

This is not just small potatoes...

March 1995 Column, Country Life in B.C.

Wendy R. Holm, P.Ag.

The recent flurry of events surrounding the small potato issue provide a textbook example of the risk to which producers can sometimes be exposed when governments (in this case the feds) meddle in the marketplace.

Let's look at the facts:

1. The Canadian potato industry — and B.C.'s in particular — is highly competitive. Over 200 B.C. farmers produce potatoes on some 9,200 acres of prime agricultural land. Much of this land is in the Fraser Valley.
2. Under the guise of removing interprovincial barriers to trade, Prince Edward Island and New Brunswick potato producers have been pressuring for reintroduction of a Canada #1 Small grade for potatoes since 1992.
3. In the opinion of many industry observers, the proposed grade change is simply an attempt to hi-grade "culls" — potatoes which provide no return on processing markets, and/or are surplus to certified "drop seed" (whole seed potato) markets. This move to increase grower returns has, in turn, arisen as a result of high surpluses. Since 1992, Potato production in Prince Edward Island and New Brunswick has increased sharply as the result of a number of factors:
 - i. Recent conversion of provincial tobacco lands to potato production.
 - ii. Sharp increase in processing facilities in those provinces (due, in part, to sizable— close to \$5 million — federal subsidies).
 - iii. Steadily increasing fry contract volumes from McCains and Cavendish Farms fueling anticipation of further increases in processing demand.
 - iv. A loss of market share for seed stock due to a number of factors, including increased foreign competition in drop seed markets and the PVYn scare.
 - v. Changes in the manner in which seed certification costs are established by the government, resulting in an additional 70,000 tonnes (estimated) of small potatoes which now must be sold on the table stock market.
 - vi. In part, continued response to heavily subsidized freight assistance and other regional development initiatives in the Atlantic provinces and the consequent anticipation that potato markets could theoretically be more competitively served from that region.
4. The argument that this is about removing interprovincial trade barriers is spurious. Currently, small potatoes can be freely shipped interprovincially as Canada # 2. However, since "#2" commands a lower price, PEI and New Brunswick want to raise grower returns by hi-grading size-cull shipments to #1 (Small).
5. PEI and New Brunswick's attempt to find a more lucrative market for their size culls will open the border to a flood of similar culls from Washington state, causing:
 - i. a reduction in the competitiveness of B.C.'s potato producing sector;
 - ii. serious economic harm to B.C. producers and farm communities;

- iii. further erosion of the agricultural infrastructure in the Fraser Valley;
 - iv. increased pressure for withdrawal of ALR land in strategically sensitive regions of the province;
6. The benefits to potato producers in Prince Edward Island and New Brunswick as a result of the introduction of a Canada #1 Small grade of potatoes are estimated by those provinces to be between \$14 and \$20 million. The overall costs to potato producers in other provinces as a result of the introduction of a Canada #1 Small grade of potatoes are estimated to be between \$20.3 and \$57.4 million — up to \$6.6 million for B.C. alone.
7. The implications of the proposed grading change on conduct and performance within Canada's potato processing sector warrants further analysis. Two points, are, however, self-evident:
- i. Canada's potato processing plants are entirely reliant on a healthy farm sector to remain competitive. Anything which hurts the farmer hurts the processor.
 - ii. Producers may well produce at a loss for a short period, particularly if they sense that prices will improve. It is unlikely that producers will continue this behaviour in the long run.

To date, B.C. producers have had to undergo substantive costs simply to defend the status quo (no grade change). While the B.C. Minister of Agriculture is fully on side and has communicated his strong support for the industry position, the issue is far from resolved.

Rather than fussing over small potatoes, the federal government would be better advised to focus attention on activities which level the playing field for Canadian producers. First and foremost in this is pesticide registration and use. Canada must push for international harmonization of standards and regulations affecting agri-food products. This includes sanitary and phytosanitary measures, pesticide registration, food additives, product approval, labelling and packaging.

Before any existing standards are changed or new standards introduced, a competitiveness test should be applied to assess "how will this help or hinder the competitiveness of Canada's agricultural producers and their agri-business counterparts?"

And finally, prior to enriching regional benefits through the provision of economic incentives and grants, government must continue to ask itself "how will this effect the competitive positioning of growers outside this region?" As clearly indicated by this issue, one group's advantage is often another's disadvantage.