AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

CANADA

593

Agriculture Canada

Policy Branch

Direction générale des politiques

LIBRARY
FEB 1 1994
WITHDRAWN
GIANNINI FOUNDATION OF
AGRICULTURAL ECONOMICS

Canada

[redacted]

Working Papers are (1) interim reports completed by staff of the Policy Branch, or (2) research reports completed under contract. The former reports have received limited review, and are circulated in the language of preparation for discussion and comment. Views expressed in these papers are those of the author(s) and do not necessarily represent those of Agriculture Canada.

Overview of the Funding of Dairy Marketing Programs and of Agriculture Canada Resources Directed to the Dairy Sector

(WORKING PAPER 5/93)

Maryse Côté[1]
Agri-Food Regulations & Institutions Division
Agri-Food Policy Directorate
Policy Branch

June 1993

[1] The author wishes to acknowledge the help of many persons in gathering the information and reviewing this paper. Special thanks to Chuck Birchard and Jocelyn Comtois from the Canadian Dairy Commission, Richard Tudor Price, Paul Martin and Pierre Doyle from Agriculture Canada.

Table of Contents

	Page
1. Introduction	1
2. Existing Marketing Programs and Possible Modifications	2
2.1 Rebate Program for Further Processors	3
2.2 Butterfat Utilization Program	5
2.3 Animal Feed Assistance Program	7
2.4 Milk Bread Program	8
2.5 Domestic Dairy Product Innovation Program	9
2.6 Dairy Product Export Program	10
2.7 Trade Considerations	12
3. Agriculture Canada's Contribution to the Dairy Sector	17
3.1 Agriculture Canada Resources Directed to the Dairy Industry	18
3.2 Factors Impacting on Agriculture Canada's Contribution	22
Appendix. Criteria for Exemption from the Domestic Support Calculation	23

List of Tables

Table 1. Summary of Existing Programs	13
Table 2. Summary of Programs Expenses and Milk Components Utilization	14
Table 3. Allocation of Resources Directed to the Dairy Sector	21

1 INTRODUCTION

This paper is divided in two parts. The first one gives an overview of the national dairy programs that have been put in place by the industry: their objective, how they work, how much they cost, how they are funded and what impact they have? It also suggests ways to broaden some of these programs as well as providing trade considerations.

The second part reviews the programs and activities currently funded by Agriculture Canada, the resources used in terms of person-years and operating budget, and touches on the financial and trade considerations, Agriculture Canada will have to take account of in any decision that would change the current allocation of funds to the dairy sector.

This paper does not give recommendations and solutions but provides factual information that could be used by dairy stakeholders in the current debate on the policy reform that will be necessary to better position their sector.

2 EXISTING MARKETING PROGRAMS AND POSSIBLE MODIFICATIONS

The marketing programs listed below are administered by the Canadian Dairy Commission. They are endorsed by the Canadian Milk Supply Management Committee and financed by producers through levies. They have specific objectives but they all aim at increasing the domestic utilization of dairy products.

2.1 Rebate Program for Further Processors

2.2 Butterfat Utilization Program

2.3 Animal Feed Assistance Program

2.4 Milk Bread Program

2.5 Domestic Dairy Product Innovation Program

2.6 Dairy Product Export Program

2.7 Trade Considerations

2.1 Rebate Program for Further Processors

Program Objective

The objective of this program is to address the problems of further processors who use dairy products as ingredients in finished products that are facing increased competition from imports. An important feature of this program is the restriction to further processors who have been using Canadian dairy ingredients from the beginning. This program protects current utilization but does not encourage broader usage of Canadian dairy products.

Provided Assistance

Further processors who demonstrate actual or potential loss of market share to an imported product, due to higher dairy ingredient costs, are eligible to a rebate equivalent to 60% of the difference in the dairy product ingredient cost between Canada and the United States.

