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Mr. James Bezan

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● (1535)

[*English*]

The Chair (Mr. James Bezan (Selkirk—Interlake, CPC)): We're going to call this meeting to order. We continue with our study on the business risk management programs.

I want to welcome to the table today Bob Friesen of the Canadian Federation of Agriculture; from the Union des producteurs agricoles, Denis Bilodeau and Gilbert Lavoie; and from the National Farmers Union, Stewart Wells and Darrin Qualman.

Welcome, everyone. I appreciate your taking time out of your busy schedules to come here to give us your wish list in business risk management as we kick off our study on the agricultural policy framework, which we will be conducting over the next month.

We're going to hold you all to ten minutes so that we have a chance for discussion. This is going to be a one-hour round, and then we're going to finish off at 4:30 to 5:30 with the Canadian Association of Agri-Retailers and the Canadian Bankers Association to talk about how farm policy impacts their industries.

With that, I open it up to you, Mr. Friesen.

Mr. Bob Friesen (President, Canadian Federation of Agriculture): Thank you very much, Mr. Chair.

Let me begin by saying that I would like to applaud you as chair and this committee for engaging in this very important discussion.

I would also like to preface my comments by saying first that the discussion on business risk management doesn't always have to be about more money. It also has a lot to do with how strategic we are with the money we flow. Are we being strategic with the way we flow the money? Are we being effective in the way we flow money? Are we being as effective as we can be in using taxpayers' money to help sustain farmers through periods of crisis?

Business risk management programs were never meant to be programs that create profitability. They are meant to sustain farmers through a period of crisis. When we talk about profitability, of course, there are all kinds of other things that we can include in the discussion.

The other thing I would like to say is that business risk management programs don't always have to be what we refer to as traditional safety net programs. They could also be such things as a biofuel initiative, or incentive-based environmental programs like, say, the ALUS program. Those can be initiatives that also help the income crisis and help move farmers towards a more profitable stage.

I would like to also say that some of the changes that have been made to what we have in our current suite of safety net programs have been very positive. You will know about the inventory evaluation change, the improvement in negative margin coverage, and of course the announcement we had a couple of weeks ago with regard to changing the top tier of CAIS to a contributory tier, which we believe is very positive. We're looking forward to working out the details of that top contributory tier.

Of course, on that one we certainly hope the provinces are going to support that leadership. We hope they will support the concept of the top tier as well. We would like them to contribute some money, of course.

We believe the cost-of-production approach that was announced is positive also. It will draw attention to one of the biggest impacts of farm profitability, and that is escalating input costs.

So there are a lot of positive things that have already happened.

We circulated a handout. I'm going to focus my comments on a few of the components in that handout.

We certainly support the work that's being done on production insurance for other commodities, aside from grains and oilseeds. We hope the production insurance development for those commodities is going to result in an insurance product that works for farmers. We want to make sure the product does work well and that farmers will want to use it: otherwise, it will end up being simply a premium for a CAIS offset. We have to make sure it's effective.

We of course also support the work on the catastrophic disaster component that's been talked about.

Having said that, I'd like to focus on a few of the other components. One, of course, and you will read it in the handout, is that we believe supply management should be defined as a business risk management program. They don't want to be part of the top tiers of our safety net program. They of course want to be eligible for disaster, because you can have disasters there, but they feel their policy is a business risk management program and that it simply needs to be defined as that.

The other thing I would like to focus on is companion programs. You may recall that the industry was dragged kicking and screaming to the table in the first development of the agricultural policy framework. We had a provision there that provinces could use some of the federal 60¢ if they contributed their 40¢ to help in the development of regional-specific or commodity-specific companion programs.

One of the things that's been talked about is that while our problems across Canada may be the same, the solutions aren't always the same. We sometimes have different solutions for different regions, different provinces, or different commodities. We would really like that provision back, so that the needs that can't be addressed by one national program can then be addressed by developing a companion program to fill the gaps.

And there are some examples of why that is necessary.

If you compare the agricultural industry in Prince Edward Island to the agricultural industry in Saskatchewan, they may have different needs that aren't addressed by a national program, and in that event we would like them to have the ability to be able to address those provincial-specific needs that crop up.

Saskatchewan might decide to develop something around improving their production insurance for grains and oilseeds. Prince Edward Island might develop something that's unique to their industry and that would better address a need in their industry.

If you talk commodity-specific, you will recall that prior to the APF, the horticulture industry had an SDRM, a self-directed risk management program, which was basically a NISA top-up at the time. That was meant to address the fact that they didn't have effective crop insurance programs for that industry, so the commodity had the ability to develop something specific to that industry that wasn't addressed by a national safety net program.

Those are some of the examples we've got whereby provinces could tailor something and be more effective in the way we flow money and in addressing some of those specific needs.

Another good example is the fact that the Ontario grains and oilseeds and the Quebec grains and oilseeds sectors have come up with a risk management program for their industry. That might work in Quebec and Ontario, because they don't export a lot of grains and oilseeds. Saskatchewan, on the other hand, is more sensitive to trade action because they export probably 85% to 90% of their production and might want to use something else to address something specific in declining margins in that industry, so we would really like to see the provision for companion programs to come back and allow that flexibility.

Now there are those that have told us they can't afford a provincial-specific companion program, and our answer to that is simply that we already have provinces that are tailoring certain components around the CAIS program. Alberta has done some things for the grains and oilseeds sector. Quebec of course has an ASRA program that is effective in their province.

So we're saying if those provinces that don't have enough of their own money could use some of the 60¢ coming from the federal government and contribute their 40¢, that would at least provide them with some seed money to develop something they could use in their own province.

I'll leave it at that, Mr. Chair. I'm not going to go into any more detail. I'd be happy to answer more detailed questions if you have them, but I'll leave it at that for now.

● (1540)

The Chair: Thank you, Mr. Friesen.

Mr. Bilodeau, ten minutes, please.

[*Translation*]

Mr. Denis Bilodeau (Second Vice-President, Union des producteurs agricoles): Good afternoon, Mr. Chairman. Thank you for inviting us to appear before your committee.

I will briefly explain the situation of the UPA, which represents all agricultural producers in Quebec. The Quebec Farm Producers Act recognizes all agricultural producers within a single structure. That means that the UPA represents all of the producers. Forty-three thousand producers in Quebec are grouped on two levels, regional and specialized. We represent producers in every region and cover every type of agricultural output.

The UPA promotes the objective of autonomous agricultural undertakings with an emphasis on family farming. With respect to representation and land occupancy, we believe that this approach helps to ensure a good distribution and diversity of production. It is a given that, in some cases, help will be required to support certain types of crops.

In Quebec, the UPA has adopted a collective marketing approach, which has resulted in increased revenues. We intend to promote the recognition of income security measures to help bridge the gap caused by market fluctuations, but our main aim is to maximize our market income.

I think that through their intervention programs, the Canadian and provincial governments are seeking to address consumer needs while providing the producers with the best possible price for their product.

In Quebec, our work is, to a great extent, governed by the 50-year-old Act respecting the Marketing of Agricultural, Food and Fish Products, which gives us the leverage to maximize our earnings while ensuring the recognition of our production costs. This also helps to limit our involvement. However, from time to time, circumstances dictate that we must resort to some type of intervention. In such cases, we turn to the farm income stabilization insurance program, or FISI, which provides for an annual, stable farm income based on production costs. There is a cost associated with the products that are sold, but because of price fluctuations, some years are leaner than others. This program helps to stabilize farm income.

We have come before the committee today to urge the federal government to recognize these support programs which help us to work together. We are asking for federal government participation because an individual province cannot, on its own, respond to the needs of the producers.

Mr. Lavoie, a UPA economist, will now walk you through the various statistics that support the need for federal involvement.

● (1545)

Mr. Gilbert Lavoie (Economist, Research and Agricultural Policy Branch, Union des producteurs agricoles): Thank you, Mr. Bilodeau.

Good afternoon, Mr. Chairman.

Essentially, I will explain our document, beginning at page 8. I think the page number is the same in the English version. Yes, that is correct. I will give you a summary.

We started by analyzing the trends in total net farm income for Canada and, of course, for our province, Quebec. On the following pages there is a comparative analysis with our neighbours to the south, the Americans, to see what they are doing and what we can learn from them. I can say that, when it comes to any lessons that we might learn—and this goes along with Mr. Friesen's earlier comments—money is not the only factor when it comes to establishing net farm income; we also need business and industrial strategies. These strategies should be regional or provincial, rather than always applied on a Canada-wide basis. Strategic alliances are more likely to develop at a regional level.

I will now turn to page 8. When it comes to income security, in an open-market context, unfortunately, there is a higher concentration of consumers. I am referring to processors or the food distribution network. This leads to pressures that drive down profit margins which then results in a steady drop in farm income.

As Mr. Bilodeau said, the UPA is actively working to strengthen our collective system. This involves bringing producers together to provide them with more clout in the marketplace. This would involve a correction of the situation by stepping up the process to give power back to the producers within the group.

Turning to the statistics, on the top right-hand table, you will see a red and blue line. The red line represents dollars expressed as a constant, which means that the figures do not account for inflation. The blue line represents current dollars. We can see that income in Quebec was relatively stable from 1990 to 2006. In 2007, there is a sharp drop. We might wonder why that is. Essentially, it is because of additional energy costs, as well as the rise in the Canadian dollar, which hit our income levels like a shock wave. Why is that? Because our commodities are priced in American dollars. The currency conversion represents a drop in income for all sectors.

There is the same trend in Canada, but net income has dropped more rapidly. That can be seen on the table at the bottom of the page.

Based on that context, as I said earlier, on page 9 we have a comparison of the Canadian and the U.S. trends. On the first table on the right side of the page, the black line illustrates U.S. farm income from 1980 until today. We can see that the Americans are currently experiencing record net incomes while in Canada, we are also setting records, but we are going in the opposite direction.

We also calculated the net income minus inflation. We used Statistics Canada data: never have there been such low net incomes in Canada, when inflation is not taken into account. I believe that Statistics Canada began collecting this data in 1926. I would say that this situation is catastrophic. If we consider what is happening with our neighbour to the South, there is an even greater cause for concern.

The other table, directly under this one, is even more worrisome because it is more structural, in other words, it sets out the issues as they relate to the competitiveness of Canada's agricultural sector. The black line illustrates the U.S. farm debt from 1980 to the present day, in other words, the debt over assets. We can see that the Americans, after having experienced a crisis in the 1980s, have bounced back and are now in an unprecedented situation in terms of their debt. The U.S. businesses are in excellent financial health. In Canada, debt has reached a record level. This is also quite alarming. What happens when a net income crisis continues year after year? Farms go further into debt, which has enormous ramifications in terms of our competitiveness.

