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**Uprooting Ourselves From Commodities and Moving Into Differentiated Farm Products:
The Needs and the Challenges**

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1.0 Introduction

Prolonged low prices for farm commodities underline that changes are required in the agricultural marketing system. The federal-provincial Agricultural Policy Framework (APF) was introduced as a way to take agriculture off the “victim agenda”, and to exploit opportunities such as having farm products designed and produced for a specific purpose, and according to consumer preferences. In other words, farm products would be differentiated according to end use. This vision has not become reality. That’s because there are powerful incentives to move away from commodities and to differentiate, but there are also firmly-rooted constraints that prevent this from happening. The purpose of this paper is to discuss these opposing forces, the implications, and the need to address this issue in a more proactive way.

This discussion paper is organized as follows:

- Section 2 describes the four key factors pushing for increased differentiation in Canadian farm and food products;
- Section 3 provides a discussion of the four key factors acting to maintain a focus on agricultural commodities in the Canadian food sector; and
- Section 4 concludes with how we need to move forward on this issue.

2.0 The Forces Pushing in Favour of Differentiation

There are at least four critical sources that outline a need for greater differentiation in farm and food products. These include:

- The need for enhanced growth in the agri-food sector;
- Threats and opportunities resulting from the trade policy environment;
- The need for more sustainable farm incomes; and
- The need to serve increasingly diversified consumer preferences.

This section explains each of the forces in turn.

2.1 Growth in the Agri-food Sector

Growth in an industry relates to margins and profitability. When margins are positive and returns generate a profit, an incentive exists for farmers and processors to invest in facilities. This increases output, employment, and the capital stock in an industry. Alternatively, if margins and profitability are relatively low or decreasing, new investment does not occur, and existing facilities may not be replaced as they wear out. Over time, employment, output, and the value of capital in the industry will fall.

Growth in profit margins relates to the consumption of inputs relative to output. Margins increase when a greater volume can be produced from the same input, when the same volume can be produced using less input, or when a higher valued output is produced with less than a concomitant increase in the value of inputs. The tradition in the agri-food sector has been one in which the first two of these have been the predominant sources of growth in margins. Scale economies have been leveraged as a means to decrease costs and increase profitability, and a focus on capacity utilization is pervasive throughout the agri-food

sector. Similarly, improvements through new and technology have allowed greater volume (or yield) to be obtained from a given basket of inputs.

The impact of technological improvements in agriculture and food can hardly be understated. Figure 2.1 below shows that, apart from a brief period of hyper-inflation in the mid 1970's, the real price of farm products in Canada has been steadily decreasing. Improvements in technology and improved efficiency have been required to retain farm profitability in this environment. Based on capacity utilization/scale economies, and on constantly improving technology, the agri-food system has leveraged margin growth by increasing volume output at decreased unit cost.

Less application appears to have been made of the third source of margin growth that of producing a higher valued output produced at less than a concomitant increase in inputs. This is significant, because the prospects for future growth in margins from moving increased volumes of farm product sold are uncertain, if not downright dim. This is due to the following:

- Relative to expectations of even just a few years ago, world population growth is slowing. This is illustrated in Table 2.1. Most countries have a fertility rate that is at or below replacement (i.e. < 2.0). Recent forecasts pegged the world population at 12.0 billion by 2050; it is now forecast to be 8.9 billion by 2050. In other words, agricultural development has been driven by a need to feed a perpetually growing population; that pressure is easing;
- Like the US, the Canadian population is experiencing an obesity epidemic. People can't eat more, or shouldn't eat more if they are to remain healthy. Since just under half of Canadians are either obese or overweight (according to Statistics Canada National Population Health Survey, 2004) should not eat more of the same food they're currently eating, the domestic market for the commodity farm products used to make these foods is maturing. Domestic population increases in the order of that suggested in Table 2.1 will not sustain growth through increased volumes at the rate that the Canadian agri-food system has become accustomed to. Furthermore, it creates an opportunity to address obesity and health problems by differentiating food products to provide health benefits (more on this below); and
- If volume increases are to be pursued as a source of growth, and the domestic population can't eat more, then the export market must consume more volume. However, the international trade environment has become far less friendly in recent years, and is likely to remain so at least until the current WTO round is completed (more on this below).

So what are these higher valued outputs that can generate increased margins? They contain specialty attributes that cater to specific consumer preferences, have identified and proven health traits, or are produced with specialty processes or attributes for some other intended use. It's almost easier to say what they're not. They are not commodities, which are fungible, homogeneous, and are produced without regard to end use.

