	1.5	1.5
Business fixed investment	10.8	9.9	4.9	5.7	5.4
Inventory change (\$B)	13.5	10.2	9.3	7.4	6.1
Public expenditures	3.2	3.9	2.9	3.5	3.4
Exports	2.2	0.7	1.9	2.8	3.1
Imports	7.5	5.0	5.3	6.7	5.6
Final domestic demand	4.5	4.7	3.8	3.7	3.8
Other indicators					
Real disposable personal income	2.6	4.9	3.8	3.9	4.1
Weekly earnings	3.2	3.0	3.1	2.8	2.3
Employment	1.4	1.9	2.3	1.6	1.5
Unemployment rate (in %)	6.8	6.3	6.0	6.1	5.8
Housing starts (in thousands)	225.5	227.4	230.4	211.3	197.0
Corporate profits** (1)	11.9	5.0	5.9	5.7	5.2
Personal savings rate (in %)	1.6	2.3	1.8	1.0	0.2
Total inflation rate (1)	2.2	2.0	2.1	1.7	2.1
Core inflation rate*** (1)	1.6	1.9	2.2	1.7	2.1
Federal gov't balance (\$B) (2)	2.0	8.5	15.2	5.8	9.0
Current account balance (\$B)	27.9	23.6	13.8	0.6	-5.6

f: forecasts

* 2002 \$ ** Before taxes *** Excluding food and energy (1) Annual change (2) National accounts

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Table 10
Québec and Ontario: National accounts

	2005	2006	2007f	2008f	2009f
Annual average in % (except if indicated)					
Québec					
Real gross domestic product	2.0	1.7	2.3	1.6	2.5
Personal consumption expenditures	3.1	3.0	3.7	3.2	3.4
Residential construction	-0.8	-1.1	6.4	0.4	-0.2
Business fixed investment	-3.0	7.6	7.0	7.1	4.8
Inventory change (\$B)	2.9	1.5	1.0	1.6	0.9
Public expenditures	2.0	2.8	4.1	4.3	3.2
Exports	3.0	1.7	-1.4	-0.9	2.3
Imports	4.4	3.2	1.8	3.3	3.2
Final domestic demand	1.9	3.0	4.1	3.6	3.3
Ontario					
Real gross domestic product	2.9	2.1	2.2	1.7	2.4
Personal consumption expenditures	3.6	3.5	3.5	3.3	3.6
Residential construction	1.8	1.1	0.6	0.1	-0.3
Business fixed investment	7.8	11.0	7.6	6.5	4.5
Inventory change (\$B)	3.6	3.3	6.2	8.0	7.7
Public expenditures	3.1	3.7	2.5	3.3	2.8
Exports	2.2	-0.2	1.5	0.5	2.4
Imports	3.9	2.7	4.1	3.6	3.6
Final domestic demand	3.7	4.1	3.5	3.5	3.3

f: forecasts

Sources: Statistics Canada and Desjardins, Economic Studies

Table 11
The regions: GDP growth in current dollars

	2005	2006	2007f	2008f	2009f
Annual average in %					
Bas-Saint-Laurent	2.4	3.6	3.8	2.6	2.6
Saguenay-Lac-Saint-Jean	2.2	4.1	5.0	3.3	2.1
Capitale-Nationale	4.8	4.2	4.8	3.5	2.6
Mauricie	4.3	3.4	2.2	2.0	2.0
Estrie	2.8	3.4	3.1	3.7	2.5
Montréal	3.3	4.6	3.4	3.4	3.8
Outaouais	3.9	4.5	3.5	2.6	3.1
Abitibi-Témiscamingue	6.8	2.6	7.1	8.5	3.9
Côte-Nord	9.2	2.8	0.4	2.6	2.3
Nord-du-Québec	6.8	2.5	18.3	4.5	4.3
Gaspésie-Îles-de-la-Madeleine	1.1	3.4	3.9	5.4	2.2
Chaudière-Appalaches	3.4	3.3	5.0	2.3	2.1
Laval	4.8	4.7	4.0	2.8	3.6
Lanaudière	6.1	4.1	3.9	4.3	4.1
Laurentides	6.0	4.7	4.1	3.4	3.0
Montérégie	3.9	4.4	5.1	4.4	3.6
Centre-du-Québec	5.0	3.7	4.2	2.6	2.8
Total Québec	4.0	4.2	4.1	3.5	3.3

f: forecasts

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Table 12
Canada: Major financial indicators

