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Chair

Mr. Pat Finnigan

Standing Committee on Agriculture and Agri-Food

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● (1100)

[*English*]

The Chair (Mr. Pat Finnigan (Miramichi—Grand Lake, Lib.)): Welcome, everyone, to our meeting pursuant to Standing Order 108, the study of debt in the agriculture sector and its effects.

I want to welcome our guests here today.

I also want to welcome the Honourable Gerry Ritz, the former Minister of Agriculture and Agri-Food. It's good to have you here today.

[*Translation*]

We also welcome Alupa Clarke, who is replacing Mr. Gourde.

[*English*]

With us today from Agriculture and Agri-Food Canada we have Tom Rosser, assistant deputy minister, strategic policy branch. We have also Kara Beckles, acting director general, research and analysis directorate, strategic policy branch.

From Farm Credit Canada we have Michael Hoffort, president and chief executive officer. We have Jean-Philippe Gervais, vice-president and chief agricultural economist with FCC.

Welcome, all of you.

We'll start with an opening statement of up to 10 minutes, and I believe, Mr. Rosser, you're going to lead the way.

Mr. Tom Rosser (Assistant Deputy Minister, Strategic Policy Branch, Agriculture and Agri-Food Canada): Mr. Chair, this is my first opportunity to testify before this committee since joining the department. I'm very pleased to be here. I'm very pleased to be accompanied by Kara Beckles, the acting director general of our research and analysis directorate, which serves as the economic advisory group of the department.

[*Translation*]

Canadian farms—like businesses in all sectors—use loans as a tool to undertake investments that allow them to innovate and grow their operations. Canadian farms today are, overall, on solid financial footing. At the same time, many current baby boomer farmers are expected to retire over the next 10 to 15 years, and many will transfer their operations to the next generation. The government has programs in place to assist in that process and help young and beginning farmers to establish themselves.

Over the past years, many areas of the Canadian agricultural sector have experienced record incomes. The financial outlook continues to be positive. While we forecast that net income will decline somewhat in 2016 and 2017—by 2% in 2016 to $14.8 billion, and by a further 7% to $13.8 billion in 2017—we expect those to be still the second and fourth best years on record.

Over the medium and long term, we see Canadian agriculture benefiting from the increased global demand for more and better food, which is expected as a result of a growing global population and rising household incomes in developing economies. Over the past years, new technologies have increased productivity of Canadian farms.

With good income, increasing profits, and low interest rates, farm businesses have been investing in their operations, including purchasing farmland to expand their operations. This positive outlook has increased farmland values and debt.

However, since farm assets have increased to a much greater level than debt, farms' net worth has increased. In February, Statistics Canada released the Farm Financial Survey numbers for 2015. They show that while average debt increased to $600,000 in 2015, average farm assets climbed to $3.4 million, meaning that average farm net worth reached $2.8 million.

Producers' ability to manage their debt depends on their income. Given increases in farm incomes and low interest rates, we see that farms are generally in a very healthy position to service their debt. Over the past years, producers' incomes have grown much more than their interest expenses, meaning that they are in a much better position to meet their financial obligations.

Nonetheless, even in generally good times, farms are subject to several risks, such as weather and disease, as well as changes in commodity prices, exchange rates and interest rates. While interest rate risk is usually top of mind when talking about debt levels, in agriculture, it is actually crop prices and the Canadian exchange rate that have a much greater impact on farm financial health.

[*English*]

In recognition of the production and market risk beyond farmers' control, the federal, provincial, and territorial governments have put in place a suite of business risk management, or BRM, programs to assist farmers in dealing with these risks. Since 2013, these BRM programs have provided more than $5.6 billion in support.

AAFC's advance payments program, or APP, helps farmers manage their cash flow over the production year by providing access to low-interest cash advances. The loans give farmers flexibility to time the sale of their products based on the right market conditions, rather than the need for cash flow.

● (1105)

I'd like to talk briefly about young and beginning farmers. They, of course, are the future of the industry. Young farmers are more likely to be innovators, and more likely to invest in their operations. However, young and beginning farmers require access to significant financial resources to get started. To help young and beginning farmers, the federal government has in place a number of programs to facilitate access to capital, such as the Canadian Agricultural Loans Act, or CALA, which provides loan guarantees for investments. Also, as you'll hear more details shortly, Farm Credit Canada offers a number of special programs and services.