What does the vertical red line mean? It coincides with the change in the vision or approach to Canadian agricultural policy in the mid-90s, when a decision was made to let market forces apply and structural elements in our agricultural policy were dismantled. The results were far from positive for agricultural producers, in fact, it was quite the opposite. On that, I support what Mr. Friesen said earlier: it involves more than simply increasing subsidies or whatever, we need an agricultural policy that will give some leverage to the agricultural sector—I repeat, agricultural sector—so that the farms can regain their financial health.

The graph in the lower left-hand corner shows the trends in working capital ratio. There has been a rapid drop in Canada, whereas in the United States, there was a dip in 2002 but there was an immediate correction. There again, their situation is much rosier.

● (1550)

The UPA has worked closely with the Canadian Federation of Agriculture and other provincial members in order to find a solution by developing a strategy to improve the net income. The UPA wholeheartedly subscribes to the positions expressed by the Canadian Federation of Agriculture.

What we were asking for, essentially—and I would like to thank the minister for the decision that he made a few weeks ago—is the re-establishment of a business risk management component which would make the program more predictable and improve farm management.

As to our other objective, if we want to change the trend that I spoke of earlier, then it is essential to have federal funding for provincial programs so that each province can then adopt its own strategies to re-establish profitability and acquire more market share. As Mr. Friesen said, these strategies can vary according to each province.

We would like a return to livestock insurance for diseased animals. Moreover, we need a better strategy to manage catastrophes, which can be quite damaging. Current programs do not work well for managing catastrophes because that was never their intended purpose.

I will give you a specific example that involves Quebec, namely, the golden nematode. Some farms have been hard hit; their crops were completely wiped out. The existing program known as CAIS worked well for some farms but was of absolutely no help to others. This led to a feeling of unfairness and frustration among farmers. Of course, we must recognize that supply management can be used to manage risk.

My conclusion can be found on page 11 of our brief. If farms are to become profitable once again, then it is essential to have companion programs and to reinvest in provincial programs so that strategies can be devised. That is the only way that we will make it. Thank you.

[*English*]

The Chair: *Merci beaucoup.*

Mr. Wells, your presentation, please.

Mr. Stewart Wells (President, National Farmers Union): Thank you, Mr. Chair and committee members, for this opportunity to be here to represent farm families across the country who are voluntary members of the National Farmers Union.

We support much of the analysis that was just given by our colleagues from the UPA. Much of it is very similar to our own analysis of the current situation.

I want to start by using a phrase that people have probably heard too much lately, and that is “climate change”, but I'm talking about the financial climate change that has really come into place when we're talking about farm incomes across the country.

In climate change terms, we've been through the five hottest years we've ever had in farm income, which means the five worst years we've ever had for net farm income in the country. This is coming on the heels of the previous 15 years, which were really negative years for farmers across the country.

We have distributed one page that has two graphs on it. In a nutshell, what the top graph is showing is that, over the past 20 years, Canadian farmers have created a farm gate wealth of two-thirds of a trillion dollars. That's not the retail value; that's the value that farmers sold that production for, the farm gate value. For that work, the farmers have kept exactly zero. The net income out of that two-thirds of a trillion dollars is zero.

What we are worried has happened, though, coming out of the 1990s, is that there were a series of business risk management programs developed as a result of the statistics that came out of the 1970s and 1980s. Our concern is that we think there have been programs developed to deal with the situation from the 1970s and 1980s, but not the situation that we've gotten ourselves into in the 1990s, and now the first five years that we've just come through.

Leading up to that period, in the 1970s and 1980s, when we first started to hear about things like the NISA program in the very late 1980s, it was still generally accepted that farm incomes were cyclical. They went down, but yes, they always came back and went up again.

Between 1945 and 1985, there was this tremendous range of farm incomes, but they were always positive and were always somewhere between $10,000 and $30,000, on average, right across the country. But that changed, starting in about 1985. They started this tremendous, almost constant, downturn. So that cycle that farmers used to be in disappeared. What we were left with, though, was still the generation of programs that were geared, tailor-made, to that cycle, but the cycle has disappeared.

That's the context we're starting from, and one of our concerns right at the moment is that in some quarters there seems to not be an acceptance that there's a farm income crisis. We don't have to go very far to find groups that will say in public that there is no farm income crisis. This is tradition now. We've had it for 20 years. Farmers shouldn't expect farm income, because they haven't had it for 20 years, and there are still farmers there. As long as they can find one farmer anywhere in the country who is still paying the bills, they say, well, that guy must be a good manager, and for all the rest, there's something wrong with their operations. So the first thing, I guess, that the National Farmers Union would be looking for from the committee is the acceptance that there actually is a net farm income crisis.

That brings us to the issue of the business risk management programs, and the way we're looking at it is that there are two ways of setting up those programs. There is a marketplace-funded business risk management program, and Mr. Friesen already alluded to the fact that supply management would fit into that category. We also see organizations, institutions like the Canadian Wheat Board, fitting into a business risk management plan that gets more money from the marketplace and distributes that money to the farmers. That's marketplace money that's business risk management programming.

● (1555)

Then there's the taxpayers' side—the $4 billion or $5 billion that has been transferred to taxpayers through the various business risk management programs.

We're thinking about the solution, and Mr. Friesen used the term “companion programs”. We call it more a suite of programs. There isn't one magic bullet that's going to turn this around. There are many programs that all have to be used. It wasn't one incident that created the farm income crisis for farmers.

If we want to look at the players around the farmers, a lot of them have been doing very well—the input suppliers, handlers, and retailers. It's not that we think they should make zero; we think they should make a profit and a decent return on investment. But if they can do that, why shouldn't the farmers be able to make a decent return on investment?

Gradually, over the last 20 years, we've seen farmers as a group essentially being nibbled to death by ducks, because every single player is just taking a little bit more out of the system—a few more percent here and there. Regulatory changes have occurred that add cost to farmers' business. It's just a little bit here and a little bit there, and over time we've seen the reduction to zero net farm income.

The solution to this is an integrated suite of programs that needs to be designed with a heavy reliance on cost of production programming. We say that because the margins on the farms have been reduced to such a level now that if the cost of production money isn't there quickly, the farmer gets behind the eight ball and can never catch up. If a payment comes from some program that was installed three years ago, it's just not going to help that farmer maintain and be able to pay the bills.

I'll close on the note that it's not fair or reasonable to think that the different provincial jurisdictions across the country can afford a 60-40 split on decent programming, on real business risk management programming. And it's not fair or appropriate for the federal government to unilaterally put in place programs without consultation with different provincial jurisdictions and then just expect that the jurisdiction will pick up 40% of the cost.

Thanks very much, Mr. Chair.

● (1600)

The Chair: Thank you, Mr. Wells.

We're going to do five-minute rounds, and we'll kick it off with Mr. Steckle.

Mr. Paul Steckle (Huron—Bruce, Lib.): Thank you very much, gentlemen.

We have met on many occasions and discussed the same subject matter. I'm going to lead off in a little different direction. We're not going to get into details today, because we've worked on them for the 14 years I've been here and I don't think we're one bit closer than we were then.

I'm just wondering if it's time to start thinking about whether we need to have 10 different ministers of agriculture in Canada, and that we need one. That's an idea you might ponder. You might not want to give me the answer today, but think about it.

We know there are different treasuries in this country. We're trying to talk about fiscal imbalance. We're trying to transfer dollars from the rich to the have-nots, and it'll never be enough. Maybe we need to look at food security as a matter of national security. If we looked at it in that context and eliminated the provinces in terms of their responsiveness to agriculture, we would probably have even more money for agriculture, and at least we would know whose ox was being gored, or whose ox should be gored. Right now it's blame, blame, blame. One blames one level of government for it and the other blames the other level of government. I think we're really at a stalemate.

Quebec and Ontario have put forward a concept of business risk management. We had market revenue that provinces enjoyed. I haven't yet had a farmer tell me they didn't think market revenue was a good program. So there was a program designed to mimic the risk management program we had a number of years ago. But we don't find agreement across this country on implementation of that kind of bill.

How do you as farm leaders see it? As your representative politicians, we're hearing the same old story. Now there's a move to get rid of the Wheat Board. What's next? The supply managed sector?

I have to wonder what the farm leadership commitment to agriculture is. I know you have a job to do, but so do we. I think it's time we started wrestling this thing to the ground and saying, listen, this is where we need to go.

The Chair: Mr. Friesen, I just ask that everybody keep the responses brief because we are in five-minute rounds.

Mr. Bob Friesen: We have two issues in front of us. One is to create the kind of policy environment in which farmers can be profitable. Farmers are business people, yet we don't have policy competitive with, say, the U.S. They're out-competing us with policy, so we need to create a policy environment in which farmers can be profitable. We need to move faster on the whole biofuels initiative; let's move more quickly on that. Let's get something in place that will actually work for farmers and work for every level in the sector.

Then we also have the developing programs that will sustain farmers through an income crisis or through low prices. You've mentioned the market revenue insurance program; that's exactly why we're saying we should bring back companion programs so that provinces can do some of that. Saskatchewan might do something else to address declining margins. Ontario and Quebec have said they like their risk management programs. B.C. might do something, say, for disaster preparedness, because they went through AI, avian influenza. That gives the ability for provinces to develop something specific that will fill some of the gaps that are still around a core CAIS program.

Mr. Paul Steckle: That's the reason.... In the U.S., they have the U.S. farm bill. They don't have every state competing one against the other; in Canada we do. We're going to have that as long as we have the competing provinces representing various programs. Various farmers are going to get various handouts.

Quebec deals with the farmers on a different level than Ontario does, and they've done much better over the last five years than Ontario farmers have, for certain.

The United States doesn't have 50 different agricultural programs across the country. I think we'd better have a serious look at some of this stuff.

The Chair: Go ahead, Monsieur Bilodeau.

[*Translation*]

Mr. Denis Bilodeau: This is a big country. There is considerable regional disparity from one region to the next. This disparity affects agriculture, since each area of the country is different. These differences can be quite marked, and the crops and needs are varied.

We are asking the federal government to recognize these differences with flexible programs that, through a global intervention strategy, will help to sustain farm incomes and make them more secure. We agree on the idea, but when it comes to the global strategy, we must be able to harmonize our programs and be flexible enough to address the regional characteristics of the producers. If these demands cannot be made within our regions, it will be difficult to do so at a federal level, with a country-wide approach.

In Quebec, we have developed a collective marketing approach which allows us to maximize our income. We strive to adjust our production to the market; we try to work out some type of arrangement with our producers and our distributors so that we can have a share of what the consumer regularly spends on food.