Figure 2.1 Real Farm Product Prices, 1950-2003



Source: Statistics Canada. Farm Product Price Index deflated by the CPI for all goods, 1996 basket

Table 2.1 UN Population Statistics and Forecasts, 2002

	1950	2000	2015	2025	2050
World	2 518 629	6 070 581	7 197 247	7 851 455	8 918 724
Canada	13 737	30 769	34 133	36 128	39 085
US	157 813	285 003	329 669	358 030	408 695
China	554 760	1 275 215	1 402 321	1 445 100	1 395 182
India	357 561	1 016 938	1 246 351	1 369 284	1 531 438

Source: United Nations Population Division, World Population Prospects: The 2002 Revision

2.2 Threats and Opportunities Through Trade

Trade has transformed Canadian agriculture and food. The evidence of this is compelling. For example, Figures 2.3 and 2.4 below present the growth in exports in bulk, intermediate, and consumer-ready products. Since the mid 1990's, when both the WTO Agreement on Agriculture and NAFTA were in effect, the value of trade has expanded rapidly, with a change in the product mix toward more consumer-ready product. At the same time, trade in basic bulk farm commodities has been very important, particularly with countries outside of the US. Thus, trade has been critical to growth.

The growth in trade is only part of the story, however. Within the aggregate growth in agri-food exports lies a sub-trend in the composition of the exports. The sub-trend is that the greatest rate of growth is in the consumer-ready (i.e. more differentiated) foods category. This is particularly so for trade with other developed countries, as illustrated by the US data. Note Canada's exports of bulk commodities to the US are stagnant. In fact, growth in exports of bulk commodities is most likely to come from developing countries where consumers are upgrading their diets. In most cases, the choice of supplier to these countries is made on the basis of price; implying that growth in bulk exports will come at relatively low prices.