In addition, under Growing Forward 2, the government provides funding to the Canadian Young Farmers' Forum, Farm Management Canada, and provincially delivered cost-shared programming for resources to help farmers develop business plans and strengthen their management skills.

[*Translation*]

Canadian agriculture is changing and evolving at great speed. We see Canadian farmers adopting new technologies and taking advantage of new market opportunities here at home and around the world. Federal and provincial governments are supporting these efforts with programs that encourage the adoption of new technologies and practices, and strengthen required management skills. The result is greater capacity among farmers—those who are well-established and those entering the industry—to benefit from opportunities and to manage challenges and risks.

To summarize: the increasing debt levels that we see in agriculture are indicative of farmers using debt as a tool to increase their competitiveness and to grow. Producers' assets and net worth have increased much more than their debt levels. Canadian farms are generally in a good financial position, and the outlook for the sector remains positive.

Agriculture and Agri-Food Canada, together with its portfolio partners and its provincial and territorial counterparts, has policies and programs in place to help current farm operators manage production and price risks, support young and beginning farmers in establishing and growing their operations, and assist farm families with the transfer of farm operations to the next generation.

Thank you.

I am looking forward to your questions following Mr. Hoffort's remarks.

The Chair: Thank you, Mr. Rosser.

[*English*]

Mr. Michael Hoffort from Farm Credit Canada.

Mr. Michael Hoffort (President and Chief Executive Officer, Farm Credit Canada): Thank you, Mr. Chair, and good morning honourable members.

It's a pleasure to appear before the Standing Committee on Agriculture and Agri-Food on behalf of Farm Credit Canada, FCC. My name is Michael Hoffort. I am the president and CEO of FCC. With me today is Jean-Philippe Gervais, our vice-president and chief agricultural economist.

Today, we want to share with you our insights on the debt level in Canada's agriculture sector, as well as provide some context and perspectives on some of the numbers, which Assistant Deputy Minister Tom Rosser referenced earlier in his remarks.

By way of background, FCC is a commercial crown corporation with more than 100,000 customers and a portfolio of approximately $30 billion. The vast majority of our customers are small to medium-sized family-run farm operations.

My family's story is rooted in agriculture. It is because of this heritage that I chose a career in the industry. After completing my education in agriculture economics at the University of Saskatchewan's College of Agriculture, I joined FCC as an account manager, and have spent nearly three decades serving the industry I am extremely passionate about.

As an account manager new to FCC, I cut my teeth working in the depth of the farm debt crisis of the 1980s, when most of our time was spent working with farm families to resolve financial challenges brought on by a perfect storm of record high interest rates, collapsing commodity prices, and, in many areas, severe drought. This experience of the industry, and all who worked through it, confirms the importance of today's topic.

Reflecting on our industry's history, and all the positive things that have taken place since those challenging days, it is not just financial relationships, it's the human element that drives me and our employees in offices across the country to do everything we can to ensure the success of our customers. At FCC, agriculture is our passion. We are focused on delivering financial solutions to farmers and farm families, and we know this is a significant responsibility.

Today, FCC holds over one quarter of Canada's total farm debt. We want to ensure our customers are successful, no matter what challenges they may face, or what stage they happen to be in their business life cycle, whether they are just starting out, expanding their operations, sustaining their farm size, or in transition to the next generation.

From my own experience, I know the vast majority of farm operations are passed down from generation to generation, and this continues to be the case, as confirmed in the last census of agriculture. It showed 98% of Canadian farms are family owned and operated, often in multi-family or multi-generational farm structures.

We pride ourselves in delivering customized products and services for the agriculture industry. Through the FCC young farmer loan and, more recently, our young entrepreneur loan, FCC is improving access to capital that allows young people to enter the agriculture value chain, grow their businesses, and pursue their dreams. Our transition loan builds on pre-existing relationships between a buyer and a seller, usually a patient seller such as a parent, relative, or neighbour, to help young farmers start or expand the farm with a lower than standard down payment.