We are trying to get the best possible share for the producers. When that share falls short, support programs must pick up the slack. Their aim is to support farm income during critical times. That is what we are seeking in our programs in Quebec, that is what we want the federal government to recognize. We want to be part of a federal program that will give us enough flexibility to meet the needs of our regions.

● (1605)

[*English*]

The Chair: *Merci.* Thank you, Paul. Your time has expired.

Monsieur Gaudet is next.

[*Translation*]

Mr. Roger Gaudet (Montcalm, BQ): Thank you, Mr. Chairman.

Good afternoon gentlemen. I have a simple question. Instead of talking about a Minister of Agriculture, I think we should talk about 1 federal agricultural minister and 10 provincial agriculture ministers. An amount totalling $4.5 billion has been allocated since 2005, but I don't think every province got what it was expecting. That might be the crux of the issue.

I have nothing against asking the federal government to give $1 billion to a western province for disaster relief, for a flood or a wind storm or a drought. Last year, in Quebec, the potato problem cost $500 million. The federal government should also provide compensation in cases such as that one.

The programs should be extended, but each province should be aware of what the federal government will be providing in terms of subsidies. It would mean putting all of the money into a pot to be distributed when things turn bad. Then the federal government would no longer have to provide subsidies. What do you think of that?

Mr. Gilbert Lavoie: What you are referring to is special aid. There are two components. That type of aid is provided when there is a sustained drop in income. We realize that these are large amounts, and I believe that farmers, not only in Quebec but throughout Canada, are aware of their importance. However, even if this money were provided on an ad hoc basis, rather than through a predictable and structured program, that would not reverse the trend. Small cheques are sent to every producer, but the individual amount doesn't provide much help. That is why we are asking for funds to be reinjected into provincial programs, based on our historic market shares, or on the type of agriculture that we have, so that these funds can be structured and redirected. We want the money to be used for restructuring and to reverse the net income trends. Producers become very frustrated when they realize that they are not getting their provincial share, when huge amounts have been invested.

[*English*]

The Chair: Mr. Wells.

Mr. Stewart Wells: I agree with those comments. I think my response is really the same to both that question and the previous question.

In my mind, there has been too much unilateral action by the federal government and not enough cooperation, whether it's the provincial ministers of agriculture or the farm organizations involved. When you only have one person or a small group of people making decisions to fit the whole country, it's not going to be effective and it's not going to be timely.

If there is one criticism I have of this system, it wouldn't necessarily be to cut out the provincial ministers of agriculture. It would be to persuade the federal government to act in a more cooperative fashion with everybody involved.

In 2001 we had the Liberal administration announcing APF. I believe the announcement was made through a press release, and the first most people saw of it was in the newspapers. It's not a very good way to start generating farm programs that you hope are going to work for farmers across the country.

● (1610)

The Chair: Mr. Friesen.

Mr. Bob Friesen: First of all, nine out of ten provinces in Canada have a surplus budget. There's no reason they couldn't contribute to the announcement that was made about two weeks ago.

Secondly, specifically to the potato problem in Quebec, this is exactly why we support the work this committee has started on looking at other components we can add to a core CAIS program to fill some of the gaps that we see are still there.

One is the catastrophic disaster component that the minister has instructed the department to work on. It is a disaster program that would address things such as rebuilding the infrastructure.

In cases of extreme disaster, such as the potato industry in Quebec, which basically no longer exists and probably won't exist ever again, there would be something in place that CAIS wouldn't cover or the contributory top tier wouldn't cover. But it would be a disaster component that would help to rebuild the infrastructure and move the industry along.

The Chair: Mr. Gaudet.

[*Translation*]

Mr. Roger Gaudet: I only have a brief question.

If this were to generate a surplus, then maybe we could counter the subsidies that the Americans are providing through their Farm Bill as well as the EU subsidies to their farmers. It is continuous. It is evident in what you showed us earlier. That could be a condition. The Canadian government could provide a certain amount. The money would come from the program, but then, it would continue, and you would have the fund to help our farmers.

I would like to know what you think about that.

Mr. Denis Bilodeau: We are aware that these are income stabilization programs. Our farmers want to make as much as they can from the market. When you apply a single rate to all of the crops, you miss the mark. Some farms are in dire straits. A small amount of money will have very little impact and will not improve their financial situation. Other farms that have an acceptable income cycle will also receive money, but that will only help them keep their heads above water or give them a little breathing space.

It is hard to accept because we acknowledge that the federal government is providing large sums of money. We would like to have even more, particularly if we compare these amounts to what the Americans are doing, but we know that an effort is being made in that area. Unfortunately, the impact on the farms is not obvious. That part is not being recognized. In recent years, there have been farms that were unable to make it, in spite of government aid. There is some help with the companion programs in Quebec, but it is not enough because the Quebec government cannot, on its own, completely support these programs.

The Chair: Thank you.

[*English*]

Merci.

Mr. Miller, you'll have five minutes, please.

Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC): Thank you, Mr. Chairman. And, gentlemen, thanks very much for coming today.

I have a number of issues. A couple of them have been touched on that I want to talk more about.

One thing I always ask a lot of the farm groups about when I go to visit them in my riding is that it has been my feeling as a farmer and as a politician for a long time that the old “conquer and divide” in the agriculture sector and in farm organizations is alive and well.

What I mean by that is, although we have so many voices out there, I wonder whether we are really being heard. I would like to hear your comments. In Ontario, there are three main farm groups. There's a chapter of the Farmers Union, the OFA—the provincial branch of your organization, Bob—and the Christian Farmers Federation.

I really, honestly believe that they are not doing their members the justice they maybe could be doing if they were all of one voice. I would like to hear a few comments—briefly, if you could, because I have a couple of further questions.

The Chair: Mr. Friesen.

Mr. Bob Friesen: One of the things we try to do at CFA, of course, is build consensus across Canada. We have as a member a general farm organization out of every province that certainly agrees with the template for business management that we circulated. It also includes numerous national commodity organizations. You're right, OFA is a member as well, and UPA is a member.

We simply try to build consensus with as many organizations as we possibly can. If they are not a member, we even consult with them on occasion.

● (1615)

Mr. Larry Miller: My question, really to all of you, is—yes or no, it could be—do you not agree that you could possibly do a much better job if you all got together and became one big voice? That's the question.

Mr. Bob Friesen: We'd love that.

Mr. Larry Miller: I'm glad to hear it. What about the other...?

Mr. Stewart Wells: When we complain, and I think rightfully so, that we think partisan politics gets in the way of good decision-making, we have this come back to us, saying that farmers need to speak with one voice.

But our experience is that when farmers have spoken with one voice.... In 2001 the biggest farm coalition that was ever built in this country was built around the opposition to Roundup Ready wheat and its introduction. We had CFA affiliates, National Farmers Union affiliates, and civil society organizations all working as one, and the impact on the government was essentially zero.

We didn't effect any regulatory change. We didn't get any kind of regulatory regime in place. What we got was a voluntary stepping back from the plate by Monsanto, the industry player.

So our experience says, on the issues where we should work together, we do, and we work together very well. But our experience is that it's not a magic bullet.

[*Translation*]

Mr. Denis Bilodeau: I would say that we are experiencing more or less the same situation that you described in Quebec. We work in a collegial manner with all of our groups and we are all part of specialized federations. You must understand that in Quebec, as far as marketing and income security are concerned, we have more or less two systems. We have large crops covered by supply management, which is an income security system, and at the same time we have other crops covered in markets, sometimes export markets, which have their own income security system through the agricultural income stabilization program, which guarantees income based on cost of production and market revenues.

[*English*]

Mr. Larry Miller: Mr. Bilodeau, I do not want to dwell any more on this, but in my opinion, one group could represent the bunch all that much better.

Another thing I want to touch on, and Mr. Steckle started on it, is the problem between the federal government and the provinces, because they both have a role in looking after agriculture.

What Paul suggested was that perhaps there should be a national voice. We know the provinces are totally against that; they want to have some control in agriculture. The only way the federal government could do it is basically to deal with it through transfers, basically saying "look after it" and holding that money back. I'm not suggesting that should happen, but perhaps something like it.

The other way to look after it is basically that the federal government hand over a cheque each year to the provinces based on a formula and let them look after it.

I would like to hear some comments on that. Is that the right way to go? We all want to try to fix the income crisis.

The Chair: Mr. Miller, you're out of time.

Mr. Wells.

Mr. Stewart Wells: I have a very short follow-up on your question about the one voice.

As long as industry, or, you could argue, civil society, has two nickels to rub together, there will never be one voice coming out of the farm community. Some company—a seed company, a grain company, a chemical company—will fund a small group of farmers to put forward their point of view. We have current examples right now of where that's happening. A tiny number of farmers are having a tremendous influence on the policies of the federal government, and those farmers are not part of any of the major general national farm organizations.

The Chair: Any other follow-up?

Just briefly, Mr. Friesen.

Mr. Bob Friesen: We don't support what we would call block funding—namely, just sending money to the provinces. We really don't think we're far away from having a suite of safety net programs that's as good as what we need. That's why we're not saying let's throw something out completely. Instead, let's build around it.

The problem with the provinces is that they've already said it; they don't want to spend one dollar more on agriculture. The federal government has committed to spending more. We need to encourage *them* to spend a little more as well.

The Chair: Thank you.

Mr. Atamanenko, please.

[*Translation*]

Mr. Alex Atamanenko (British Columbia Southern Interior, NDP): Good afternoon. Thank you for coming.

[*English*]

I'm going to start with the statement that often we can see that those primary producers in Canada are suffering, and many would say it's because of a direct result of U.S. government and European Union policies of subsidies. I think a lot of us often will agree with that.

Many will ask, then, why is the federal government not standing up for farmers vis-à-vis...within the ramifications of WTO, but still not standing up for farmers to be stronger to maybe counteract what they're doing south of us to have something more substantial here?

I want to use an example, and the example I want to use is the fruit growing industry. Maybe I can get some feedback here, starting with Darrin and down the table. I'll try to be brief.

Currently the B.C. fruit growers, I believe with endorsement from the horticulture association, have said that they would like the federal government to undertake a rapid response mechanism to combat the dumping of Washington State apples in British Columbia and the rest of Canada. In other words, if the dumping occurs today, well, then, tomorrow we have trade action taken to stop this—in other words, we increase the tariffs.

They see this as one way of not using federal money but using federal clout and using federal teeth to stop this until this problem is regulated. The history of this in the past has been that when this type of trade action happened, by the time we got things going, months later, the prices would have increased. It would be too late. Plus it would be costly.

This could be considered as a disaster response. It could be considered as a cost of production. What is your feedback? These folks have come out with this, and I'm just wondering what your thinking is on this.