Figure 2.3 Canada's Agri-food Exports to the US

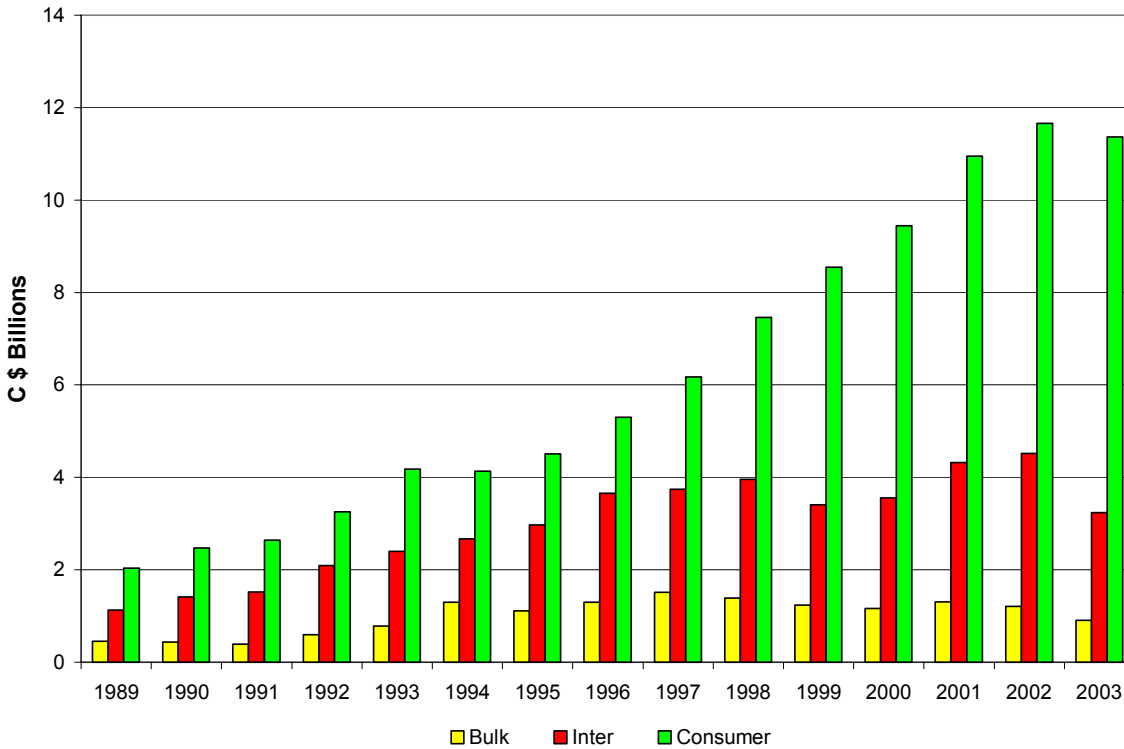
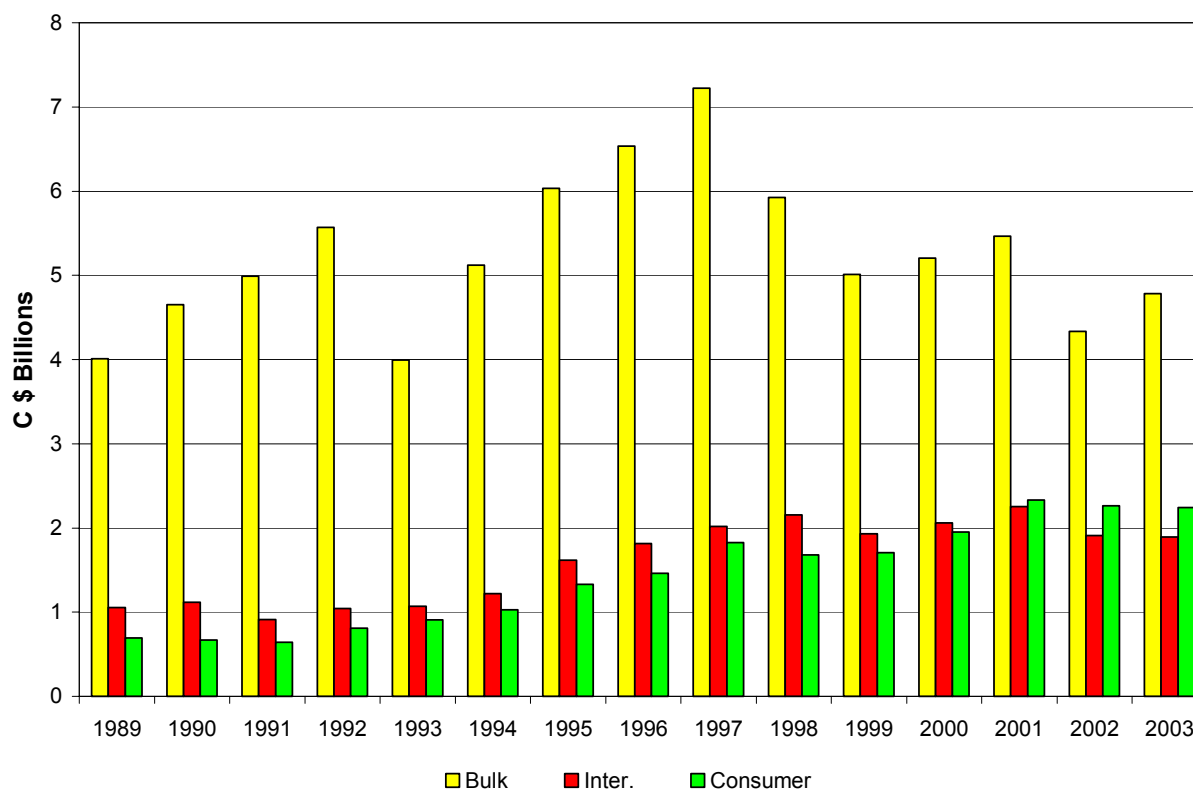


Figure 2.4 Canada's Agri-food Exports to the Rest of the World



There are signs that growth through trade, particularly in bulk farm commodities, will face challenges in the future. First, some of the signatories to previous trade agreements have simply waffled on their commitments to trade liberalization, notably the US through its 2002 Farm Bill and the EU through its resistance to reform the Common Agricultural Policy. The impact of these protectionist policies, through their domestic support and export subsidy provisions, is to reduce world prices of farm commodities. Given that Canada is a large net exporter, this curtails some of the potential growth through trade. It also underscores the critical importance of the WTO Doha agreement in bringing such programs under improved WTO discipline, and advancing multilateral trade liberalization. News on this front has been more positive since the end of July, 2004, and since the decision against US cotton in August, 2004.

Second, there is evidence that while trade liberalization has generally decreased subsidies and improved market access, trade actions are now more common and easier to bring. For example, Prusa and Skeath show that the number of antidumping cases initiated worldwide increased dramatically in recent years, and that the use of antidumping actions has particularly increased among developing countries. This trend has been felt clearly in Canadian agri-food in recent years, in light of countervailing duty and/or antidumping duty actions initiated against Canadian apples, cattle, greenhouse tomatoes, wheat, and (currently) hogs. The general implication is that, even under more liberalized trade and greater market access, successfully leveraging comparative advantage and penetrating export markets only increases the likelihood of complaints and trade action.

