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FARE Share

What's Inside?

This issue of *FARE Share* begins with a tribute to former faculty member, David Sparling, who lost a hard-fought battle against brain cancer this summer. FARE Chair, John Cranfield, shares some of his memories of David – a man who made an indelible mark on everyone he met.

Inside, you'll read about the move towards alternative hen housing and its economic implications. We also take a look at how the end of agricultural export subsidies will affect Canada.

On the back cover, FARE researchers examine the impacts of Ontario's Greenbelt policy on the local agriculture industry.

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The FARE Share Newsletter features research and analysis from faculty and students in the Institute for the Advanced Study of Food and Agricultural Policy in the Department of Food, Agricultural and Resource Economics (FARE).



Remembering David Sparling

By: John Cranfield, Professor and Chair, FARE

As many *FARE Share* readers will know, David Sparling, a former faculty member in the department, passed away July 31, 2016. Dave was a friend, collaborator and colleague. I feel fortunate to have known Dave; he played an important role in my life, and in the lives of many others. I want to take this opportunity to share a few remembrances of Dave, and hope that by doing so, we will help keep his spirit alive.

“That focus on informing policy debate through research is something for which Dave became known for, and will be one of his lasting legacies.”

Dave was already an established member of the department when I joined FARE in summer 2001. We were office neighbours with some common interests, so I was naturally drawn to him for advice, guidance and a sounding

board. I look back at that time and can say with unequivocal conviction that Dave was an exceptional mentor. He knew when to listen, when to nudge, and when to be funny. He helped me, and others, learn to appreciate the importance of not taking one's self too seriously, all the while being serious about scholarship and education.

Dave shined in the classroom – it was an environment for which he was well suited. And it did not matter whether it was a large lecture to undergraduate students, or a small case study with senior executives, Dave was a master educator. He brought excitement, enthusiasm and innovation to the classroom. He resonated with students not just for his energy, but for the learning environment he created. A great example of this is an incident during an operations management class for which we shared teaching responsibilities. One of the labs for that class used bags of marbles to help reinforce a concept in statistical quality control.

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No Free Lunch with Cage-Free Eggs

By: Brady Deaton, Professor, and
John Cranfield, Professor and Chair, FARE

Today's food consumers increasingly challenge firms and farmers to change their production practices, but the evolution carries cost.

One of the first challenges to 21st-century agriculture was how to define and label organic food. According to a report by Statistics Canada, in 2011 less than two per cent of Ontario farms are organic, but organic farming still receives a great deal of attention.

Fast-food firms – McDonald's, Burger King, Tim Hortons and others – recently announced plans to use only eggs from cage-free hen housing systems. The Egg Farmers of Canada followed with its own announcement that the use of conventional cages – often referred to as battery cages – will end by 2036.

Presumably, fast-food firms have assessed the situation and decided any loss of business due to increased egg prices will be offset by the competitive advantages of marketing their eggs as cage-free. Or perhaps they are willing to absorb any increase in the cost of purchasing cage-free eggs in order to maintain their customer base. We also assume that the Egg Farmers of Canada disallowed future use of conventional cages because they believe that is consistent with good farm practices and their long-term marketing strategy.

But there is no free lunch. Research suggests that the alternative hen housing will push up egg prices, although this may be a small price to pay for production practices that enable hens to pursue natural tendencies like perching, nesting, spreading their wings, etc.

So the new standards governing production practices could enhance the well-being of some consumers and improve animal welfare for hens. However, we must recognize that the gains and

losses associated with these changes will not be uniform. Some consumers – especially those with strong concerns about animal welfare – may benefit greatly. Others, less concerned about animal welfare, may still find themselves paying slightly higher prices.

Some egg farmers may make timely and profitable adjustments to their production practices. Others may not be so fortunate.

Even the hen's welfare will vary. Some hens will enjoy the new freedom to roam but others may fall victim to attacks from other hens that would have otherwise been caged.

We all have a stake in the outcome of the emerging discussions around animal welfare and agricultural production. As these issues are resolved, some members of society have more information and focused interests than others. The challenge is to ensure that those who are affected have high-quality information about the trade-offs they face when confronted with conventionally produced eggs and eggs from alternative housing systems.

A past issue of *FARE Share* reported on egg research conducted by Professor John Cranfield. The study shows that when consumers had information on the positive and negative consequences of alternative housing they were willing to pay relatively less for cage-free eggs than consumers who did not have this information.

Twenty-first century agriculture is evolving and animal welfare will likely remain an issue. The system that emerges will be at its best if the evolving preferences, standards and rules are accompanied by increasing efforts to provide an informed understanding of the trade-offs involved.