Darrin, maybe we could start with you.

● (1620)

Mr. Darrin Qualman (Director of Research, National Farmers Union): Thank you, Alex.

I think this really is something that's needed. As we have globalized our markets, what's happened is that farmers have been forced into an increasingly competitive environment. It's simple economics. As that has driven up our competition, and we're suddenly in competition with every product around the world, that increased competition level has driven down our prices. There are extreme cases of that—the dumping, for instance—but there are everyday instances as well, such as when all of our canola is in competition with Brazilian soy, etc.

At the same time, my colleagues have mentioned market concentration. As our competition levels have gone up as a result of globalization, the people we deal with on both sides, our input suppliers and the people who buy from us, have merged and concentrated. Their competition level has gone down, which means their profits have gone up.

So competition levels and profits on the farm and off the farm have gone in opposite directions. It's absolutely essential that we do something on both the critical issue of dumping and the chronic problems that we see there.

The Chair: Monsieur Bilodeau.

[*Translation*]

Mr. Denis Bilodeau: I would say that that explains in part why we defend our supply management programs so passionately. To some extent, these programs fulfil this function. The situation is more difficult for other crops. I think that, in Canada, we're looking for food production independence. This is essential. I think that a people must ensure, as a primary responsibility, that it can feed itself through its own production throughout the country.

I would say that the role that the federal government can play... We are still advocating an income security program approach. We understand that we want to provide producers with security based on a minimum amount of income. But the more we are able to find money within the market, the less likely we will have to intervene. In addition, the money that we do invest will have a positive impact.

Product identification is one thing that people have been crying for year after year, namely, a better identification of Canadian products, to enable consumers to really have good information about where the products have come from. In Canada and in Quebec, our product regulatory frameworks are quite stringent with respect to things as such the environment, which can lead to higher production costs. We are finding it more and more difficult to compete with imports. That must be acknowledged. Canadians are demanding when it comes to the environment—they are putting demands on the state—and it therefore follows that it must be given the tools to meet their requirements. Canadians are demanding and if they prefer to buy Canadian products, we want to create this balance, which will save us from having to intervene so often with respect to dumping-related matters.

[*English*]

The Chair: Mr. Friesen.

Mr. Bob Friesen: We would certainly support a faster response time when it comes to challenges like that. You're absolutely right. Our industry could be destroyed overnight before we even had an opportunity to put some of the things into place.

But by extension, we've also advocated that we should have somewhat of a bilateral peace clause with the U.S. when it comes to business risk management programs. At the end of the day, it's always the farmers who end up losing the most. Even if you win a challenge, it costs farmers a lot of money. We believe there should be a lot of work done at the official level on some kind of peace clause with the U.S. when it comes to business risk management programs.

● (1625)

The Chair: Thank you.

Mr. Easter for five minutes, please.

Hon. Wayne Easter (Malpeque, Lib.): Thank you, Mr. Chair.

First, on the long term, a couple of you mentioned supply management. There's no question it's one of the foundations of our agricultural policy, but a trend has been set in the recent issue of the Canadian Wheat Board.

What do you think the threshold should be in terms of any ballots or voting in the industry? Is 13.8% high enough to destroy the system? If 13.8% of producers are opposed and it's on a ballot, which would be about 4.5% of the actual ballots mailed out, is it enough for a government to move to undermine that industry? It's what's happening in the Canadian Wheat Board.

I'd like you to think about that one, because the trend has now been established by the Government of Canada. Only 13.8% are opposed to the Canadian Wheat Board in terms of the latest plebiscite, and it's 29,000 votes out of 80,000 ballots.

Over the longer term, we are caught in a quandary. We have been in the whole farm program in Canada, and it creates a situation where there's really cross-subsidization within the industry. When you have a producer of two commodities, he or she ends up cross-subsidizing the farm operation. How do we get around that? I know producers who set up separate corporations to try to get around it.

Secondly, when you look at the inequitable position we're in with the United States, and it is in the UPA's paper, the farm debt/debt asset ratio is really serious. Even if we get it correct this time, and we sure as heck haven't been correct previously, we're starting off with a $51 billion debt load. Our debts are substantially higher than they are in the United States.

Folks, I was around when interest rates were 23.5%. I can tell you that if interest rates ever moved to 10%, we wouldn't know what hit us. How are we going to get around that problem as well, in terms of a farm safety net package? We have to look at it.

Mr. Bob Friesen: On business risk management, yes, as far as the debt load is concerned, you're quite right.

We had the agricultural attaché from the U.S. embassy speak at our annual meeting. You've already heard someone say that we've come out of the worst four years in farm income in our history. The U.S. farmers are coming out of the best three years of farm income in their history. That's not all about the amount of money their government spends. It's also about whether they spend it strategically. That's why I think all of us talked about our having to be more strategic with the way we spend money. But they also have record low farm debt in the U.S., together with coming out of the best three years of farm income.

As far as cross-subsidization on the farm goes, Mr. Easter, the contributory top tier addresses that somewhat, in that farmers will be able to attract government money based on an ENS contribution. If you just go into the top tier, you won't have that same whole farm effect that you have if you have the CAIS program right to the top.

Companion programs are also meant to, on a regional- or provincial-specific basis, look at some of the ways of how you can deal with that and be a little more targeted and a little more commodity-specific with those programs as well.

● (1630)

The Chair: Thank you.

Mr. Lavoie.

[*Translation*]

Mr. Gilbert Lavoie: My answer is essentially the same as the one given by Mr. Friesen, but I would add that we have just gone through a period where we had no agricultural policy in Canada, but rather an agribusiness policy. We thought that if the processes were profitable, they would pass on revenues to the producers and that would in turn secure their net income. As my colleagues to my right and left both said, with the concentration phenomenon that occurred, that did not happen, to the point where we found ourselves in a situation where processors experienced upheavals with their own profitability. So they told the producers that they would no longer take their animals or that they would be shutting down their plants, to the point where we wind up with nothing. In order to reverse this trend, Agriculture Canada will have to adopt an agricultural policy to encourage a business environment providing producers with net income based on the market, or adopt a complementary policy. I think that we need to be focused on agriculture.

[*English*]

The Chair: Mr. Wells.

Mr. Stewart Wells: I would just build on what the two previous speakers have said, actually, especially in reference to the cross-subsidization.

I've been critical of these independent and ad hoc government programs because lots of times it seems that the government would like to tie farmers to the mailbox at election time. It could be just coincidence, but that's the way some of these things get rolled out. That's not what farmers need to keep in business. That's not going to give farmers the ability to plan into the future.

What farmers really need, which ends that discussion about how we get around the cross-subsidization on the farm, is increased market power so that farmers are allowed to make their money from the marketplace, earn a living from the marketplace. There was, in fact, a report published just a couple of years ago, which I know you're quite familiar with, called *Empowering Canadian Farmers in the Marketplace*, which started to go down that road. It talked about changing competition policy, for instance. So there is some competition amongst the input suppliers and the retailers and the handlers and the other people whom farmers deal with.

What we've really set up here in this country right now is a double standard: one standard for industry and one standard for farmers. So on the industry side, we have a legislated marketing tool called patent protection so that those industries can get their money back from the marketplace. Look at who is the most profitable. Drug companies, machinery companies, and seed companies are doing very well. They have to stay in business. But on the other side, the legislated marketing tools that are exactly parallel to patent protection, things like supply management and the Canadian Wheat Board, are being destroyed. Farmers are being told, “No, you can't have this legislated marketing protection because we don't feel it's appropriate.” So we've got a double standard, which is working against farmers.

The Chair: Thank you, Mr. Wells.

Mr. Devolin, you have five minutes. We started late. It was almost 3:40 by that clock when we started, and we want to give ourselves the full hour. So, Mr. Devolin, you have the last five minutes in this round of questioning.

Mr. Barry Devolin (Haliburton—Kawartha Lakes—Brock, CPC): Thanks, and thanks to the witnesses for being here today.

It's often said that success has many fathers, but failure is an orphan. I'm fairly new around this place, but I haven't heard anyone claim responsibility for the CAIS program in the three years I've been here. That's just an observation.

I have a couple of questions. One of you said that some of the programs that are in place, CAIS and others in the past, are based on the belief that income is cyclical over time, that it goes up and it goes down, but the problem is it's not going up and down, it's just going down and down and down.

I guess my question is this. The market changes, demand changes for different products, the external environment changes. How do you create a system that supports farmers when they need to be supported? I agree farmers have a lot of money invested and they work hard, and it seems reasonable that they should be able to make a living doing that. But on the other hand, how do you design a system that's sufficiently sensitive so that we don't create a situation where we're just continuing to produce some commodities that the world is producing in abundance, that we're creating an increased demand for more and more support, to support the production of things that there doesn't seem to be a profitable market for?

How do you suggest we balance market realities with the needs of farmers?

● (1635)

The Chair: Mr. Friesen.

Mr. Bob Friesen: Thank you. You're absolutely right. Again, we're looking at two issues. How do we create profitability in the industry and how do we sustain farmers through an income crisis? Profitability. We're committed to finding solutions and creating a policy environment within which farmers can be successful.

In the U.S. they've somehow learned how to prime the pump, which has accrued benefits to the primary production sector as well as to value-added. But as long as you have a program that's based on a historical reference margin on a whole farm, you will always have the problem that when prices decrease, your program starts ratcheting down with regard to how effective it is.

That's another reason why we've been trying to build components around it. Now the contributory top tier is a baby step toward addressing declining margins, in that an ENS margin never deteriorates as fast or as far down as a production margin will. So we believe the top tier is going to be effective, once we go to that component, in addressing declining margins, but the provision for companion programs allows us to do things on a provincial-specific basis, which, if we did them nationally, would attract tremendous trade challenges.

So if we do some of those things to address declining margins on a provincial-specific basis, we think we can make the business risk management programs more effective as well.

The Chair: Mr. Qualman.

Mr. Darrin Qualman: Thank you for that question.

I'll make three quick points that I think build on each other. In terms of production and supply and the often cited overproduction, if it ever was a reality, it is less and less so. In six of the last seven years, the world consumed more grain than farmers produced. That's not being reflected back to the farm level.

Having said that, I think there's a bit of truth at the core of your point, because farmers need to match production to demand, and if the markets are signalling through low prices that they think there's sufficient supply or too much, we maybe need to back off some of that production, and supply management does that very well. The United States does that by idling land, and we've advanced the program here in Canada, that we need to call the bluff of some of these corporations and maybe take some land out of production and managed supply.