The first implication here is that if we cannot depend on trade to provide growth in commodities, then that growth needs to be replaced by something else. We have established that Canadians do not have much capacity to consume more volume of the same (commodity) foods, so increasing volumes through the

domestic marketing channel is probably not the answer. Instead, we can pursue foods and farm products that are differentiated from commodities. These can be supplied to the Canadian market, or exported.

Interestingly, the apparently limiting aspects of international trade in farm products also present opportunities, if Canada can supply more differentiated products (rather than commodities) for export. The first trade-related rationale for differentiation is defensive. One of the central concepts of any trade case is that of “like products”; that is, in bringing a trade action, the petitioners of the action must show that they produce a like product to the imported product, and that as a result of the imports they incur injury. By producing and exporting commodities, it is easier for petitioners in the importing country to show that they supply a like product, and that they are (perhaps) injured from the imports. A product’s definition as a commodity will thus tend to expand the potential that exports will be found to injure an importing country’s industry. In contrast, if differentiated products were traded, almost by definition, it would be more difficult for petitioners to argue that they produce a like product. Unlike commodities, differentiated products require a direct consideration of the specialty attributes differentiating them from the commodity in the importing country.

The very protectionist farm programs decried above present an opportunity for differentiation. Farm programs tend to have the effect of diminishing innovation and adoption of more differentiated products. This occurs because protection decreases farmers’ incentives to innovate or take risks associated with new and different products. At the limit, farm programs actually impair or prohibit differentiation. For example, provisions of the US Farm Bill require farmers to retain acreage in protected crops to retain subsidy eligibility, and implicitly (or in some cases explicitly) restrains them from producing horticultural crops more consistent with differentiation. Thus, if consumers want differentiated products, but US farm policy gives incentives to produce commodities, an opportunity for someone else to do the differentiation is created.

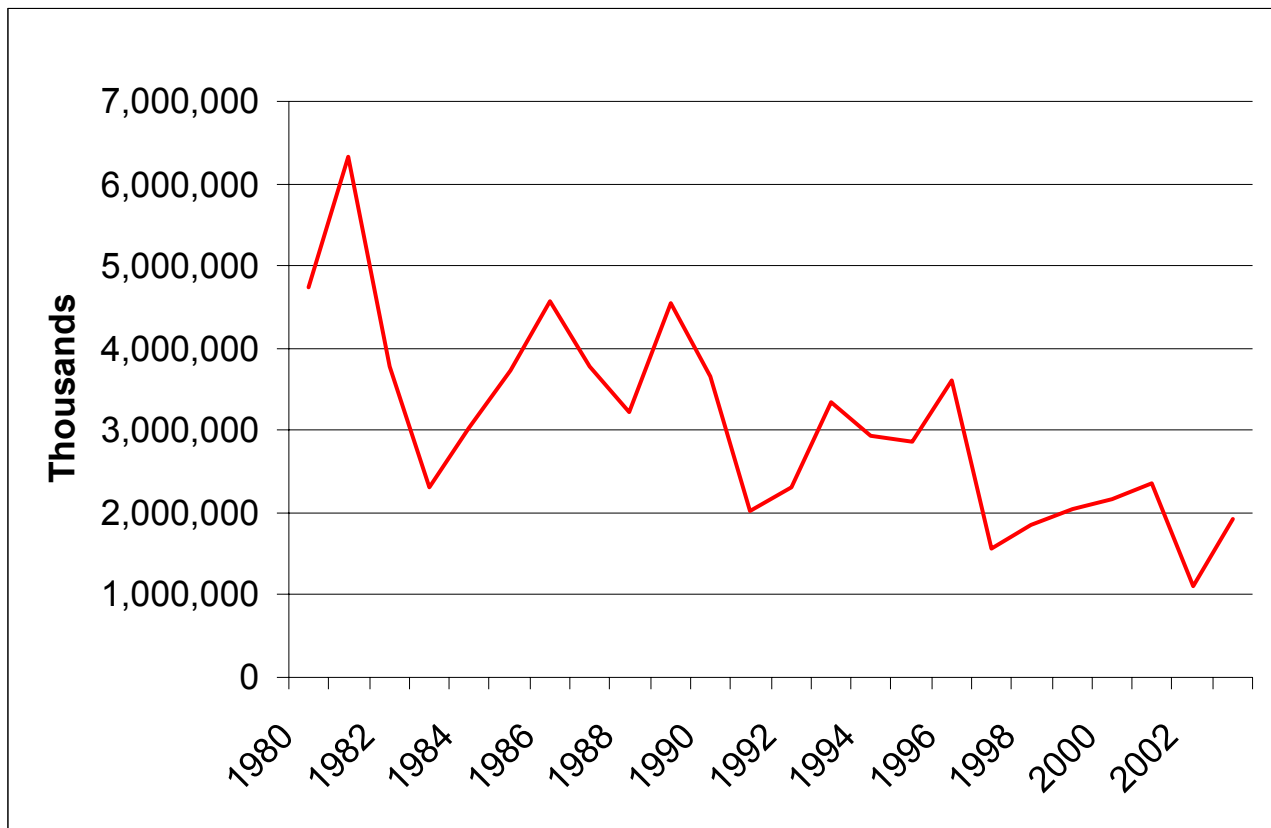
2.3 Need for More Sustainable Levels of Farm Income