We believe the future outlook of the Canadian agriculture industry is positive on the whole. Our confidence comes from an industry that is diversified in what it produces, augmented by Canada's international reputation for consistently producing safe, high-quality food. It's important to note that while demand for agriculture commodities remains strong, commodity prices have declined over the past couple of years due to increasing world supplies. A weaker Canadian dollar relative to the U.S. dollar continues to partially shield Canadian producers from softer commodity prices that are strongly influenced by the dynamics of the U.S. market.

At FCC, we also understand agriculture is a cyclical business. We stand by our customers through all market conditions and throughout every phase of their business life cycle. We take a long-term view of agriculture. We monitor current trends, and provide economic insights and forecasts to help producers to make informed business decisions.

In recent years, we have largely looked through the lens of a booming farm economy, supported by a long stretch of increased production, strong demand for agriculture commodities, and favourable interest rates. At the same time, Canadian producers have made significant investments in land and technology, and diversified their operations. Farmers have always been quick to adopt new technology, which is why Canada is ranked second in global agriculture sustainability, according to a recent study by the intelligence unit of *The Economist*.

During this period, farm asset appreciation has mostly kept pace with farm debt levels. This is largely due to the continued appreciation of a key asset, farmland. According to our latest annual farmland values report, which we released just yesterday, the average value of farmland across Canada increased by 7.9%, the latest increase in a 25-year trend.

● (1110)

However, the report also shows that substantial farmland value increases of recent years are losing steam. This is the third consecutive year the rate of increase declined year over year and is in line with our expectations of a soft landing for the farmland market.

Strong income, increased profitability, and low interest rates have pushed up asset values, which in turn drive up demand for credit. As a result, in 2015 we saw an increase in farm debt that for the first time in many years exceeded farm asset appreciation. Yet the ratio of debt to asset values in 2015 remains lower than the 10-year average.

A low ratio provides financial flexibility to Canadian agriculture to leverage investment opportunities or face unexpected challenges that could arise. It is also important to emphasize that net worth in Canadian agriculture also kept rising, a sign of a healthy industry.

As Canada's leading provider of agricultural financing, we encourage producers to allow for flexibility in their balance sheet, as well as ensure sufficient working capital exists to guard against unfavourable changes in economic and market conditions.

While a low debt-to-asset ratio is healthy, this is nonetheless a secondary measure of the ability to repay debt. A primary measure is always income. On that basis, the outlook for Canadian agriculture is positive. The global demand for agriculture products remains strong. Minimal increases in farm input costs as well as a low Canadian dollar should continue to buffer producers from the impact of possibly lower cash receipts.

Even so, we are actively encouraging farmers to identify efficiencies in their operations to counter any potential drop in revenue and ensure the long-term profitability of their operations. We recognize Canada's producers and agribusiness operators use a number of strategies to manage risk in an increasingly sophisticated and dynamic industry. FCC offers a wide variety of free learning opportunities to help producers make effective business decisions, including workshops designed to help producers improve their bottom line and strengthen their business.

This is what makes FCC unique among other lending institutions. We are a stable and steady presence in the marketplace. We are not publicly traded, we are accountable to our shareholder, the Government of Canada, and our only focus is on the success of Canadian agriculture and our customers.

Our business is built on strong customer relationships. This means taking the time to understand our customers' business and ensuring that they have the products and services they need to grow their farm operations and agribusinesses.

It also means lending responsibly by making good loans to producers with solid business plans and encouraging our customers to have a formal risk management plan. Because of this practice and our focus on risk management, it bears noting that more than 99% of FCC's portfolio is performing and in good standing, which means customers are paying back their loans as per the agreed-upon terms.

While we know sector challenges exist, our industry is still in a very strong position. With this responsibility, it's important we also extend a cautionary message to the industry about the current trends and to ensure individual producers have the knowledge and the tools they need to prepare for tighter and more volatile times.

As a proactive measure, FCC has recently published a series of weekly blog posts on farm financial fitness, copies of which we have provided to the committee today. Developed by our agriculture economics team, these posts provide producers with valuable information, tips, and tools, and advice on how to manage their farm business and operations, plan for unexpected challenges, and work through them.

At FCC we are aware that other financial institutions play a significant role in the agriculture lending market. We believe that healthy marketplace competition and a choice of financing options is good for all Canadian farmers and agribusiness.