Beneficiaries

Main beneficiaries: further processors including confectionary sector (51 companies mainly from Ontario, over 1100 accepted requests)

Other beneficiaries: dairy processors and producers, and consumers

Funding

This is the only program currently funded jointly by dairy producers (86.9 % through in-quota levy) and processors (13.1% through an add-on of 2 cents per hectolitre to the Target Price for industrial milk).

Authorized or Estimated Expenses	Average Loss
1991-92: $ 3.2 M (7 months)	10.00 $/hl
1992-93: $ 8.4 M	9.55 $/hl

Most of the spending goes for mozzarella and cheddar cheeses.

Current Impact

This Program represents 0.8 Mhl on a butterfat basis or 2% of the Canadian Requirements and 1.1 Mhl on a solids non fat basis or 2.7% of the Canadian Requirements.

Possible Modifications

- Guarantee the rebate for a period of 5 years minimum.
- Remove the minimum dairy ingredient content.
- Increase the rebate from 60% to 80% or more of the Canada-U.S. price differential.
- Pay the same level of assistance to butterfat users participating to this program, as in the Butterfat Utilization Program.
- Allow confectionary manufacturers currently using imported dairy ingredients to participate in the program.
- Better inform potential users of the benefits of this program.

Potential Impact

Everything else being constant, the average loss per hectolitre would increase from $8.89 to $11.85 if the rebate is raised to 80% of the Canada-U.S. price differential.

Including the impact of the changes to the Butterfat Utilization Program, domestic requirements could increase by more than 4%, over a period of 3 years.

2.2 Butterfat Utilization Program

Program Objectives

This program has been designed to meet two objectives. The first is to encourage the use of butter in specific sectors (bakery and specialty products sectors) where its use has been on the decline because of substitution or importation of butterfat blends. The second objective is to encourage the development of new products like ghee, fractionated butter and clarified butter.

Provided Assistance

The rate of assistance currently paid is $2 per kilogram of Canada Grade 1 butter purchased for use in baked goods and for use with popcorn. The following rates apply to other butterfat products:

Clarified butter	: 1.00 $/kg of b.f.
Ghee	: 1.50 $/kg of b.f.
Fractionated butter	: 2.75 $/kg of b.f.

Beneficiaries

Main beneficiaries: bakery sector (over 80 registered)
popcorn manufacturers
special butter manufacturers

Other beneficiaries: dairy processors and producers, and consumers

Funding

This program is funded by dairy producers through in-quota levy.

Authorized or Estimated Expenses		Average Loss
First year (June 92 - May 93)	: $6.4 M	8.73 $/hl

Current Impact

Assistance is expected to be paid on a volume of over 3000 tonnes, mainly constituted of butter; that is equivalent to 0.7 Mhl of milk or 1.7% of the Domestic Requirements.

Possible Modifications

- Guarantee the rebate for a period of 5 years.
- Enlarge the list of sectors eligible for this program.
- Better inform the potential users of the benefits of this program.

Potential Impact

Including the impact of the changes to the Rebate Program for the Further Processors, domestic requirements could increase by more than 4% over a period of 3 years.

2.3 Animal Feed Assistance Program

Program Objective

This program is intended to make available to animal feed manufacturers, skim milk solids that are surplus to Canadian requirements and would otherwise be exported. Returns generated by this program are better than sales of skim milk solids on the export markets.

Provided Assistance

The rate of assistance is calculated according to a formula which takes into consideration the support price for skim milk powder, the projected export price and the industry's ability to pay for the product.

Beneficiaries

Main beneficiaries : milk-fed veal industry

Other beneficiaries: dairy processors and producers, and consumers

Funding

This program is funded by producers through in-quota levy.

Authorized or Estimated Expenses		Average Loss
1991-92:	$11.3 M	13.27 $/hl
1992-93:	$ 9.0 M	10.98 $/hl

Current Impact

This program is expected to cover around 7,000 tonnes this dairy year. The highest sales were recorded in 1987-88 with 20,200 tonnes. The sales of skim milk powder to the veal industry are decreasing as a result of substitution for whey powder which is cheaper and contains proteins that yield leaner meat.