The third point is the last point. You were wondering how we create programs that match market reality. I think what you've heard from every speaker here today is that profits are allocated on the basis of market power. Who has market power in that agrifood chain? That determines where the profits land and who gets to hang onto those profits and who gets the profits taken away. The farm income crisis is caused by an imbalance of market power within that agrifood chain. We are using taxpayers' money to backfill that right now, but if you're serious about doing something new in business risk management, do what everybody at this table has said: deal with market power; give us more market power.

The Chair: Mr. Wells.

Mr. Stewart Wells: I have a short comment on your quest for the parents of the CAIS program. Whether this helps or not, I would direct you to our website. I think it was in 2002. You could look for a press release entitled “Leaky Farm Aid Bucket” and you'll see what our comments were on the CAIS program when it was announced.

The Chair: You're out of time, Mr. Devolin.

There is a quick response, as well, from Mr. Bilodeau.

[*Translation*]

Mr. Denis Bilodeau: When you take a look at how the CAIS program, which you referred to, has been implemented, you will note the following: in Quebec, the producers that have been penalized the most are those that grow grain or who have mixed crops, as a gentleman mentioned earlier.

Grain producers found themselves facing low prices. You may be able to cover fluctuating profit margins, but over the past few years, we have been in a situation where the margin is very low. There is scarcely any more fluctuation. The only thing that has changed is that the producer is falling behind because of negative farm income. That cannot continue like that.

On the other hand, we have the other producers growing mixed crops where one crop would compensate for the other. So there were no big fluctuations in profit margins, except that in the long run, this type of operation gradually grew poorer. In Quebec, it was felt that this type of operation had the best structure because it ensured that as much money as possible would remain in the operation. When you produce grains and feed cattle, you are already a primary processor with respect to grain production. You are processing the grain into meat or milk and, with what is left over, you are manufacturing fertilizer that can be reused on the farm. This process ensures that the operation keeps most of the money for itself and does not have to spend it on other things. This type of operation should, under normal conditions, produce more income at the farm level. And in cases where the CAIS program is required, or where there are price differentials, meaning that, in one year, one crop can fetch a lower price but is compensated by another crop, what happens is that, year after year, there is a general decrease in the profit margin of the operation, but not enough to warrant implementing a program. This type of operation gradually grows poorer and declines. Grain producers are really in a tough situation. We came here to Ottawa calling for ad hoc programs that would compensate for the effect of the Farm Bill, which was already in force when the CAIS began.

● (1640)

[*English*]

The Chair: Thank you, Mr. Devolin.

I'm going to ask for a little homework from everyone. We're out of time, but I do have one question—actually two—surrounding the BRM.

Every time I go out and talk to farmers—and I'm a cattle producer myself—I'm not hearing a whole lot of support for a CAIS-style program or a lot of support for a margin-based initiative, so I need to be sold on this. CFA is suggesting this; we're hearing it from the provincial organizations. Definitely, through the discussions that have taken place, through the consultation across the country, there has been a lot of talk about a margin-based program. So I want to know why this and not something else. It hasn't worked as far as many producers are concerned, so I want to know, in a written submission, why a margin-based program?

Secondly, we have all this talk about more provincial programs, more companion programs. We are a trading nation. How do we make sure that those programs don't put us over the top and create some sort of trade retaliation?

I'm a cattle producer living through the BSE crisis, so I know exactly what happens when we get initiatives taken by other countries and how it hurts us right in the pocketbook. So I ask that you do that.

With that, I thank you all for coming in today.

We're going to suspend for a minute or so to clear the table and bring in our next witnesses. We will extend tonight till quarter to six to deal with everybody in a proper manner.

Thank you very much.

●

(Pause)

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● (1645)

The Chair: Okay, we're starting our second hour. We will extend the time as need be.

We want to welcome to the table Bob Funk, vice-president of the Bank of Nova Scotia; Brian Little, head of agriculture for the RBC Financial Group; Ian McNeill, president of the Canadian Association of Agri-Retailers; and Dave MacKay, executive director of the CAAR.

I'll turn it over to Mr. McNeill for ten minutes, please.

Mr. Ian McNeill (President, Canadian Association of Agri-Retailers): Thank you very much to the committee for having us present today and for listening to the concerns of our industry.

The Canadian Association of Agri-Retailers represents a national voice for the crop input retailers across Canada. We have approximately 960 members across the country.

We have four main critical issues we are concerned about, but we want to address one that's of primary concern to our agri-retail sector today and a top priority. That's the cost of compliance with new and proposed industry and government regulations, specifically in two areas. First is the physical upgrade to retail sites to comply with security and safety regulations for crop input products. This spans a wide area of government sectors, including public safety, agriculture, environment, transport, and health. Second is proposed industry and government amendments to safety and stewardship requirements for anhydrous ammonia, which is more of a specific product. It's a fertilizer our members sell to growers to produce their crops.

On site security and safety upgrades, part of the cost-of-compliance issues relates directly to the future industry and government security standards regulating physical upgrades to retail sites, as well as currently mandated safety standards for crop input products. We believe government and industry have a shared responsibility to Canadians to ensure that safety.

Crop input products like fertilizer are essential to modern agricultural production, but must be secured from terrorists and criminals. These products include ammonium nitrate, which has been and is a possible bomb-making material; and anhydrous ammonia, which is a possible catalyst for crystal meth production. The crop protection products we sell may also cause bodily or environmental harm.

The cost of physical security upgrades can be prohibitive. These include fences, locks, surveillance, guards, etc. All these can be mandatory upgrades under the industry-related ammonia code of practice.

The cost of compliance with government and safety regulations can also be prohibitive. These include proper use guidelines, tracking, training of staff, storage, transport regulations, as well as insurance and liability exposure. We already contribute to the AWSA warehousing regulations, and we are also involved in container recycling programs with manufacturers. They get the bulk containers back from growers and into the system to be reused.

Ultimately, when retailers incur these costs they can try to pass them on, but in a very competitive market it is very difficult to do. If they can pass them on they will end up with the consumer, or they may decide to no longer carry that product, which diminishes competition and puts additional costs on the grower.

Until now the retail sector has met all current regulations, but resources are being strained. Government support is essential to ensure future compliance and avoid economic collapse of some of these operations.

On the issue of ammonia safety, there is the cost of compliance to new and more stringent regulations pertaining to the safe handling and storage of anhydrous ammonia, which is critically important to crop production. Examples of potential new regulations facing retailers include consideration to perform hydrostatic pressure testing of all anhydrous ammonia field tanks. In Canada we have approximately 12,000 tanks currently in service. Another example of regulations that are already forcing retailers to incur additional costs is the reclassification of ammonia. That requires special labelling, and of course training of staff again.

CAAR is working closely with Transport Canada and other industry stakeholders to implement these important regulations, but the cost of compliance with so many regulations has become prohibitive, with no current assistance from industry and government.

Unfortunately, the net consequence is that farmers will be hit indirectly in most cases. Operational closers or retailers may make the decision to not carry a particular product like ammonia, forcing that grower to go farther to acquire it. In the end he may have to change his equipment and move to a product that's available. That could be a dried form, like urea or phosphate, or a liquid. So there are costs to the grower if our operators and dealers no longer carry it. And of course the retailer himself loses revenue on a very legitimate product.

● (1650)

We believe there is a viable solution to these problems. CAAR recognizes the importance of prompt compliance with all security and safety regulations to protect Canadians, but urges the government to help offset the economic strain on the retail sector in this process. CAAR believes the blueprint for a solution has already been established in the form of a government contribution program for security upgrades at designated Canadian ports, whereby government rebates 75% of the approved upgrade cost.

CAAR recommends that a similar type of rebate program be established to assist agri-retail sites to comply with new security and safety regulations. We would be very eager to work with the appropriate departments to define eligible expenses.

In closing, we hope we have clearly defined the single most challenging business issue we face as agri-retailers in our sector. Security and safety regulations are important, but unfortunately come at a high cost of compliance. Agri-retailers implore the government to consider a cost-sharing program that will facilitate prompt compliance without adverse economic effects.

Thank you.

• (1655)

The Chair: Thank you, Mr. McNeill.

Mr. Little.

Mr. Brian Little (Head of Agriculture and Agri-business, RBC Financial Group, Canadian Bankers Association): Thank you, Mr. Chair.

On behalf of the members of the Canadian Bankers Association, we would like to thank the House of Commons Standing Committee on Agriculture and Agri-Food for inviting the banking community to appear before you today to speak about business risk management within the agriculture sector.

You've already met me. My name is Brian Little. I'll introduce my colleague, Bob Funk, who is the vice-president, agriculture, at the Bank of Nova Scotia. We're representing the industry as a whole. However, there may be times when we will be speaking specifically for our own institutions.

The government has undertaken a consultation process on the next generation of agriculture and agri-food policy, and the banks have participated in that discussion. Financial institutions constituted only a small part of the stakeholder group participating in that consultation, so we're pleased to see in the summary of stakeholder comments that “Participants consistently mentioned lending institutions as key to the future of their businesses”.

The summary went on to say that these participants “suggested that governments maintain open, ongoing relationships and dialogue with financial institutions to ensure a clear understanding of programming, and to help governments to understand how program design could make programming more transparent and predictable, thus making lending decisions easier.” Participants also expressed the need for predictable and bankable programming. Our focus as bankers is primarily on the risk management component of these programs.

The banking industry could not agree more with this. These are all important elements for lenders because government initiatives play a big role in agriculture. Programs can be an important component of farm incomes and can therefore determine the risk that lenders are exposed to. Therefore, good communication is important and very crucial between the industry and government.

The CBA and members meet regularly with the Minister of Agriculture and Agri-Food. We did so last month and will do so again later this year. We think it's fair to say that an important factor that helped all the stakeholders related to the beef industry weather the BSE storm was the fact that the banks maintained close communication with the government, with their clients, and with other stakeholders during that period of stress. It was extremely important for all stakeholders to fully understand what the banks were doing and were prepared to do during that crisis. It is good to see that others recognize the value of such ongoing relationships, and the banks will continue to take this approach going forward, in normal times and in times of stress.

On the role of lending institutions in agriculture, we believe that banks and other financial institutions are important components to what makes a healthy and successful sector. Lenders are there to help ensure that the sector has access to financial capital to grow and to make investments that improve productivity in the sector. Lenders are there to ensure that the producers who have viable operations over the long term can withstand temporary shocks, even if those shocks last for a long time. This is precisely what we did in the case of BSE, avian influenza, drought, and floods.

The banking relationship with the agricultural sector is about more than just lending. We provide cash management and transaction accounts. Often producers come to their banker for advice. That said, the focus on bank activities in the agricultural sector is usually with respect to lending, so let's talk about that.