Agriculture is a robust contributor to the economy that requires capital from all of us: banks, credit unions, and FCC to achieve its full potential. That said, FCC is the only financial institution solely dedicated to advancing the business of agriculture, and we've done this successfully for the past 57 years. We add value to our commitment to provide expert knowledge and services for the evolving needs of the people who work in this great industry every day. No matter what changes take place, FCC will continue to serve as a strong and stable partner to the Canadian agriculture industry.

At FCC, agriculture is our business, and we will support Canadian producers in the face of challenging circumstances and celebrate their success as well.

Thank you for the opportunity to speak to you today. I look forward to any questions the committee may have.

● (1115)

The Chair: Thank you, Mr. Hoffort.

We will start our questions by welcoming Mr. Shipley back to this hemisphere. I'll give you the first six minutes.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you, Mr. Chairman.

Welcome to our witnesses.

In the background, farm debt in Canada accumulated about a 600% increase from 1981 to 2015, some 24 years. It stabilized fairly well up until about 1995, and then it started to escalate up. Do you have any indications of where that takes us now, 2015 to 2020, and what the outcomes of that might be?

Mr. Michael Hoffort: I'll turn that over to our economist, J.P. Gervais. We do some work in that area.

Mr. Jean-Philippe Gervais (Vice-President and Chief Agricultural Economist, Farm Credit Canada): No doubt there's been a tremendous increase in farm debt, but I would say that this coincides as well with the increase in farm cash receipts that we've witnessed as well, with record highs reached in recent years. I think you did mention 1994 as sort of a starting point of the growth. If you look at the last 10 years, 2005 to 2015, there's been a tremendous growth in farm cash receipts, which I think speaks to the success of the industry.

As to addressing where that takes us from now, I think we need to have realistic expectations about the next 10 years. As much as we are optimistic about the future, I think it's more realistic to expect that the next 10 years will not necessarily look exactly like the past 10 years. The past 10 have been influenced by really strong prices. A bit weaker prices...and I think the growth in cash receipts or income at the farm level will come mostly from productivity, which is driven by the investments that have been made up to now.

To me, that means we're well positioned for success, but it's certainly something to monitor in the future.

Mr. Bev Shipley: One of the things I always get a little bit concerned about, I guess, is the cash flow. We can have all the net worth we want, but the issue is that we still have to pay the bill. The concern, when we watch land prices move from $1,000 an acre to $20,000 an acre, is the cash flow. I know it gets extenuated out onto assets that are owned. Is it a concern in terms of, one, the interest rate?

To Farm Credit, what is the tipping point on interest, or the trip for the red flag—the point at which a number of producers will start to get into trouble?

● (1120)

Mr. Michael Hoffort: Yes, it's something we also do work on in terms of stress-testing loans that we would make for producers and our overall portfolio.

The answer to that question really revolves around how far it goes and how fast it moves. If there's very little time to adjust, I think that creates more challenges, for sure. Our expectation is that 100 basis points or even 200 basis points of increase in interest rates over a period of several years is something that the industry would be able to adjust to. If we move very rapidly through that same type of a cycle, 200 basis points over several months versus years, I think that would put some pressure on some operations to adjust. There is flexibility within our book. Based on the average amortization we would do on a new mortgage loan it would be less than 20 years.

So in terms of people stretching out their loans and some of the options we would have to adjust to that, I think there are lots of things we could do from a financial institution perspective to help provide some cash for relief in a really extreme circumstance. But yes, a return to what would be maybe more normal rates historically, in a very rapid fashion, would create some cash flow challenges, without a doubt.

Mr. Bev Shipley: Those are not large increases in interest. I remember the 1980s.

Mr. Michael Hoffort: Agreed. But going from three to four up to six to seven would be a significant adjustment, without even getting close to some of those double digits we would have experienced back in those days.

Mr. Bev Shipley: We have a program that works around....

Well, first of all, do you track how many people use the advance payment program, Mr. Rosser?

Mr. Tom Rosser: No, I'm afraid I don't have the number off the top of my head, but I would be happy to get you some information on the utilization of that program. We can certainly get that information for you, unless Kara knows—

Mr. Bev Shipley: I think it's a program that's well advertised, I'm just not sure how many actually use it. Obviously it has a great benefit. A government will often get asked, if it doesn't give enough, if it should be a higher limit because of the size of the operations. I would just be interested in knowing how many utilize it. Perhaps you could provide that.