Net farm income in Canada has reached historically low levels in recent years. This is an immediate source of concern. However, it would be even more of a source of concern were it not for the fact that net farm income has been low, decreasing, or failing to grow over a much longer period of time. Figure 2.5 below presents real net farm income in Canada since 1980. It shows that real net farm income has declined since 1981. The last few years were simply particularly harsh ones, within a long-run downward trend.

The challenge to sustainable levels of farm income is for real per unit production cost to decrease at a greater rate than the real farm prices presented in Figure 2.1. This is precisely how farm incomes have been sustained over the period illustrated in Figure 2.1. However, we appear to have entered a period in which farm costs are being influenced by more than just labour, capital and factor prices, which have been the source of cost pressure and the impetus for technological improvements for decades. Today, farm costs are also being heavily influenced by regulatory compliance factors, such as:

- Environmental regulations and standards;
- Regulations and controls on medications in livestock feeds;
- Regulations and controls on ruminant nervous system tissues in livestock feeds; and
- Food safety regulations and standards.

Figure 2.5 Real Net Farm Income in Canada, 1980-2003



Source: Statistics Canada. Total Net Farm Income (accurately adjusted) deflated by the CPI, All Goods

The costs of these measures tend to be passed through the farm-food supply chain to the segment that is least able to pass it on to downstream segments. Specifically, the segment that is unable to pass on cost increases by increasing prices received or decreasing input prices paid will bear the costs of these measures. In some cases, specific farm segments can decrease input prices paid in response to a general increase in costs (such as, for example, cattle feeders decreasing the price paid for feeder steers in recognition of decreased profitability). However, more commonly farmers are price takers for both inputs and outputs, and as a result, the additional costs reside with them.

This quite clearly puts further pressure on farm incomes. Production cost adjustments can only be made to a point; eventually, farmers approach the point of being unable to effectively bid for inputs, or the values of capitalized inputs like land start to slip. Farmers cannot continually supply volumes of farm products for processing under the squeeze of ever shrinking margins, so the revenue base at the farm level must increase if the supply of farm products is to be sustainable. But consumers will not simply pay more for the same thing they have traditionally purchased. Consumers will, perhaps, pay more for the right differentiated farm products or foods with desired improvements in attributes.

Farmers will need to determine how much more revenue they will need to generate, or costs they will need to cut, in order to cover the cost of compliance with new regulations even if their operating and family living expenses remain constant. On the revenue side of this proposition, selling a higher valued output is an obvious approach- and that means differentiation.

2.4 Need to Serve Diverse Consumer Wants

Consumers' preference for diversified foods is increasing and the following observations can be made:

- Organic foods occupy significant shelf space in any grocery store; this was not the case ten or even five years ago;
- Broad awareness and interest in the role of specific attributes in foods in health has increased. For example, witness the interest in foods containing specific health attributes such as Omega-3 fatty acids and foods containing soy isoflavones;
- There is an increased awareness around food safety perceptions, which has driven the demand for products with food safety attributes such as animal by-product free meats; and
- Food is growing as a source of recreation and entertainment. Increasingly, cooking and enjoyment of fine foods is an important aspect of leisure time. This has helped Emeril Legasse become a household name, and brought the televised Food Network into the mainstream. "Foodies" seek out specialty and novelty foods to prepare for, and entertain, guests in their homes. Some reports suggest that there has been a marked increase in interest in foods and cooking on behalf of children.