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FARE Talk Subscribe to our Podcasts

Enlightening discussions about contemporary topics relevant to food, agricultural, and resource economics

The Meaning and Measure of Household Food Insecurity

In this podcast, Dr. Valerie Tarasuk, Department of Nutritional Sciences, Faculty of Medicine, University of Toronto, and FARE Professor Brady Deaton discuss the meaning and measure of food insecurity in Canada and the United States. Their discussion orbits around two key publications that she co-authored examining "Household Food Insecurity in Canada." Dr. Tarasuk explains how food insecurity is measured and why the measure is important. For example, most food insecure households are headed by wage earners and most do not use food banks. This has important implications for policies that seek to address the issue.

To listen to the complete conversation and other podcasts, visit the FARE website:
<https://www.uoguelph.ca/fare/FARE-talk/index.html#insecurity>

Dr. Brady Deaton, Professor, FARE





Agricultural Export Subsidies: RIP

By: Karl D. Meilke, Professor Emeritus, FARE

At the December 2015 World Trade Organization (WTO) Ministerial Meeting, members agreed to *immediately ban export subsidies* on agricultural products by developed countries, and by 2018 for developing countries, nearly 60 years after they were banned on manufactured goods.

The elimination of export subsidies in trading agricultural products is a long overdue policy change. While the elimination will have little impact on international market prices, the removal of the potential to use billions of dollars of export subsidies serves to level the playing field among the wealthy super powers and smaller competitive exporters.

Export subsidies are one of the most distorting trade policies and, historically, have been widely used in agriculture, including by Canada. Direct export subsidies are payments that bridge the gap between high domestic prices and lower world prices, thus allowing a high-cost country to export in competition with an unsubsidized low-cost producer. Indirect export subsidies can also be used to make domestic products more competitive on world markets, with export credit and guarantee programs being the most common form of indirect export subsidization.

“The ban on export subsidies in dairy will eliminate a safety valve for the supply-managed sector.”

Since the base period (1986-1990), for export subsidy commitments, commodity prices have moved higher so it is the limit on export subsidy outlays that is most often the binding constraint – thereby dropping subsidized quantities, in many cases, well below their agreed limits. The current export subsidy limit for the EU28 is 7.96 billion Euros (C\$11.5 billion); for the United States US\$594.4 million (C\$776.7 million); and for Canada C\$421.9 million. In terms of commodity coverage, in the EU28, beef is eligible to receive 16.6%, wheat and flour 16.2%, and coarse grains 13.2% of their total subsidy limit. Export subsidy allowances in the United States are more concentrated, 61.2%

for wheat and flour, and 13.8% for skim milk powder. In Canada, 73.9% of export subsidy commitments are earmarked for grains and oilseeds, and 19.2% for dairy products.

What will be the market impact of eliminating these subsidies? Currently, the impact on international market prices will be very small. Following the Uruguay Round agreement, both the United States and the EU made major changes in their domestic farm programs to largely eliminate the use of export subsidies. The United States has used less than 10% of its export subsidy outlay commitment since 2000/01, less than 1% since 2003/04, and nothing in its latest notification for 2013/14. Similarly, the EU, which used 68% of its export subsidy room in 1999/00, has used less than 10% since 2008/09, and less than 1% since 2012/13. In its most recent notification, for 2014/15, it reported 1.3 million tonnes of subsidized sugar sales and nothing else. As for Canada, it has been using around 20% of its export subsidy limit since 2003/04, almost entirely on dairy products and incorporated products.

Canada uses export subsidies to sell surplus dairy products and incorporated products on the international market. In terms of importance, the eligible cheese sales are less than one percent of domestic production, but the amount of skim milk powder exported is about ten percent of production. The ban on export subsidies in dairy will eliminate a safety valve for the supply-managed sector. Either milk production will have to be curtailed or non-food uses will need to be found for skim milk powder currently being exported. This will exacerbate the surplus of non-fat and shortage of fat that the dairy industry has been struggling with for some time. Dairy Farmer's of Ontario recently introduced a new class for milk (Class 6) that will allow processors to process skim milk powder into ingredients that will compete with imported ingredients. It remains to be seen if this class change will be enough to alleviate the surplus of skim milk powder.

To read the full version of this article, please visit: www.uoguelph.ca/fare/institute/newsletter.html

Mike von Massow comes home to FARE

Mike von Massow is FARE's newest faculty member, but he's no stranger to the department. He completed both his undergrad and Masters in Ag Econ ('86, '91 respectively) right here.

Mike worked in a variety of operations and marketing roles in the agri-food industry before returning to academic life. Upon completing his PhD in pricing strategy in 2010, he became an Assistant Professor in U of G's College of Business and Economics.