Canada's banks are important financial supporters of the agricultural community and rural Canada. Since 2004, total bank authorizations to the agricultural sector have grown by 6% and now exceed $28 billion, about 43% of total authorizations to the sector. Bank loans outstanding to the sector now exceed $20 billion. These funds are increasingly provided to producers across the country in new ways, through the opening of strategic branches, and more commonly, through the use of mobile bankers, who employ cars and laptops and meet with the client at the farm as opposed to in the branch.

Banks are one part of a very competitive financial market that the agricultural sector can draw upon. There is the Mouvement Desjardins, which is concentrated primarily in Quebec. In the rest of the country, there is a network of credit unions providing a wide range of services. There are suppliers of trade credit, and there is Farm Credit Canada, a federal crown corporation that offers financing. Together, these institutions supply over half of the debt financing available to the agricultural sector. In total, including the banks, about $65 billion in financing was made available to the sector in 2005, of which $46 billion was outstanding at the end of the year.

With so many different institutions offering financing and so much competition in the marketplace, we believe that financing is not a primary concern of producers in this sector, and we believe the evidence supports that view.

• (1700)

According to Statistics Canada, agriculture producers and other primary industries did not view access to financing as an obstacle to growth. The real issues facing the sector were low profitability, government regulation, and taxation, each of which was cited as a concern by over 50% of the respondents.

On the other hand, obtaining financing was cited as a concern by 16% of the respondents. The availability of credit to agriculture has been enhanced through the use of specialized staff, trained account managers in agriculture in both the marketplace and in the risk adjudication process. The only factor that scored lower as an obstacle to growth was management capacity of 13%.

Statistics Canada's survey of small-business owners in small and medium enterprises provides further evidence that there is a great deal of competition and choice with respect to access to finance in rural Canada. Rural SMEs, of which the agricultural businesses are a part, are more likely to request financing in any given year than urban SMEs—34% versus 20%. In addition, rural SMEs are more likely to have their debt-financing requests approved than are urban SMEs—88% versus 77%.

So both of these statistics indicate clearly that banks and other lenders have a strong commitment to agriculture and to rural Canada and understand the nature of the sector. Again, access to credit doesn't seem to be the major concern of rural SMEs.

When Statistics Canada asked these firms why they did not seek financing, less than 5% of the rural SMEs responded that they thought their request for financing would be turned down, that applying for a loan was too difficult, or that the cost of debt financing was too high. The SMEs that did not apply for financing did so largely because they didn't need it.

Based on government data and surveys, it appears that the major issues facing the sector are of a basic economic nature. The key result in this respect is profitability. Only 20% of the income of farm households comes from net farm income and most of this is related to program payments.

In addition, an increasing share of production is being exported, so access to world markets is an issue. There are fewer farmers in Canada, they are getting older, and they are operating larger farms. Succession planning and entry into the sector by a new generation of producers are serious issues, especially in light of the large capital requirements for farming.

Moreover, as more producers and processors employ new business models to increase the value added, new approaches to financing will be needed. Banks and other lenders must find ways to support their agricultural clients within the context of this environment.

Before closing, I'd like to make two observations about government programs for the sector. The banks and other deposit-taking institutions have a close relationship with their agricultural clients. That relationship is made stronger through government programs that provide income support to the agriculture sector and that help to lower the risk of lending to the sector.

We note, for example, in the recently tabled budget the reference to the new income stabilization program that would be delivered through the establishment of a new savings account program for farmers. Consultations with the provinces are forthcoming and that will require the establishment of savings accounts, and the banks will be meeting with Agriculture and Agri-Food Canada very soon to discuss those criteria.

As the accounts will have deposits made by both farmers and the government, with the deposits and interest income being subject to different tax rules, depending upon the source of the deposit, tailor-made accounts need to be set up. It is imperative that the industry be given sufficient time to do this. In order to avoid unnecessary and costly system changes, it's important that the industry be provided with certainty that the program speculations and system requirements are finalized before institutions begin setting up their accounts.

Secondly, the government has decided to continue delivering the Farm Improvement and Marketing Cooperatives Loans Act, FIMCLA, which is designed to increase the availability of loans for improvement and development of farms and the processing, distribution, or marketing of farm products.

Some reforms of the system have recently been suggested by the department. We would simply like to make the observation that the loan limits for the program have not kept pace with the developments in the sector, in particular, the rapid escalation of capital requirements for farms. Consequently, we are observing a decline in the number of producer requests for financing under this program.

We thank the committee for this opportunity to share with you the banking industry's thoughts, and we welcome your questions.

● (1705)

The Chair: Thank you, Mr. Little.

Thank you both for your presentations.

We're going to Mr. Easter for the first five minutes.

Hon. Wayne Easter: Thanks, Mr. Chair. Thank you, gentlemen.

My first question is to the Canadian Association of Agri-Retailers. Much of your presentation was on the cost of compliance in several areas. I'll not go into them, but do you know what happens in the U. S. in that regard?

Some of the inspection fees that we have in Canada through CFIA and other agencies, if they were operating under the U.S. government policy, would be paid for by the government, and they are GATT green. In this area of anti-terrorism and security measures, do you know the policy in the United States and do you know if it's GATT green?

I heard you say these costs are not passed on to farmers, but in one way or another, they are—not directly, but in one way or another they are, so if they can be picked up under a GATT green program, maybe that's what we ought to be doing.

While you're thinking about that one, I'll ask the Canadian Bankers Association the other one. You made the case, I think, that whatever programs we come up with have to be basically predictable and bankable. My feeling is that although we don't know the details—the government is slow in getting us the details—the savings account program is likely the right idea. It's likely a NISA-type program.

If this is going to be similar to the previous NISA—which we're not sure of, but I think it will be—did you have any problems in the banking industry with the previous NISA savings account program that we ought to be aware of before this one is brought into play?

Those are my two questions, Mr. Chair.

The Chair: Go ahead, Mr. McNeill.

Mr. Ian McNeill: I'm not aware of that under the GATT green. The only one we are aware of is the tax rebate system under the security act that was passed a couple of years ago. It's under homeland security, but that's the only one. It's a tax rebate through which they can get 50% of what they spend claimed on a tax rebate system. That's the only one we're aware of.

Hon. Wayne Easter: Okay.

I should know the answer to this, but I don't. Did your industry get any funding out of either the previous or current government anti-terrorism initiatives? There's been a lot of money spent, and my thought was that it was supposed to go to security areas—not just border, but the security costs for many areas, including.... You didn't get any.

Mr. Ian McNeill: No. We as an industry didn't get any. There are some situations in which you can claim those under whatever tax situation you're under; some of those costs would qualify for tax incentives, but that was it.

The Chair: Mr. Little, go ahead.

Mr. Brian Little: Although I wasn't around at the time that the previous NISA program was developed, I believe part of its success was due to the fact that the program criteria and specifications were fairly clearly outlined at the time it was developed. My experience from speaking with others and from speaking with producers was that from a banking perspective, the program was very well received. We were able to operate it, and it was able to function quite successfully.

Hon. Wayne Easter: Okay.

Mr. Funk, would you comment?

Mr. Bob Funk (Vice-president, Bank of Nova Scotia, Canadian Bankers Association): The follow-on I would make is that the situation around the CAIS was a little different. I think there were some natural circumstances that caused the differences. One is that it was introduced fairly quickly, and introduced at a time when a decision had been made to go in a fairly linear approach with support programs, and to try to avoid having multiple programs in operation.

The issue that fell out of it was that almost simultaneously with the introduction of CAIS we also had BSE and avian influenza in B. C. The government was forced to respond to that, and it chose to deliver those kinds of support programs through CAIS.

The fallout for financial institutions occurred in two ways. One was that CAIS was very new and wasn't really fully functional yet, and the timeframes for it had been relatively short. The other part was that as we layered on the additional programs, it got to be confusing for us, and then consequently more confusing for our customers, to try to explain what was an add-on program and what was the original program, and when we were talking about CAIS and when we were talking about something that was special delivery relative to a shock to the system. That, for us, was basically the core dilemma.

● (1710)

The Chair: Thank you.

Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Thank you, Mr. Chairman.

I'd like to thank you all for your testimony.

My first question is for the representatives of the Canadian Banking Association. We met with representatives from the Union des producteurs agricoles before you, and they compared the indebtedness of U.S. farmers to that of Canadian farmers. Since 1997, the debt levels of farmers in Canada have grown significantly, whereas the situation has improved on the American side.

I would like to ask Mr. Little a question. Has the indebtedness of farmers in Canada reached a troubling level?

[*English*]

Mr. Brian Little: I would agree with you, the debt load has been growing over the past number of years, but I believe that as lenders we are monitoring the situation closely and ensuring that our clients are able to meet the requirements. In cases where there are difficulties, we work through the challenges with them.

I don't think it's too far out of line, from my perspective; however, we do watch it closely, sir.

[*Translation*]

Mr. Robert Bouchard: I'd like to go back to the chart. We have also talked about the evolution of agricultural total net income, always comparing Canada to the United States. We can see that income in Canada has declined, for a certain number of years, compared to that in the United States. You also told us, if I understood correctly, that the number of producers had declined.

To what factors can we attribute this situation? Is it because of farmers' drop in income? I would like to hear what you have to say on this matter, at any rate.

[*English*]

Mr. Brian Little: I think there are a number of issues that are impacting that.

There are some consolidations going on in the industry, whereby you have older farmers who are retiring and whose operations are being purchased by large farm operations. These large farm operations are reducing their fixed costs by expanding their land base and are buying out some of the older operations. They're doing it for size and scale, because of profitability and margins.

There's also a group of smaller farms that are growing and expanding within their own right because they're getting into niche marketing, value added, doing something over and above the production of commodities, and they are located in areas surrounding the urban areas, such as around cities like Ottawa, Toronto, Montreal, and Quebec City. So there's that group that is growing and expanding.

The other component that would be impacting this is, to summarize, I guess probably the size and scale of business that's required to generate a profitable business, because of the thin margins in the industry at this point.

● (1715)

The Chair: Mr. Gaudet, did you want to have a quick follow-up?

[*Translation*]

Mr. Roger Gaudet: I'd like to ask a question that may be indiscret, but I will ask it any way. In your financial statements, what is the amount of bad debt in agriculture? Banks usually have bad debts. At the beginning of the year, the banks set aside certain amounts for bad debts. With respect to agriculture, what is the annual amount or percentage of bad debt? Or is it more a case of there being no problems because all of the loans are guaranteed?

[*English*]

Mr. Brian Little: I'm speaking about the bank I work with. Our portfolio is in very good shape, and our difficult loans are not at all out of line with any of the commercial business. In fact, we have a very good quality portfolio. We're quite comfortable with it at this point in time.

[*Translation*]

The Chair: Thank you very much.

You have five minutes, Mr. Gourde.

Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC): Thank you very much, Mr. Chairman.

We've seen that the situation in agriculture often depends on the trust farmers have in the markets, the trust they have in government programs and the trust they have for their banker.

Between 1998 and 2005 or 2006, there was a very significant increase in farm debt. In broader terms, it was Canadian banks that allowed the farm debt to grow so much.

I actually know some people in my riding who came forward with huge projects that were hard to get approved and were turned down by the caisses populaires. But the banks accepted these projects and even allowed the producers to pay nothing down on the capital for five years. For the first five years of the loan, the producers were only paying off the interest, and in Quebec, this resulted in tremendous inflation of quotas, land and agricultural buildings. Of course, the producers got the best available in technological terms. I've seen hog farms where the cost was $600 per hog, even though the maximum for profitability is known to be $300 per hog.

Did the banks benefit somewhat from the enthusiasm of the early years of the new century in farming to increase their share of the market at the expense of Farm Credit Canada and the caisses populaires? It was really clear among farmers in Quebec that there was tremendous competition between the banks and the caisses populaires. That was not beneficial to farming in Quebec and Canada.

May I have your opinion on this?

[*English*]

Mr. Brian Little: We evaluate the risks of each individual application as presented, based upon the merits, the strength of the deal, the security available, the ability to repay, the management, the business plan, and the marketing plan.

All of the banks have agricultural specialists, and Canada's chartered banks have specialized in agriculture for almost 39 years. We've developed a team of specialists who are knowledgeable and well trained in that industry. They assess each situation on its own merit. They also look at each situation and make a determination.

We understand there is a cycle in the agriculture industry. We're comfortable about working with peaks and valleys. The industry has traditionally had peaks and valleys.

The point is that we look at each situation on its own merit, and we also have specialization within our group adjudication to approve the deals. We feel we have the expertise and the knowledge within our own systems. We evaluate each proposal on its own merits. If we feel comfortable in doing the deal, we'll carry on from there and we will put the package together.

● (1720)

[*Translation*]

Mr. Jacques Gourde: Thank you.

Some dairy farmers, hog farmers or people with mixed farms had debt levels of 50% to 55%. However, these big producers have tremendous value in terms of quotas and land.

In my constituency, land values dropped 40% to 45% in the last two years, and even the value of quotas is showing a downward trend. The new approach is to lend quotas to the next generation of farmers. That will not give farmers the full value of their quota, which they will have to buy back in the future.

How will banks react to these drops in farm equity, which can be major for some producers? There may be a drop of between $1 million and $2 million for farms that may be worth $4 million to $4.5 million and have $3 million in loans to pay off. These farms will no longer have any equity.

What will the banks do about this situation?

[*English*]

Mr. Brian Little: As I said previously, we'll look at each situation on its own merits, and we will sit down with the customer and map out, over a number of years, how this plan is going to work and whether the debt is serviceable.

We might reach a stage or point at which we have to have a very frank discussion with the farm family, and this doesn't happen quickly. We'll look at all options before we ever make a final decision. But we'll work with the family and look at the situation. They may have to decide at some point in time whether they want to protect their equity, and if they do, perhaps liquidation may start, or maybe they will liquidate part of the business or a piece of the business that might not be as profitable as it could be.

We'll do this in a very responsible, proactive way, and that's how we deal with those situations, sir.

Mr. Bob Funk: If I might add something to that, with the changes that both Quebec and Ontario have made relative to quotas and how quotas will be priced going forward, I think that's one of the issues you raised as a concern.

What we have done over the course of time is to lend on relatively conservative ratios. We would not lend more than 40%, 50%, sometimes as much as 60% of the value of the quota. That was one of the pressures on producers: to make sure they could actually service the cashflow needs of those changes to their business when they were purchasing additional quota so that the change in value in and of itself would not destroy the security package that was behind the financing of that business.

The other thing that should be remembered about the farm income, in the circumstance of the changing quota values, is that the income itself is not changing at this point in time. The price for milk is not changing. The producer's ability to sell milk is not changing. That is not changing. And it really goes to what the future transactions in respect of the purchase of quota and the sale of quota will do.

The Chair: Merci.

Mr. Atamanenko.

Mr. Alex Atamanenko: Thank you, gentlemen, for taking the time to be here.

We've heard over and over again that in agriculture in Canada, everybody is making money except the primary producer, and that those people with an input and output are surviving or making money and the producer isn't.

Mr. McNeill, you talked about the cost of safety regulations being prohibitive. There are three choices. Either we retain the status quo, and ultimately the cost gets passed down to the person buying, the producer; or there is some kind of government intervention, and if that's the case, I'd like to know what you have in mind and how that would be worked out. And here again, we have the philosophical question that if there is not enough money to go around to support farmers directly, should government be intervening to support industry? So I'd like your comments on that. I guess the other possibility would be that we would have fewer regulations. So if there are fewer regulations, then this cuts down the costs.

If possible, would all of you gentlemen like to comment on that?

Mr. MacKay, you haven't said anything yet. I thought I'd give you a chance.

● (1725)

Mr. Dave MacKay (Executive Director, Canadian Association of Agri-Retailers): I'm conspicuous by my absence.

There is no question, I think, of our going the direction of less stringent regulations. We recognize that these regulations are important. They're important for the security of Canadians, and the benefit does accrue to Canadians.

If we were to give you the shape of what we think would be the solution, we believe the blueprint actually already exists in the form of the example we provided. And you have notes to that effect in the appendix called the “Marine Security Contribution Program”, whereby 75% rebate to the retailer would be appropriate for all approved eligible costs that are applied for on an annual basis. It's a $115 million program. It's absolutely identical to the requirements for the retail sites.

What we require and what the new regulations are likely to bring down are things like fencing requirements, surveillance, lighting requirements. It may get even more intricate than that, but right now I want to emphasize that retail sites are in compliance with current regulations, whether they're industry-regulated or whether they're government-regulated. But the future is going to be far more stringent.

We agree that we have to do it, and not only to do it thoroughly, but do it promptly to pre-empt a potential event. What I mean by that is terrorist acquisition or criminal acquisition of some of these hazardous materials.

We believe that the blueprint is already there. It's a simple one. It has precedent in the form of the Marine Security Contribution Program.

CAAR, however, would like to further suggest that our association be the central coordinator or facilitator of a program, because we have the relationship with the retailers, and we have the expertise to work with them to bring the consulting so that these sites can be upgraded appropriately and quickly. With that, we can be the central coordinator if you so choose, even doing on-site consultation with some of the members as well to bring them up to code, up to regulation. We think we could work hand-in-hand with government to do that.

Mr. Alex Atamanenko: Does anybody else have any comments on that?

Maybe I'll pursue a second question.

If the threat of terrorism is one of the factors that's in this game, maybe government should be playing more of a role directly. Let's not beat around the bush. If that's one way we feel we can be more secure, rather than taking money out of agriculture, maybe there should be some other funding coming in. What are your comments on that?

Mr. Dave MacKay: Do you mean other than what's suggested, for example, in the retail approach?

We welcome any assistance from government at this point. We all want to deal with this from a standpoint of being proactive, as opposed to being after the fact reactive if, God forbid, an event were to occur. That wouldn't be good for government or the sector—or for Canadians, of course.

We'd be amenable to talking about any solutions, as long as they meant that it would get toward prompt compliance with future regulations—maybe doing it before government mandated the regulations. That's why industry would like to step up, move this forward as fast as possible, but obviously not at the expense of the economic viability of the retail sector.

Mr. Alex Atamanenko: I have time, I guess, for another short question.

Statistics that we've talked about show that the farm income decline was severe and is severe particularly for the medium-sized farms, and of course for small farms. What should be the primary focus of agriculture policy in Canada? If assistance is given, should it be to try to maintain that family unit in our rural communities, with a spin-off effect obviously being that people are there, and they buy and they go to school and they contribute? Or should it be shifting away to helping to promote the whole agricultural sector and some of the big businesses to keep us competitive, thereby depressing our population growth in small communities?

Are there any comments from the bankers?

Mr. Brian Little: I think there's probably a place for both groups. The small family farm that has some sort of specialization, a value-added niche market, can survive by taking the extra steps, whether that's agri-tourism, eco-tourism, or a special kind of production. There's also room, I think, for the corporate family farm—the large family farm that's cropping more acres, or more livestock enterprises. There's a spot for them in Canada also.

I think there's a need for both. Both will survive.

The Chair: Thank you.

Madam Guarnieri.

Hon. Albina Guarnieri (Mississauga East—Cooksville, Lib.): Let me ask, if you'll permit me to ask a more general question, about the philosophy surrounding government intervention.

In many countries, of course, there are subsidies for producers, and in Canada we see more support for insurance programs and for market allocation measures such as quotas.

Do you think farmers would actually be better off in the long run with stable and predictable subsidies combined with flexible financial products from banks, such as payment option loans that could carry farmers through crop failures?

You mentioned that the banks recognize the cyclical nature, the peaks and valleys that farmers experience. And farmers always appear to get credit; I think that was the other comment that was made. When there's a crash, or when there's some kind of catastrophe, government always steps in.

Do you think that payment option loans would be a feasible way to go?

● (1730)

Mr. Bob Funk: Let me take a cut at responding to that.

Hon. Albina Guarnieri: I didn't see you as against, did I?

Mr. Bob Funk: No, because what you're suggesting is already out there. It is broadly available through all the financial institutions that are members of the CBA.

Everybody has flexibility in their products. Basically when they work with clients, they establish repayment schedules over a specified period of time. As and when difficulties arise for those farmers, an opportunity is always built in for the customers wherein the payments can be set aside for a period of time until the situation fixes itself.

We reference the BSE issue, where there were clients who made no payments on principal loans for two and a half years because of the way circumstances went.

The objective we have is to make sure we have the patience to help us work with whatever comes down for the producer, because it will eventually turn itself around. We don't want businesses shut down prematurely. We also want to support governments as they take action to provide programs.

The other responsibility that we have as lenders is to say at what point a business is not going to be viable even when things do turn around. It is a judgment call for financial institutions. We clearly don't want to own farms. We clearly don't want to see people go away broke. Our goal is to say at what point you should be counselled to take another course of action, take the equity, invest it in another way, and do something else. Those are the kinds of decisions and processes we would go through.

Government chooses what it wishes to do. Our goal is to make sure the process is as clean, as amenable, and as supportive of the farm client as possible.

Mr. Brian Little: To add to the point Bob made, during BSE, droughts, floods, and the avian influenza, when we offered the program to our clients, approximately 20% of our customers took advantage of it. Only 20% deferred payments. There was very low participation because of the desire to carry on and keep going.

Hon. Albina Guarnieri: That's interesting.