The anecdotal evidence above suggests that consumers will increasingly demand specific attributes in foods, whether they are in the form of physical characteristics or in process/production characteristics. Because demand is both a quantity and price proposition, there is a clear opportunity to cater to it at some combination of increased volume and increased price. However, it requires co-ordination between market levels, because some of the attribute values that are realized at retail are dependent upon specific action at the farm level, as well as through processing and handling. Without this communication, the value of specialty attributes is not perceived at the farm level. Thus, a clear means to communicate the nature and value of specific attributes through all levels of the market is needed to realize this opportunity. This needs to be established, or our international competitors will do it first and serve our markets before we get organized to do so.

3.0 Factors Acting Against Differentiation

Despite the fact that a powerful rationale exists to endorse differentiation as a means to increase the value of farm products, there are barriers that act to maintain agriculture in a commodity focus. These relate to the culture in which farmers represent and identify themselves, and the nature of institutions involved in agricultural marketing. The first section describes the nature of farmer representation within production agriculture. The second section discusses the issue of adherence to objective standards for product or process approval. Section 3.3 discusses the problem of pricing differentiated products. Section 3.4 describes the problems associated with marketing institutions that pool revenue in enabling differentiation.

3.1 The Representation Problem

In Canada, the public representation of farmers and farm products, in terms of status, prospects, lobbying, and public relations is predominantly delineated according to commodities. This has a couple of interesting aspects. First, from a practical perspective, the direct interface in which information is collected from and distributed to farmers moves through marketing boards or commodity organizations. For example, the primary source of data on the production or acreage of field crops is likely to come from each field crop's marketing board or commodity organization. The individual commodity focus probably arises because the narrower the mandate of the organization, the easier it is to develop consensus. If the

organization is funded through a check-off, its collection will also naturally be defined on commodity lines. Thus, the structure, discourse, and funding of farm organizations tends to evolve around commodities.

Furthermore, the historic basis for many farm organizations was to protect farm interests against the actions of their customers or suppliers. Aspects of this agrarian protectionism remain today. As a consequence, in representing the interests of farmers that produce a particular commodity, the posture toward downstream marketers and processors tends to be suspicious, if not downright antagonistic. This is also related to the observation above on the ease of developing consensus, i.e. farmers tend to understand each other, the commodity they produce, and the agronomic aspects that they deal with, so these items are the easiest to develop consensus around. The downstream wants of processors and consumers are relatively unknown and, as described above, make little difference to primary producers unless the value is communicated to them. Thus, representation of the downstream demands for specialty attributes and differentiated products tends to be filtered. Moreover, since the downstream segment tends by nature to be differentiators, the signals they upstream send are mixed.

Within this realm, new farm products that are differentiated from commodities can be perceived as disruptive, or even as a threat. Differentiated products, by their very nature, do not share all of the same common interests with the related commodity product. Depending on the nature of the differentiation, there may even be a concern that the differentiated product is hostile to the related commodity product. Where differentiated products have emerged from commodities, in many cases conflicts have occurred between the larger commodity interest and the developers/producers of the differentiated product. This is because of fear that the perception of a new, improved, differentiated product will threaten demand for or acceptance of the established commodity. For the developers and producers of differentiated products, the value of a check off paid to an association dominated by commodity interests is usually questionable. Conversely, commodity producers may come to view the development of a differentiated product with suspicion, perhaps as an attempt to avoid the check off, or simply to break with the status quo and thus their control. Seen in this light, differentiation can affect the cohesiveness of farm organizations structured around commodities.

It should be pointed out that this need not be the case; some commodity-based farm organizations have fully embraced products differentiated from the commodities they represent, and actively represent and promote both commodity and differentiated products. Some commodity organizations are branching out and reinventing themselves so that they have far less of a commodity focus. For example, some grain crop organizations have amalgamated at the national level, and discussions are ongoing to do so in at least one province. In other cases, rather than being hostile toward downstream segments, farm organizations have advanced farmer interests by actively facilitating communication and cooperation across the supply chain.

3.2 The Objectivity of Acceptance Problem

Commodities are defined by grades and standards across objective characteristics, which at some level are defined in legislation or in tort law. These relate to species, size, weight, colour, moisture content and other characteristics of farm products. The very concept of commodities is synonymous with the relevant and widely held characteristics. For the most part, product characteristics emerged as a means to enable bulk handling of commodities and the anonymity of transactions, or to establish the regulatory authority of marketing organizations. In the first case, commodity specifications make certain farm products fungible, so that, for example, separate lots of Number 2 yellow corn can be mixed without worry of differences in quality; one need not worry about the initial origin of the product. This enabled development of futures markets, and bulk grain handling systems, replacing a system in which individual

lots were held separately and handled in bags. In the second case, a precise reference is required to delineate the authority of a regulatory body. For example, it establishes that a regulatory body commissioned to market hatching eggs has authority in chicken eggs, and that the chicken breed strains are broilers as opposed to laying hens.