Mike's move to FARE this past summer is a great fit. His research focus is on consumer perspectives of food, and the structure and performance of food value chains. He is interested in how people think about food, with recent work focusing on animal welfare and antibiotic use.

Mike is also Research Director of the University's Food Innovation Laboratory. He speaks frequently about food waste, animal welfare and other research projects. He has written for the Globe and Mail and other publications, and is often quoted in the media. As a frequent blogger with a strong presence on broadcast, print and social media, Mike helps contribute to the FARE's ongoing efforts to mobilize research in a manner that helps to inform public policy and private strategy.



Sparling's Lasting Legacy

During one lab, Dave dropped the bag of marbles on the floor. Without missing a beat, he said to the class, "Well I guess I've lost my marbles." As usual, Dave's timing was impeccable.

I was also fortunate to know Dave as research collaborator on a number of projects and papers, and to have co-advised several students with him. What I learned to value in Dave was his pragmatic view towards research. We'd often have a conversation about doing some analysis, followed quickly by Dave asking whether the question we were trying to answer mattered, and whether it had relevance to a policy debate. That focus on informing policy debate through research is something for which Dave became known for, and will be one of his lasting legacies.

If you've spent any time in our department you will know that many of us work out at the Mitchell Athletics Centre during the lunch hour. Dave was a core member of this group. The walk from the department to the Athletics Centre was a chance to talk about work, life and family. I often think of Dave when I walk to the gym at lunch. That walk is a reminder of the routine Dave helped me learn when I needed it most – before I got tenure! That routine has become very important to me, and is one for which I feel very fortunate to have learned from Dave.

Dave was an incredibly kind and caring person. He brought warmth, vitality, and enthusiasm to everything he did. He cared deeply about students and colleagues, and would do what he could to lend a hand to someone in need. He will be missed dearly.

Ontario's Greenbelt & Local Agriculture

Research by: Richard Vyn, Associate Professor, FARE; Na Li, PhD Graduate, FARE; and Ken McEwan, Director, University of Guelph-Ridgetown Campus, and Adjunct Professor, FARE

Farmland preservation policies such as Ontario's Greenbelt can reduce the loss of prime farmland to urban development within designated areas, but do they enhance the local agriculture industry? This is an important question to consider, given that the goals of the Greenbelt policy included providing protection and support to the local agriculture industry in order to foster long-term investment in the industry and to contribute to its economic viability. While Greenbelt proponents have argued that permanent protection of farmland would encourage farmers to invest in their operations rather than waiting to sell out to developers, the extent to which these goals have been achieved is unclear.

In a study recently published in *Applied Economic Perspectives and Policy*, we evaluated whether these particular goals had been achieved by examining farmers' management decisions with respect to investment and exit. Using a unique farm-level data set for over 32,000 farms in Ontario from 2003 to 2011, we estimated the impacts of the Greenbelt policy on the rate of farm exit and on the amount of farm investment.

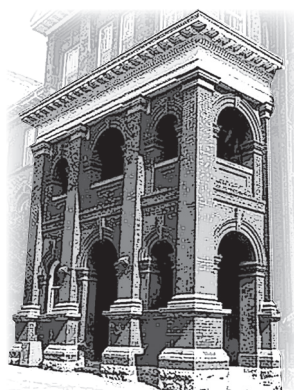
"Greenbelt policy has significantly influenced both the probability of farm exit and the level of farm investment."

The results of this study indicated that the Greenbelt policy has significantly influenced both the probability of farm exit and the level of farm investment. The probability of farm exit was found to have decreased among farms in the Greenbelt relative to the probability for farms outside the Greenbelt, which suggests that the protection for the agriculture industry provided by the Greenbelt policy has reduced farm exit. However, the level of

farm investment in the Greenbelt was found to have been negatively impacted relative to areas outside the Greenbelt, which suggests that the Greenbelt policy has not achieved

the goal of enhancing long-term investment in the local agriculture industry.

While these results appear to be conflicting, it is possible that the reduction in farm exit occurred due to the decrease in farmland values caused by the Greenbelt policy, which may have caused farmers to delay farm exit decisions in the hope that prices would recover, during which period no major farm investments are made. The reduced investment may also be due to deterioration of the infrastructure (farm services, input suppliers, etc.) necessary to support the agriculture industry in the Greenbelt area that may have been occurring prior to the implementation of the policy. Such deterioration tends to occur in close proximity to growing urban centres, where farmland purchased for future development is not used to its full agricultural potential. The resulting deterioration may discourage additional investment in agriculture despite the intent of land use policies to protect agriculture in these areas. The potential for this deterioration suggests that the timing of policies to protect the agriculture industry in near-urban areas is critical. The results of this study also imply that it cannot necessarily be assumed that protecting farmland will benefit the agriculture industry.



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