2.4 Milk Bread Program

Program Objective

Initially, the purpose of this program was to promote the utilization of skim milk powder in the bakery industry. Although, the utilization of this program has declined considerably, it has been kept in place since it allows a better monitoring of the use of skim milk powder by this particular sector.

Assistance Provided

The rate of assistance currently paid is $0.50 per kilogram of skim milk powder purchased for use in milk bread.

Beneficiaries

Main beneficiaries: bakery sector

Other beneficiaries: dairy processors and producers, and consumers

Funding

This program is funded by dairy producers through in-quota levy.

Authorized or Estimated Expenses		Average Loss
1991-92:	$ 0.26 M	4.26 $/hl
1992-93:	$ 0.25 M	4.26 $/hl

Current Impact

This program accounted for sales of 0.5 million kilograms in 1991-92. Sales are expected to be slightly less this current dairy year.

2.5 Domestic Dairy Product Innovation Program

Program Objective

This program was established to encourage dairy and food processors in Canada to develop new products and formulations utilizing milk that would increase domestic use of industrial milk and not cause surplus milk production that would have to be exported.

Provided Assistance

Each approved project is allocated a specific quantity of milk valid for a period up to 5 years. The volumes of milk provided are in addition to a province's Market Sharing Quota. At the expiry of this special milk allocation, any increase in Domestic Requirements is measured nationally and shared by all provinces.

The total special milk supply available under this Program in a given year is up to 1% of the national Market Sharing Quota. The price a participant pays for the milk is the prevailing milk price in the province supplying the milk.

Beneficiaries

Main beneficiaries: dairy processors

Other beneficiaries: dairy producers

Funding

There is no measurable cost associated with this program since there is no price reduction. However, there is an element of financial risk to the milk producers who have to finance the disposal costs of any surplus milk or milk by-products resulting from this program. It could happen that the consumption of the new products displaced part of the consumption of products with equivalent dairy content that are already included in domestic requirements. If that happened, producers would collectively be paying for the disposal of some over-quota production, equivalent to the displaced consumption of already existing dairy products, instead of being individually responsible. The use of appropriate selection criteria however lowers the extent to which substitution of existing products by the new ones occurs.

Current Impact

Since its inception in July 1989, 0.11 Mhl of milk have been used under this program of which 0.06 Mhl have been utilized during 1992 calendar year.

2.6 Dairy Product Export Program

Program Objective

The purpose of the Dairy Product Export Program is to export dairy products not needed for domestic consumption. They could come from the structural surplus of solids non-fat, result from over-quota production or consist of planned exports from milk produced within the sleeve. Some of these sales are made through private exporters while others are government-to-government sales negotiated by the Canadian Dairy Commission itself. The Canadian Dairy Commission concentrates on exports of butter, skim milk powder, whole milk powder and evaporated milk while private traders deal more with cheese, UHT milk and sweetened condensed milk.

Provided Assistance

Private exporters receive financial assistance based on a contract with the Canadian Dairy Commission which is specific to the product exported and the country of destination. Losses incurred by the Canadian Dairy Commission on product which it purchases at Canadian prices and resells at world market prices, including associated marketing and administration costs, are also fully funded by this program.

Beneficiaries

Main beneficiaries: exporters, dairy processors

Other beneficiaries: dairy producers and importing countries

Funding

Dairy producers finance the Dairy Product Export Program through in-quota and over-quota levies. Losses from structural surplus disposal (skim milk powder) and planned exports of products made from milk produced within the sleeve are projected and used in the calculation of the in-quota levy rate. The costs of exporting butter and skim milk powder serve as a basis for the calculation of the over-quota penalty.

	Authorized or Estimated Expenses	Average Loss
(based on exports of evaporated milk, whole milk powder and cheese other than in-quota)		
1991-92:	$ 58.1 M	26.41 $/hl
1992-93:	$ 43.0 M	24.92 $/hl

Impact

The Export Program accounted for exports of 4.7 Mhl of milk equivalent in 1991-92, of which 2.2 Mhl in form of evaporated milk, whole milk powder and cheese other than in-quota, and 2.2 Mhl in form of butter and skim milk powder.