The characteristics that define commodities are credible because they are relevant and defensible based on objective/scientific criteria. This makes them intuitive, and simpler for regulatory agencies to deal with in the product approval process. For example, the moisture standard for most commodity grains is around 14%, because grain tends to be stable in storage at that level. However, differentiated products, by their very nature, go beyond commodity product standards. In addition, differentiated products frequently possess attributes that are not always based on objective or scientific criteria. For example, the scientific literature is not replete with any evidence that chicken breasts from chickens fed rendered meat byproducts are safer than generic chicken; however, some consumers believe that they are, and are willing to pay a premium for them. These same consumers may pay an even greater premium if the chickens were raised in a specific region, in a free range setting with a seaside view. This value is subjective, and not based on objective criteria relating to the quality of the meat protein supplied. However, the value is real just the same.

Overlaying the characteristics of differentiated products on a commodity's grades and standards is difficult and can be met with resistance. This is because existing grades and standards are frequently interpreted as being a sufficient condition for "good", "safe", or "high quality". As such, strict adherence to scientific and objective criteria in defining products serves to protect the value and integrity of the commodity product. It also limits the range of differentiated product available to consumers.

However, while this does not diminish the consumer demand for differentiated products with attributes that are not based on science, it certainly affects the capability of supplying them. Consider, for example, the initiatives for private testing of all cattle for BSE at specific plants in the US and Canada. Some consumers, notably the Japanese, appear to value this attribute. However, it has not gone forward due to regulatory concerns that stem at least partly from a fear that allowing full testing (which is not scientifically justified) would diminish the value of commodity beef that is not tested at the same standard. Thus, the producers and processors that believe they have a valuable differentiation concept cannot go forward and the consumers that wish to purchase it cannot do so. Similarly, regulators at Health Canada have barred labeling of foods designed to be low in carbohydrates, because low-carb/high protein diets aren't in Health Canada's dietary recommendations. Food companies attempting to market innovative products (and consumers interested in alternative diets) lose an opportunity as a result. The culture of established product definitions, grades, and standards (and their protection in legislation through the regulatory system) could have the effect of limiting opportunities for differentiation.

3.3 The Pricing Problem

Commodity farm products have their prices discovered in established commodity markets. In grains and livestock, prices are ultimately based on futures markets. Futures markets bring together a tremendous amount of information about the market, and offer tremendous liquidity, so the prices discovered are from a large number of transactions, rather than on a thin market in which a small number of transactions influence the price. In other instances, North American cash markets provide the reference for commodity farm product prices in Canada. Alternatively, pricing is established by regulatory agencies charged with marketing farm products, either through pricing formulas or negotiation.

To date, the pricing of differentiated farm products has been largely based on the same pricing systems used to produce commodity products¹. This means that food manufacturers wishing to source specialty farm products have had to use a pricing system designed to value commodity products; conversely, farmers and primary processors that supply differentiated products have been paid based on some relation to a commodity price or the extra production cost, rather than the actual value of the product in its end use.

This presents a significant barrier to differentiation. The differentiated products are driven by the consumer demand for attributes. By and large, the price of the differentiated farm product used to make the differentiated food product has been priced at the related commodity price, plus a premium that approximates the extra costs of producing the differentiated farm product relative to the commodity.

There are two significant problems with this. First, assuming the premium has been estimated accurately, the producer is no better off producing the differentiated product than the commodity product. If the additional production costs actually end up exceeding the premium, the producer can actually be made worse off than by producing the related commodity product. Secondly, a premium based on the differences in production costs need not bear any relationship to the difference in value between the differentiated and related commodity product. This is strange, given that for differentiated food products, the characteristic of the farm product has a significant role in determining the value of the food product produced from it. As a consequence, there is little, if any, residual value from the differentiated food product that accrues back to the producer.

Differentiated products tend to require additional effort and investment relative to the related commodity product. This means that incentives are required to encourage farmers to produce them. However, the pricing that is being used for differentiated farm products is unlikely to provide this incentive.

3.4 The Pooling Problem

Regulated marketing organizations, and some co-operatives, regularly pool revenues in establishing the price for the farm products they market. In its simplest form, this means that the total revenue from product sales is added together and apportioned across the volume of farm products supplied by farmers. This means that all producers in the pool share the total revenue, so the price a producer is paid need not reflect the value of the actual physical product they supplied. It also means that revenue is distributed evenly across producers, prorated on volume, so in effect all producers have equal access to pool revenue.