End of period in %	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key rates												
Overnight funds	4.25	4.25	4.50	4.25	3.75	3.50	3.50	3.50	4.00	4.00	4.00	4.25
Treasury bills												
3-month	4.18	4.43	3.98	3.83	3.65	3.40	3.55	3.60	4.10	4.10	4.15	4.30
Federal bonds												
2-year	3.98	4.58	4.08	3.74	3.00	2.75	3.20	3.65	3.95	4.15	4.40	4.55
10-year	4.11	4.55	4.34	3.99	3.60	3.90	4.15	4.40	4.70	4.80	4.90	4.85
Spreads (Canada – United States)												
3-month	-0.86	-0.39	0.16	0.47	0.70	0.60	0.50	0.45	0.65	0.20	-0.20	-0.25
Canadian dollar												
American dollar (CAD/USD)	0.8669	0.9400	1.0056	1.0021	0.9700	0.9600	1.0000	1.0250	1.0000	0.9800	1.0200	1.0500
Canada												
S&P/TSX index	Result: 13,833 (+7.2%)				Target: 14,400 (+4.1%) (range: from 13,400 to 14,900)				Target: 15,850 (+10.1%) (range: from 14,350 to 16,850)			

f: forecasts

Sources: Datastream and Desjardins, Economic Studies

Table 13
Canada: Major economic indicators by provinces

	2005	2006	2007f	2008f	2009f
Annual average in % (except if indicated)					
Real GDP growth*	3.1	2.8	2.6	2.4	3.0
Atlantic	1.0	2.2	2.0	1.5	3.0
Québec	2.0	1.7	2.3	1.6	2.5
Ontario	2.9	2.1	2.2	1.7	2.4
Manitoba	2.7	3.2	2.5	3.0	3.5
Saskatchewan	3.5	-0.4	3.0	3.5	3.5
Alberta	5.3	6.6	4.3	4.5	4.5
British Columbia	4.5	3.3	3.0	3.5	4.0
Inflation rate*	2.2	2.0	2.1	1.8	2.1
Atlantic	2.6	1.9	1.7	1.5	1.8
Québec	2.3	1.7	1.5	1.7	2.2
Ontario	2.2	1.8	1.8	1.5	1.9
Manitoba	2.7	2.0	2.1	1.7	2.2
Saskatchewan	2.2	2.1	2.9	2.5	2.7
Alberta	2.1	3.9	4.9	3.5	3.2
British Columbia	2.0	1.7	1.7	1.8	2.2
Employment growth*	1.4	1.9	2.3	1.6	1.5
Atlantic	0.2	0.5	1.4	0.5	0.3
Québec	1.0	1.3	2.3	1.4	1.7
Ontario	1.3	1.5	1.6	1.2	1.4
Manitoba	0.6	1.2	1.6	1.0	1.0
Saskatchewan	0.8	1.7	2.1	1.5	1.5
Alberta	1.5	4.8	4.7	3.0	2.5
British Columbia	3.3	3.1	3.2	2.0	2.0
Unemployment rate*	6.8	6.3	6.0	6.1	5.8
Atlantic	10.3	9.8	9.1	9.8	9.3
Québec	8.3	8.0	7.2	7.0	6.7
Ontario	6.6	6.3	6.4	6.5	6.4
Manitoba	4.8	4.3	4.4	4.5	4.0
Saskatchewan	5.1	4.7	4.2	4.0	4.0
Alberta	3.9	3.4	3.5	3.8	3.5
British Columbia	5.9	4.8	4.2	4.0	3.8
Retail sales growth*	5.6	6.4	5.8	5.3	5.8
Atlantic	2.8	5.6	6.0	4.5	5.0
Québec	5.1	5.1	4.7	4.5	5.3
Ontario	4.8	4.1	3.8	3.6	4.2
Manitoba	5.9	4.5	8.5	6.5	6.0
Saskatchewan	5.2	6.5	12.0	7.0	7.5
Alberta	11.8	15.6	9.0	8.5	9.0
British Columbia	4.4	6.8	7.0	6.5	6.5
Housing starts* (thousands of units)	225.5	227.4	229.6	211.3	197.0
Atlantic	12.1	12.0	12.0	10.5	9.2
Québec	50.9	47.9	49.4	45.0	41.0
Ontario	78.8	73.4	69.2	64.0	60.0
Manitoba	4.7	5.0	5.8	5.3	4.5
Saskatchewan	3.4	3.7	5.7	5.0	4.8
Alberta	40.8	49.0	48.1	45.0	42.0
British Columbia	34.7	36.4	39.5	36.5	35.5

f: forecasts

* Data for Canada.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