Additional exports of whole milk powder, cheese, butter and skim milk powder can be realized at an average loss of 28 $/hl or less.

2.7 Trade Considerations

Possible Modifications to the Butterfat Utilization Program and the Rebate Program for Further Processors

These changes might attract attention from the U.S. and might create the impetus for a complaint that these programs' purpose is import replacement.

- To the extent that the expansion of these programs begins to affect more trade, nullifying the access commitments granted under the Canada/U.S. Free Trade Agreement, the risk of a U.S. complaint increases.

Expansion of the Export Program

Expanding the export sleeve beyond its current size (4% of the national quota) entails certain risks.

- The effect of higher export losses is to increase the financial burden of levies on producers. For a larger number of them, the net marginal return would be below the marginal cost. If the program is offered on an optional basis, producers can choose whether to participate.

- All such exports are subject to antidumping actions in the markets to which they are exported. The Canadian Dairy Commission is well aware of this problem and would no doubt target the increased exports to markets that present the least risk of these actions.

- A larger export sleeve would also weaken one of Canada's argument in support of a strengthened Article XI, which is its effective supply controls that match output to domestic demand.

- Finally, it would conflict with Canada's potential export subsidy commitments under a new GATT agreement. Canada has offered to reduce the volume of subsidized dairy exports by 24% from the 1986-88 base levels over the 6 year implementation period of the GATT agreement.

TABLE 1. SUMMARY OF EXISTING PROGRAMS

1992-93 Estimate

PROGRAMS	COVERAGE	AVG. LOSS	LIMITATION
Rebate Program for Further Processors	Butter, cheese, milk powders, evaporated milk, whole milk & cream	9.55 $/hl	Minimum dairy content. For current use, no additional use
Butterfat Utilization Program	Butter & Butterfat Products	8.73 $/hl	Bakery & Pop Corn sectors & new butterfat uses
Animal Feed Assistance Program	Skim milk powder	10.98 $/hl	
Milk Bread Program	Skim milk powder	4.26 $/hl	
Domestic Dairy Product Innovation Program	"new" dairy products	? $/hl	Up to 1% of national Market Sharing Quota
Export Program	All dairy products	24.92 $/hl	

Source: Canadian Dairy Commission

Note: The disposal costs of butter and skim milk powder should be taken into account when a program contributes to the production of a surplus by-product. The average loss on associated skim milk powder is 9.27 $/hl. The average loss on associated butter is 17.00 $/hl.

TABLE 2. SUMMARY OF PROGRAMS EXPENSES AND MILK COMPONENTS UTILIZATION

1992-93 Estimate

Programs	Total Expenses	Butterfat Utilization in Milk Equivalent	Solids Nonfat Utilization in Milk Equivalent
Rebate Program for Further Processors	8.4 M $	0.8 Mhl	1.1 Mhl
Butterfat Utilization Program	6.4 M $	0.7 Mhl	-
Animal Feed Assistance Program	9.0 M $	-	0.7 Mhl
Milk Bread Program	0.25 M $	-	0.06 Mhl
Domestic Dairy Product Innovation Program	Cannot be calculated	0.06 Mhl[1]	Not Available
Export Program	43.0 M $	1.7 Mhl	1.7 Mhl
TOTAL	**67.05 M $**	**3.26 Mhl**	**3.56 Mhl**

Producers' Share	65.95 M $	98.7 %
Processors' Share	1.1 M $	1.3 %

Source: Canadian Dairy Commission

1. Using 1992 data as a proxy for 1992-93 dairy year and assuming little skim-off resulting from that program.

3 AGRICULTURE CANADA'S CONTRIBUTION TO THE DAIRY SECTOR

This part presents the list of programs, activities, grants and contributions currently funded by Agriculture Canada and it reviews the constraints limiting the ability of this department in its financial participation to new programs.