Pooling presents a major disincentive for differentiated products. This is because, first, the incentives involved in producing differentiated products become blurred as the value is transferred through the pool. All producers in the pool have access to the extra revenue generated by the extra revenue resulting from the sales of differentiated products, so effectively the producer of the differentiated product can only capture a fraction of its value and other pool participants' free-ride on his or her efforts. As well, if the physical product is pooled along with the revenue, it is very difficult (if not impossible) for the supplier of a differentiated farm product to establish a relationship with a downstream purchaser. This is because, due to physical pooling, the differentiated product is either blended, or, even if it is segregated, is sold to the first, highest bidder by the pool administrator. If it is blended, the differentiated value is entirely lost; if the pool administrator rather than the producer has the authority to choose the buyer of the

¹ For a summary, see Mussell, Al, Holly Mayer, Larry Martin, Kevin Grier, and Randy Westgren *Price Discovery Mechanisms and Alternatives for Canadian Agriculture Part I: A Review of Pricing Mechanisms in Agriculture*. George Morris Centre, 2003

differentiated product, a tractable supply chain relationship between supplier and customer cannot be established.

A simplified example makes this clearer. Consider a pool that markets grain, and does no processing (so that the only difference between the selling price and the value entering the pool is elevation). Assume for simplicity that elevation and storage costs are zero. Suppose a farmer decides to produce a highly differentiated variant of a commodity product that sells for \$10/bushel. The commodity product it is pooled with sells for \$5/bushel. Suppose that the differentiated product is 10% of pool volume, and that the commodity constitutes the remaining 90%. Then the pool price is $(10\% * \$10) + (90\% * \$5) = \$5.50/\text{bushel}$. Then the supplier of the differentiated product gets \$5.50/bushel for a product that was worth \$10/bushel, and the suppliers of the commodity product get \$5.50/bushel for a product worth \$5/bushel. The effect of revenue pooling by itself results in much of the benefits of the farmer's differentiation efforts accruing to others, thus significantly diminishing the incentive to differentiate. In addition, if the cost of production of the differentiated product were greater than \$.50 over the commodity cost of production, the supplier of the differentiated product would be worse off than supplying the commodity grain. Finally, if the grain were physically pooled, in all likelihood no opportunity would exist for a premium to be realized on the differentiated product at all.

4.0 The Need for Debate and Policy

The above sections suggest that, on one hand, there are potent factors driving the food system toward differentiation; meanwhile, there is another set of forces acting to maintain the food system in a commodity focus. The forces pushing for increasing differentiation driven by the apparent realities of the marketplace- commodities are not a growth market domestically, the export market is tough and potentially hostile (although there are signs of improvement), farmers aren't making much money supplying commodities, and consumers want something different. The irony is that the forces resisting differentiation are largely institutional, and were conceived to deal with similar market conditions. For example, farm group mandates have been structured so that they can effectively lobby government in instances of market losses in their individual commodities, and science is used as the sole criterion for product description so that export markets can be maintained (or pried open).

However, taken from the perspective of the forces for and against differentiation, it would appear that many of the institutions in Canadian agricultural marketing are anachronistic. Thus, a debate is required over their appropriate role to address, at a minimum, the following issues:

- Establishing trust and communication throughout the food supply chain vs. focusing on protection of farm interests from threats by processors and retailers;
- Recognizing alternative farm and food product characteristics vs. protecting the integrity of commodity products that satisfy scientifically-based characteristics;
- Canada's broad agri-food strategy- low-cost commodity production vs. higher value, differentiated production;
- Pricing based on ultimate end-use value vs. pricing as a function of commodity value;
- Equity of access to existing markets vs. rewarding innovation of differentiated products; and
- Appropriate mandates and roles for farm organizations.

The bias underlying this paper is that the forces supporting differentiation need to overcome the reliance on commodities for the sector to grow. While this bias is explicit, the history of commodity production, and the facts characterizing the farm-food supply chain of today reinforce it. This needs to change.

Perhaps the discouraging aspect is that we can't even point to examples of differentiated products that we're lacking, precisely because the confluence of imagination, consumer preference, and the communication and reward system for attributes in a supply chain has not come together to produce the products. We truly don't know what we don't know when it comes to what can be done in supplying differentiated products. But if ever there was a time to break the existing mould to pursue a better future, we think that that the time is now.

We must engage in a serious debate over removing barriers to differentiation. The George Morris Centre can help facilitate this process in which we will work with our members and stakeholders, addressing this issue and others, and charting the way ahead in a new Canadian agri-food policy.

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