Mr. Tom Rosser: Mr. Chair, absolutely we can get back to the committee on that, in short order.

Mr. Bev Shipley: Okay.

Mr. Hoffort, once in a while I'll hear about an "interest only" loan. How does that work, and who would be availing themselves of that?

Mr. Michael Hoffort: We have a few products in that category.

One that we would have marketed in years past is called plant now, pay later. Think of a vineyard that's getting established. We would do the financing. It would be interest-only for a period of say three years, as an example. Principal payments would start to kick in once the income started to flow through, similar to that of a construction loan.

We have another loan product available called the advancer, which has some interest-only attributes to it. It is a small percentage of our book, but it is available to all producers, typically focused on producers trying to balance an overall balance sheet, in terms of that side of things. It is available, as I said, to all of our customers.

The use rate would be well less than 20% in terms of the uptake on all of our products in that interest-only category, though.

The Chair: Thank you, Mr. Hoffort and Mr. Shipley. The time is up.

Mr. Peschisolido, for six minutes.

Mr. Joe Peschisolido (Steveston—Richmond East, Lib.): Mr. Chair, thank you.

Guys, thank you for appearing before us on a very important issue. I have a lot of farmers in my neck of the woods, on the east part of the riding, Steveston—Richmond East.

I wanted to follow up a little bit on Mr. Shipley's question, but talk about the nature of our country. The farming industry in B.C. is different from that of Atlantic Canada, which is different from that of Quebec, Ontario, and the Prairies.

Have you found any regional differences? This can go to both Agriculture Canada and Farm Credit. Is there a strategy in place to deal with that?

● (1125)

Mr. Michael Hoffort: I can address that, Mr. Chair, to start.

We would see differences in terms of farm debt levels, based on industry as well as on geographic location and income potential. Typically it all revolves, though, around that income potential. You'll see it in ridings. The Lower Mainland of B.C. will be a high-priced land area, and stuff like that, very confined, but from an income-opportunity perspective, it matches up with some of that piece, as well.

We would see differences depending on whether it's a prairie grains and oilseeds farm, a cash crop in Ontario, or a dairy in Quebec. All of these operations would have slight differences in the amount of debt they would carry, their leverage ratios, but it would be consistent with what you'd expect from stability of income and also from income opportunity and whatnot. That would be a key driver on those decisions.

Mr. Joe Peschisolido: Would there be any difference between a smaller operation and a bigger one? Does that impact on efficiency, on ability to carry debt?

Mr. Jean-Philippe Gervais: Eighteen months ago we released a dairy report, basically looking at the outlook for the dairy industry. One of the things we had in this report looked at the efficiency ratio, operating costs over revenues for small, medium, and large enterprises.

What we found was that if you measure production efficiency in terms of operating expenses versus revenues, it doesn't matter if you're small, medium, or large. It doesn't mean that a small operation will turn as much profit as a large one. What it means is that we have small producers that are very efficient, and large producers that have a bit of room to improve on their efficiency. The size of the operation, when it comes to efficiency, doesn't matter much, especially for dairy. I would say that it's the same across our portfolio for grains and oilseeds, and other sectors as well.

Mr. Joe Peschisolido: You also talked about the differences in sectors.

In Richmond East we have a lot of berries, but we also have cabbage. We have some dairy, and even some cattle.

Have you found a difference in the sector, and if so, what can we do to be helpful? We all have to eat, and I prefer to buy our stuff from Canada rather than from overseas.

Mr. Michael Hoffort: From a farm debt perspective, sector-wise, as I say, it does come a little bit more into the structure of the industry. You might find that a dairy operation or a poultry operation might have a little bit higher leverage ratio, just because of the consistency of some of the income expectations prevalent in that industry. I don't think it necessarily puts them in a higher-risk category than that of a grains and oilseeds farm, which has more income fluctuations based on production risks that can take place there.

You do see some subtle differences between the industries, but I don't know if I could really point to something from a policy perspective that you'd be able to drive into that would make some substantial headway.