3.1 Agriculture Canada Resources Directed to the Dairy Industry

3.2 Factors Impacting on Agriculture Canada's Contribution

3.2.1 Financial constraint

3.2.2 Policy Considerations

3.1 Agriculture Canada Resources Directed to the Dairy Industry

This section reviews all the activities of Agriculture Canada and the Canadian Dairy Commission which impact directly or indirectly on the dairy industry. It also provides information on the resources involved in these activities in terms of person-year and operating budget during the 1992-93 fiscal year. The information is also summarized in a table.

Milk Recording

Administration of the federal funding agreement on milk recording programs: responsible for ensuring that the milk recording programs meet the national standards.

Resources allocated by Agriculture Canada to milk recording are estimated at 2 person-years with an operating budget of $17,000 and contribution amounting to $5,500,000.

Dairy Genetics

Development and maintenance of effective national genetic evaluation programs and of national databases of production records for use in genetic evaluation, research and monitoring of national trends.

Resources allocated by Agriculture Canada to dairy genetics are estimated at 4 person-years with operating budget of $137,000.

Dairy Research

Specific areas of dairy related research on both the production and processing sides of the industry: work at several research stations across Canada as well as at the Central Experimental Farm, and the Food Research and Development Centre in St-Hyacinthe.

Agriculture Canada allocation in direct support to dairy specific research (i.e. excluding forage research and other related crop) is estimated to be 177 person-years and a budget of $3,500,000 for the operations.

Inspection and Animal Health

Direct involvement with dairy industry in areas of product standards, grading, issuing of export certificates: regulations related to dairy animal and product imports and exports, dairy plant inspections.

Agriculture Canada is allocating 176 person-years and a budget of $1,585,000 to support food inspection and animal health in the dairy industry.

Production and Marketing Support

Administration of the Canadian Agri-Food Development Initiative program (CAFDI), the Export Enhancement Fund (EEF) and the Agro-Industry Marketing Strategy (AIMS) relating to dairy; assistance to the industry on development of export markets of purebred animals, semen and embryos.

Resources allocated by Agriculture Canada to production and marketing support are estimated at 11 person-years with an operating budget of $91,000 and contributions amounting to $385,000.

Market Information

Maintenance of a computerized databank of dairy information, production of monthly reports available on electronic mail and publication of an annual report titled Dairy Market Review.

Agriculture Canada allocation to market information is estimated to 2 person-years and operating budget of $18,000.

Dairy Showcase

Maintenance of a showcase herd of 40 dairy cows on the Experimental Farm to promote Canadian dairy breeds and genetics.

Resources allocated by Agriculture Canada to the dairy showcase is estimated at 7 person-years and a budget of $80,000 for the operations.

Canadian Dairy Commission

The Canadian Dairy Commission administers the national dairy policy. The Commission has dual responsibilities, the administration of the dairy support program financed by the Government of Canada through Parliamentary appropriation; as well as domestic and international marketing activities which are financed by Canadian milk producers under the provisions of the National Milk Marketing Plan. (The administrative costs related to the Commission's marketing activities have been financed by producers since 1989.)

The total salary budget of the Canadian Dairy Commission amounted to $3,575,800, of which $1,134,600 (32%) was paid directly by the producers. The operating budget was $1,439,400, of which $476,700 (33%) was covered by the producers.

Direct Subsidy

Under the federal program supporting the target price for industrial milk, producers receive direct support payments for milk and cream shipments produced to meet domestic requirements at a rate of $6.03 per hectolitre ($1.675 per kilogram of butterfat). However, due to fiscal restraints announced in the December 1992 Economic Statement, the subsidy rate will be reduced from $ 6.03 to $ 5.43 per hectolitre as of August 1st, 1993. Furthermore, following the recent Federal Budget, the 10 percent reductions in dairy subsidy for 1993-94 and 1994-95 have been made permanent and will be increased to 15 per cent in 1995-96 and 20 per cent in 1996-97.