To anybody who would like to answer, is it the view of the panel that government should really be a provider of incentives and subsidies rather than insurance programs and quotas? Should we leave it up to the unions and the market?

Mr. Bob Funk: I'll take the first run at that.

I think the opportunity for businesses to do well is the best when the marketplace is the best. If you know the revenues you can get when you have a viable level of revenue that you can extract from the sale of a certain type of product, if you know what the costs of production are going to be, and if those factors can be managed in the context of a market that is mature and stable, it is the ideal world.

We know Canada is not the only game in town. We have to compete with everyone else when offering products to the market and suffering changes in respect to the climate.

Australia is going to potentially have 60% less wheat on the market than they have had in past years. What does that do? For our farmers here, it offers an opportunity under these circumstances, but I think it's a pretty bittersweet kind of opportunity.

I guess the bottom line is that I don't believe organizations can really put into place programs that can foresee all of those factors, protect the industry, and create total stability.

I think we have to accept that, as has been the course over time, the marketplace will have swings and it will have cycles. We have to find ways to support industry through those, but I don't think there's too much that can really be done. Nobody has enough money to dampen the cycle to zero.

● (1735)

The Chair: Thank you.

Mr. Anderson.

Mr. David Anderson (Cypress Hills—Grasslands, CPC): Thank you, Mr. Chair.

This is a bit of a comeback to Wayne's earlier question.

In your presentation you said, “Participants also expressed the need for predictable and bankable programming.” We have heard that many times from farmers, and we hear all the time that we need a predictable and bankable program. I suspect the definition of “bankable” might be a little different for farmers from what it is for bankers. What do you want to see or what do you need to see in a program to call it bankable?

Mr. Bob Funk: I'll see if I can take a run at that, because I've taken several runs at that. I'd like to refer, perhaps, to CAIS.

We have situations in our respective banks at this point in time in which we're still waiting for payments, and not just for the last year, but in some cases for the year before. It has to do with the fact—which we talked about before—that the program was implemented really quickly, implemented in difficult times. A shock was laid on the system immediately thereafter. It caused a multiplicity of actions to occur. Evaluation of those programs became difficult, and the response of the program itself could not be as effective as it should have been.

So what do we change to make it bankable? The first thing is that if I am a farmer on the prairies, for example, and I grow crops, I can buy crop insurance. I get a piece of paper that says I'm enrolled in crop insurance; here's the acreage that I've enrolled; here is the value per acre that I've enrolled for, so that's what my crop insurance payment is worth.

If CAIS could approach that—or “son of CAIS”, or whatever we are going to deal with going forward—and give us evidence of enrolment, clients could come to us and bring a piece of paper and say “We are enrolled in this program”, and then say “Here's the clear measure by which our reference margins are going to be calculated”, so that if we're going to deal with reference margins, this is what they are worth so that we know something about what the revenue level that is supported by that program will be. Those are probably the two key things that would help us. If we had documentation, that would make it bankable. Then you could treat a payment that you were waiting for like an account receivable.

When you don't have that evidence, you can't treat a payment that you're expecting. If you don't know what it is, when it's going to arrive, or how big it's going to be, you can't treat it as an account receivable. So that would add clarity.

Mr. David Anderson: Can a margin-based program come to that point?

Mr. Bob Funk: I believe it can come close. It may not be exact, but even in a crop insurance program it may not be exact, because you always have dates and times when you add acreage. You subtract acreage and that sort of thing. So you've always got a range, but at least it would get us very close.

Mr. David Anderson: I've always been a strong supporter of a strong crop insurance or insurance program, because it is predictable, and it's clear what your coverage is on that.

I have another question. Earlier we heard that there's zero net income across the board in the farm sector, and we keep hearing that all the time. Why do you lend into a situation like that? And why do you keep increasing your lending into a situation like that? What's the paradox?

Mr. Bob Funk: I don't believe it is a paradox. I think the situation is that when we're talking about the net income being negative, most of the time we're talking about that before the level of payments come in. When we talk about an agricultural industry, we know that around the globe, agriculture is an industry that has political support at all levels. It's considered a staple industry. How do your people get fed in your country, and are they able to generate income? That's a key part of government policies around the world. So I don't think that's really a disconnect.

But when groups talk about net income, they would like to, ideally, be soundly profitable without any kinds of payments. If we then look at our clients, we look at everything that happened in their business. So they've got the natural revenue from the sale of the products that they sell. In addition, they've got revenue from the payments that were due them from whatever insurance programs or whatever support programs fell their way. In that context, the ability of those producers to survive over the course of time has been very strong.

If we look at our trending in the organization I work for, the number of problem loans that we are seeing today is not significantly higher than what it was five years ago.

● (1740)

Mr. David Anderson: You're comfortable lending into a situation in which people's income is dependent on government payments?

Mr. Bob Funk: What we are comfortable doing is working in an industry that we know has a large political aspect to it. Whether you are lending in the U.S. or Canada or the U.K. or Australia or wherever, you have various levels of involvement of government that will result in payments being made to producers. So it doesn't matter whether I like it or not, and it doesn't matter whether I would prefer that or not. What we need to look at when a credit application is put in front of us is what this producer faces going forward.

Mr. David Anderson: In terms of biofuels, the price of oil is coming down. Do you have any analysis of your commitment to the biofuels industry in Canada over the next few years, given the volatility that we see in some of the energy prices?

Mr. Bob Funk: Brian, you'll probably have a word on this too.

I'm going to some research that the George Morris Centre in Guelph has done. My cut on this is that they find it easier to find sound economic factors that would let us show really good, strong growth in the biofuels sector if we were looking at biodiesel—easier than with ethanol, largely because ethanol requires a really strong support program, has done over the course of time, and has it in the U.S., and if we want to have an industry like it here, we'll probably have to do something in the way of matching that, if we choose to play.

But it's a little more difficult to find it there largely because our natural feedstock for ethanol is wheat, whereas the natural feedstock in the U.S. is corn. So except for Ontario and to a certain extent Quebec, we have to look at a bit different technology from what they use there.

The Chair: Thank you.

I have a quick question for CAAR.

I appreciate you guys coming in and making your presentation based on business risk management for your businesses. Security around your businesses is good for our communities.

The question I want to bring up, though, is how things in the farm economy are affecting your businesses right now. When you know that farmers are dealing with farm programs, how has that affected the way they do business with you? I know that a lot of the ag retailers are no longer offering credit, probably to the glee of our financial buddies who are here today. It used to be that there was some credit available at your stores.

We also are seeing a situation right now where, last year and again this year, input prices are going through the roof, compounding the problems a lot of the producers are facing. I just want to get a feel of that from you before we dismiss.

Mr. Ian McNeill: From our point of view, our health is in direct relationship to how the grower is doing out there. This year the inputs have gone way up, but farmers are a lot more optimistic about what they think they can receive next year, and many of them are locking into higher prices. But things happen; weather and other factors happen out there. We had a member who had two or three locations in northeast Saskatchewan. With two years of wet weather, he's out of business this past year.

Whether factors such as the high cost of inputs—and it's directly related to fertilizer this year, and fuel has gone up over time.... We go with the farmer, and he tends to buy more crop inputs and puts on more products if he has a good crop coming and can see a reasonable result at the end as far as income is concerned.

The Chair: Thank you.

Do you have a short question?

Mr. Roger Gaudet: Yes; it's for you.

The Chair: For me? Okay.

Well, I'll tell you what I want to talk about really quickly here. I want to thank all of you for your presentations.

I want to hold the committee for a minute. You're free to go, as witnesses.

I'll just let you know that we got our travel budget approved at the liaison committee. We still have to get it through the House, which I believe will happen tonight or tomorrow, and I don't anticipate any problem.

My understanding is that we'll be going with three Liberal members, three Conservative members, one Bloc, and one NDP. We need to make our travel arrangements to get out to Penticton and work our way back.

I have questions first from Mr. Gaudet, and then from Mr. Miller.

● (1745)

[*Translation*]

Mr. Roger Gaudet: I would just like to make a brief comment. I would like to wish Happy Easter to all my colleagues and to all employees. At the same time, I would like us to start at 3:30 p.m. and end by 5:30 p.m. at the latest. That is another Easter wish of mine.

[*English*]

The Chair: We didn't start at 3:30 today, unfortunately.

Mr. Roger Gaudet: Okay.

The Chair: We didn't set off until about twenty minutes to.

Mr. Miller, your question?

Mr. Larry Miller: At the start of the meeting on Tuesday, Wayne and Paul, your crew indicated that you would go with four if you could. How come—

Hon. Wayne Easter: Well, I think we decided that if we can't be absolutely sure we'd have four—and I don't want to get into the situation where we have three there and put you folks in a box—we're better off with three, and we can be sure that we have three there, Larry.

Mr. Larry Miller: You couldn't guarantee four?

Hon. Wayne Easter: It's possible somebody might want to come back in a couple of days, and that's just going to complicate the thing, so let's go with three.

The Chair: Mr. Anderson.

Mr. David Anderson: Are we in camera?

The Chair: We're not in camera.

I want to bring up—I think I talked to some of you informally—that there was a request from Newfoundland. The budget is set, the motions have been carried, so it's something we'll have to deal with at a later date.

I think the decision was made to bring them into Truro or bring them into Ottawa.

Hon. Wayne Easter: Bring them to Ottawa. We've done that before.

Mr. David Anderson: The problem with the way the schedule is set—Wayne and I talked about this—is that it takes us away from.... It starts at the beginning of the week in eastern Canada and works this way, so it's impossible to add on at the end of it.

Hon. Wayne Easter: It's impossible to change now, I think. If it were the end of the week in Prince Edward Island, or at least the Maritimes, and even if a delegation of four of us plus staff would have gone over to Newfoundland on a Friday, I think we could have done it. We're just too late, thinking of that now. And it's nobody's fault; it just would have been better.

I think, James, you need to be able to say to Newfoundland and the Federation of Agriculture that the committee will try to accommodate them another time, and we'll go there—

The Chair: We'll do it in May sometime.

[*Translation*]

Mr. Roger Gaudet: Mr. Chairman, will you be travelling with the three Conservative members of Parliament, or are there three Conservative members...?

[*English*]

The Chair: That includes me.

Mr. Larry Miller: I guess we will do that Newfoundland thing soon, right after—

The Chair: As soon as is possible. When we're travelling, we can put forward the motions and put everything into place. We don't have the 48 hours' notice to do anything right now.

Hon. Wayne Easter: Not a good place to go, for you, these days. I remember Newfoundland—

The Chair: Anyway, that said....

Some hon. members: Oh, oh!

The Chair: I'm going to wish everybody a happy Easter, on that note.

The meeting is adjourned.

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