Mr. Tom Rosser: The only thing I was going to add is that we have done a bit of analysis on farm debt levels by farm size and by income level. What that showed, in general, was that debt levels tended to be higher with larger, higher-revenue operations, and that a significant portion—30%, if memory serves—of the lower-revenue farms were actually debt free.

I should note, Mr. Chair, that I know that colleagues from FCC have distributed some materials to the committee. We too have done some analysis on farm debt levels that we'd be happy to share, if it would help to inform the committee's work.

Mr. Joe Peschisolido: The FCC is a fascinating concept.

Banks and you guys: what's the difference? Why are you there and how can we be helpful to you in helping farmers?

Mr. Michael Hoffort: Regarding FCC and why we exist, it really goes back to where we came from. The first organization that was part of our organization was the Farm Loan Board, and it was established after the dirty thirties. There were no mortgages available to farmers post that period from the private sector FIs, so the Government of Canada established that organization.

The other organization that was part of our foundings was from the veterans land administration act, which was after World War II, to settle the vets. An organization was set up to do that. We were brought together in 1959 and really have provided a lot of the mortgage financing for Canadian farmers from that time forward. That would be our primary area of participation. Of course, that has expanded as the industry has changed, with regard to equipment and to being able to provide some really unique operating types of facilities and also with regard to the agribusiness and agrifood sector.

We're not a deposit-taker. The chartered banks of Canada would be much more active in the operating loan area. We provide an alternative in every area of Canada and in every community in Canada that's involved in agriculture. There's that consistent availability of credit no matter where you're located.

When I look at the organization, what's unique about us is that we're only in agriculture; we have nowhere to go. When things are good, we're in and we participate fully, and when things get tough, we go nowhere. We stay in and we participate fully. That would be different from some of the other FIs that could make other choices if, for example, there was a robustness in the economy somewhere else where they could play a little bit more than in agriculture. Those things are their reality but not ours. I think there are some subtle differences, and long-term thinking is a big thing.

● (1130)

The Chair: Thank you very much.

[*Translation*]

Ms. Brosseau, you have six minutes.

Ms. Ruth Ellen Brosseau (Berthier—Maskinongé, NDP): Thank you, Mr. Chair.

I would like to thank all the witnesses here as part of this very important study.

I would like to start with a question for you, Mr. Gervais.

A report from Farm Credit Canada explains that the increase in the value of farmland has again slowed in 2016, both in Quebec and in Canada as a whole.

The UPA said that the growth in value is not keeping pace with growth in incomes, and that a bubble is growing and creating a barrier to the transfer of businesses, which is basically damaging the long-term profitability of the agricultural sector.

Would establishing rules to govern land transfers, transactions and locations be a good way to reduce land value growth and agricultural debt?

Mr. Jean-Philippe Gervais: Indeed, the growth in land values is largely related to the increase in incomes. In some cases, as in Quebec and Ontario, land value growth has outpaced the increase in income values. On the other hand, in the Prairies, the ratio of land value to farm income is much closer to the historical average.

I say all the time that we do not know, at FCC, what the ideal ratio is when we talk about land value in terms of farm income. However, we know what the average is for the last 25 years, and even for the last 50 years. We know that the ratio will vary over time, but that it should approach the longer-term average.

That said, there are different rules. Ownership and transfer are provincial issues. So there are different rules in Quebec, Ontario and British Columbia. There is a whole range of different rules.

We've never really studied it. As far as we're concerned, we have to serve our clients, no matter what the rules are. So we are designing the best possible products to ensure that these businesses can grow.

However, it is true that in Quebec and Ontario the ratio of land value to incomes has somewhat exceeded the historical average. In that sense, we could say that land has a somewhat higher value in these parts of the country, because revenues did not exactly follow the increase in the land value.

Ms. Ruth Ellen Brosseau: Some producers in Quebec have more and more concerns. The presence of non-traditional buyers can, in fact, contribute to raising prices.

Could you comment on that a bit? I know the opinions are shared.

Mr. Jean-Philippe Gervais: Yes, absolutely.

As Mr. Hoffort said earlier, in the most recent report that came out yesterday, basically, we are seeing that the vast majority of transactions are still between producers. It's true that we can't deny this trend where what I'll call non-traditional buyers are increasingly interested in the agricultural land market, whether as investments funds, pension funds or something else.