Dairy Year	Subsidy Paid ($000)
1992-93	229.0[1]
1991-92	238.2
1990-91	254.3
1989-90	265.8
1988-89	279.6
1987-88	283.1

(1) Estimate

Source: Canadian Dairy Commission annual reports

TABLE 3. ALLOCATION OF RESOURCES DIRECTED TO THE DAIRY INDUSTRY

1992-93

AGRICULTURE CANADA	PY's	NON PAY OPERATING COSTS (,000$)	GRANTS & CONTRIBUTIONS (,000$)
MILK RECORDING	2	17	5,200
DAIRY GENETICS	4	137	0
DIRECT DAIRY RESEARCH			
- FOOD	21	500	0
- ANIMAL	156	3,000	0
INSPECTION & ANIMAL HEALTH	122	1,100	0
FOOD INSPECTION	54	485	0
PRODUCTION & MARKETING SUPPORT	11	91	385
MARKET INFORMATION	2	18	0
DAIRY SHOWCASE	7	80	0
TOTAL	**379**	**5,428**	**5,585**

Source: Agri-food Development Branch, CFID

CANADIAN DAIRY COMMISSION	SALARIES (,000$)	NON-SALARY OPERATING BUDGET (,000$)	TOTAL OPERATING BUDGET (,000$)
PRODUCER SHARE	1,135	477	1,611
GOVERNMENT SHARE	**2,441**	**963**	**3,404**
TOTAL	3,576	1,439	5,015

Source: Canadian Dairy Commission
Note: Actual figures before audition.

DAIRY SUBSIDY	(,000$)
DIRECT PAYMENTS	**229**

Source: Policy Branch, ARID
Note: Estimate for the 1992-93 dairy year.

3.2 Factors Affecting Agriculture Canada's Contribution

Different factors will be taken into consideration in the Department's decision to support reform efforts of the dairy sector, among which the following:

- First comes a financial constraint. How much money is available?

- The second factors are policy related. What programs will mostly likely be compatible with second generation supply management and with a possible new GATT agreement?

3.2.1 Financial Constraint

A budget neutral option would be to finance new initiatives through a reallocation of the funds currently directed to the dairy sector. This will require extensive consultation with stakeholders and beneficiaries of existing and possible new programs.

The recent Federal Budget has provided the opportunity of redirecting dairy subsidy reduction in programs to develop markets or reduce production costs. The government is prepared to negotiate arrangements by which all of the funds to be cut in 1995-96 and beyond can be made available to support efforts to enhance the competitiveness of the dairy sector.

Money Available for Reallocation

In 1995-96: up to $ 12 M (0.30 $/hl * Domestic Requirements)
In 1996-97: up to $ 24 M (0.60 $/hl * Domestic Requirements)

3.2.2 Policy Considerations

These are factors that will affect Agriculture Canada's decision but in a different way. They will not place a limit on the level of Agriculture Canada spending; however, they will influence the type of program in which Agriculture Canada would prefer to participate.

While the achievement of a second generation dairy supply management is the primary objective, Agriculture Canada tends to favour any new participation of the government being in programs that are considered green; this is because of the possibility of a new GATT agreement.

Programs or policies in the green category have no or minimal trade distortion effects and can be excluded from any domestic support reduction commitments. Policies

for which exemption can be claimed should conform to the following basic criteria:

- the support has to be provided through a publicly funded government program (including government revenue foregone) not involving transfers from consumers, and

- the support in question should not have the effect of providing price support to the producers.

Other policy-specific criteria are listed in Appendix.

Appendix. Criteria for Exemption from the Domestic Support Calculation

The following is a list of policy specific criteria[1] defining which programs can be excluded from the domestic support calculation. Until a GATT agreement is concluded, this list of criteria is subject to changes.

1 Government Service Programs

1.1 General Services

Policies in this categories involve expenditures in relation to programs which provide services or benefits to agriculture or the rural community. They shall not involve direct payments to producers or processors. Such programs include but are not restricted to the following list:

a) research, including general research, research in connection with environmental programs, and research programs relating to particular products;

b) pest and disease control, including general and product specific measures, such as early warning systems, quarantine and eradication;

c) training services, including both general and specialist training facilities;

d) extension and advisory services, including the provision of means to facilitate the transfer of information and the results of research to producers and consumers;

e) inspection services, including general inspection services and the inspection of particular products for health, safety, grading or standardization;

f) marketing and promotion services, including market information, advice and promotion relating to particular products but excluding expenditure for unspecified purposes that could be used to reduce the selling price or confer a direct economic benefit to purchasers; and

g) infrastructural services, including electricity reticulation, roads and other means of transport, market and port facilities, water supplies facilities, dams

1. Excerpt from GATT - Multilateral Trade Negotiations, Draft Final Act, Text on Agriculture, December 1991.

and drainage schemes, and infrastructural works associated with environment programs. In all cases the expenditure shall be directed to the provision or construction of capital works only. It shall not include subsidies to inputs or operating costs, or preferential user charges.

1.2 Public stockholding for food security purposes

Expenditures in relation to the accumulation and holding of stocks of products which form an integral part of a food security program identified in national legislation. This may include government aid to private storage of products.

The volume and the accumulation of such stocks shall correspond to predetermined targets related solely to food security. Food purchases by the government shall be made at current market prices and sales from food security stocks shall be made at no less than current market price for the product and quality in question.

1.3 Domestic Food Aid

Expenditures in relation to the provision of domestic food aid to sections of the population in need.

Eligibility to receive the food aid shall be subject to clearly defined criteria related to nutritional objectives. Such aid shall be in the form of direct provision of food to those concerned or the provision of means to allow eligible recipients to buy food either at market or at subsidized prices. Food purchases by the government shall be made at current market prices and the financing and administration of the aid shall be transparent.

2 Direct Payments to Producers

When exemption from reduction is claimed for a type of direct payment other than those listed below, it shall conform to criteria b) to e) of paragraph 2.1 in addition to the two basic criteria earlier mentioned (page 21).

2.1 Decoupled Income Support

a) Eligibility for such payments shall be determined by clearly defined criteria such as income, status as a producer or landowner, factor use or production level in defined and fixed period.

b) The amount of such payments in any given year shall not be related to, or based on, the type or volume of production (including livestock units) undertaken by the producer in any year after the base period.

c) The amount of such payments in any given year shall not be related to, or based on, the prices, domestic or international, applying to any production undertaken in any year after the base period.

d) The amount of such payments in any given year shall not be related to, or based on, the factors of production employed in any year after the base period.

e) No production shall be required in order to receive such payments.

2.2 Government Financial Participation in Income Insurance and Income Safety Net Programs

a) Eligibility for such payments shall be determined by an income loss, taking into account only income derived from agriculture, which exceeds 30 per cent of average gross income or the equivalent in net income terms (excluding any payments from the same or similar schemes) in the preceding three year period or a three year average based on the preceding five year period, excluding the highest and the lowest entry. Any producers meeting this condition shall be eligible to receive the payments.

b) The amount of such payments shall compensate for less than 70 per cent of the producer's income loss in the year the producer become eligible to receive this assistance.

c) The amount of any such payments shall relate solely to income; it shall not relate to the type or volume of production (including livestock units) undertaken by the producer; or to the prices, domestic or international, applying to such production; or to the factors of production employed.

d) Where a producer receives in the same year payments under this paragraph and under paragraph 2.3 below (relief from natural disasters), the total of such payments shall be less than 100 per cent of the producer's total income loss.

2.3 Payments for Relief from Natural Disasters (including government participation in crop insurance scheme)

a) Eligibility for such payments shall arise only following a formal recognition by government authorities that a natural or like disaster (including disease outbreaks, pest infestations, nuclear accidents and war) has occurred or is occurring; and shall be determined by a production loss which exceeds 30 per cent of the average of production in the preceding three year period or a three year average based on the preceding five year period, excluding the highest and the lowest entry.

b) Payments made following a disaster shall be applied only in respect of losses of income, livestock (including payments in connection with veterinary treatment of animals), land or other production factors due to the natural disaster in question.

c) Payments shall compensate for not more than the total cost of replacing such losses and shall not require or specify the type or quantity of future production.

d) Payments made during a disaster, shall not exceed the level required to prevent or alleviate further loss as defined in criterion b) above.

e) Where a producer receives the same year payments under this paragraph and under paragraph 2.2 above (income insurance and safety net programs), the total of such payments shall be less than 100 per cent of the producer's total income loss.

2.4 Structural Adjustment Assistance Provided through Producer Retirement Programs

a) Eligibility for such payments shall be determined by reference to clearly defined criteria in programs designed to facilitate the retirement of persons engaged in marketable agricultural production, or their movement to non-agricultural activities.

b) Payments shall be conditional upon the total and permanent retirement of the recipients from marketable agricultural production.

2.5 Structural Adjustment Assistance Provided through Resource Retirement Programs

a) Eligibility for such payments shall be determined by reference to clearly defined criteria in programs designed to remove land or other resources, including livestock, from marketable agricultural production.

b) Payments shall be conditional upon the retirement of the land from marketable agricultural production for a minimum of 3 years, and in the case of livestock on its slaughter or definitive permanent disposal.

c) Payments shall not require or specify any alternative use for such land or other resources which involves the production of marketable agricultural products.

d) Payments shall not be related to either the type or quantity of production or to the prices, domestic or international, applying to production undertaken using the land or other resources remaining in production.

2.6 Structural Adjustment Assistance Provided through Investment Aids

a) Eligibility for such payments shall be determined by reference to clearly defined criteria in government programs designed to assist the financial or physical restructuring of a producer's operations in response to objectively demonstrated structural disadvantages. Eligibility for such programs may also be based on clearly defined government programs for the reprivatization of agricultural land.

b) The amount of such payments in any given year shall not be related to, or based on, the type or volume of production (including livestock units) undertaken by the producer in any year after the base period other than as provided for under e).

c) The amount of such payments in any given year shall not be related to, or based on, the prices, domestic or international, applying to any production undertaken in any year after the base period.

d) The payments shall be given only for a period of time necessary to the realization of the investment in respect of which they are provided.

e) The payments shall not mandate or in any way designate the agricultural products to be produced by the recipients except to require them not to produce a particular product.

f) The payments shall be limited to the amount required to compensate for the structural disadvantage.

2.7 Payments under Environmental Programs

a) Eligibility for such programs shall be determined as part of a clearly defined government environmental or conservation program and be dependent on the fulfilment of specific conditions under the government program, including conditions related to production methods or inputs.

b) The amount of payment shall be limited to the extra costs or loss of income involved in complying with the government program.

2.8 Payments under Regional Assistance Programs

a) Eligibility for such payments shall be limited to producers in disadvantaged regions. Each such region must be clearly designated contiguous geographical area with a definable economic and administrative identity, considered as disadvantaged on the basis of neutral and objective criteria

clearly spelt out in law or regulation and indicating that the region's difficulties arise out of more than temporary circumstances.

b) The amount of such payments in any given year shall not be related to, or based on, the type or volume of production (including livestock units) undertaken by the producer in any year after the base period other than to reduce that production.

c) The amount of such payments in any given year shall not be related to, or based on, the prices, domestic or international, applying to any production undertaken in any year after the base period.

d) Payments shall be available only to producers in eligible regions, but generally available to all producers within such regions.

e) Where related to production factors, payments shall be paid at a regressive rate above a threshold level of the factor concerned.

f) The payments shall be limited to the extra costs or loss of income involved in undertaking agricultural production in the prescribed area.

References

Agriculture Canada, Agri-Food Development Branch, Commodity and Food Industry Directorate, Internal Document, Ottawa, March 1993.

Agriculture Canada, Policy Branch, International Trade Policy Directorate, Internal Document, Ottawa, April 1993.

Canadian Dairy Commission, Annual Report (various issues), Canadian Milk Supply Management Committee Reports, Press Releases, Programs' description and other information provided on request.

GATT-Multilateral Trade Negotiations, Draft Final Act, Text on Agriculture, Geneva, December 20, 1991