However, the vast majority of transactions that we are observing are between producers. In fact, we are in a situation where our eligibility criteria are such that we can lend money only to farmers. That said, we still have a good knowledge of the market. The fact is that the vast majority of transactions are still from producer to producer. I would say that is the case for 95% of transactions.

Indeed, in certain localities or regions, whether it is in Quebec, British Columbia or Saskatchewan, it is true that the presence of non-traditional buyers can increase the demand for agricultural land and, as a result, help to increase the land's value or the price paid. However, this is still a very limited phenomenon at the regional level.

Ms. Ruth Ellen Brosseau: Recently, my colleague from Rimouski-Neigette—Témiscouata—Les Basques introduced a very important private member's bill intended to facilitate the transfer of family farms. There is currently an injustice, in the sense that it is sometimes more profitable for farmers to sell the farm to a stranger than to one of their children, even if the child wants to buy it to keep it in the family. Unfortunately, the bill was defeated. However, it had aroused significant interest and support across Canada. The bill was defeated by only 12 votes. We would have liked to have at least referred it to committee. In fact, we think this measure could have facilitated the transfer of farms in order to keep these businesses in our regions.

Moreover, the parliamentary budget officer tabled a fairly worrisome report. We are talking about some misinformation from the Department of Finance. It was anticipated that this bill would cost between $126 million and $249 million. The government argued that this bill would cost $1.2 billion.

A bill like this could have facilitated the transfer of family farms.

Could you comment on the importance of correcting this injustice?

● (1135)

Mr. Tom Rosser: As we said in our testimony, programs and services are in place, particularly at FCC, to help young farmers. The federal government is also administering programs to facilitate the intergenerational transfer of farms.

That said, we are open to suggestions for improving programs and services, as well as for working better with the provinces and the department's partner organizations to facilitate this transfer.

The Chair: Thank you, Mr. Rosser and Ms. Brosseau.

[*English*]

Mrs. Lockhart, you have six minutes.

Mrs. Alaina Lockhart (Fundy Royal, Lib.): Thank you to each of you for being here today.

I wanted to start by speaking about Farm Credit Canada. I appreciate your testimony in talking about how FCC is in, no matter whether agriculture is robust or not. As far as the parameters for lending are concerned, how do they differ from other commercial banks?

Mr. Michael Hoffort: In terms of our lending practices, we have our own policies and processes that we establish based on our knowledge and expertise in the industry. In some cases, they differ slightly from the banks. With our young farmer loan, we've intentionally gone with a lower down payment than would be traditional to try to make sure we're supporting some of these new entrants. The upfront payment or down payment is almost as important as what you might do with the structure of the loan and the interest rate after, given the rates we have today.

Our premise of going to market is to be very knowledgeable about our customers and to understand what they're trying to do, and in a sense, establish a debt structure, or that side of their balance sheet that makes sense for them so they can achieve what they're trying to do from a business perspective. We'll do that very deliberately, and on farm is where we do our business.

From a lending practices' perspective, our target is “all agriculture, all sizes”. Over 80% would be in that small and medium-sized category. From a mandate perspective, we think that's where the country needs us quite specifically. On paper, you might look at their policy and our policy and say that these look consistent—25% down for a farmland loaner, or whatever it might be. How that gets implemented, the time you spend, and the target sector you're after in terms of service, we serve all.... I think you might find some differences more in implementation that you might find in policy in terms of that practice.

If somebody does get into challenges from an organization's perspective, in our special loans area, our special credit area, their target is to get people back into operating and help work them through that challenge so they're back in a viable position.

I can't comment on whether everybody would put in that time and effort we would in terms of how we'd operate if someone were to have a challenge, not only on the upfront, but down the road. We pride ourselves in being able to really work with customers to get them back on track. You might find it as much in that area as anywhere.

● (1140)

Mrs. Alaina Lockhart: One thing we've heard from farmers is the cost of land for newcomers. When you have new entrants, it sounds as if what you're saying is there's some consideration for that. How do you balance the fact that there's not a lot of credit history there; there may not be the amount of capital needed on the front end?

Mr. Michael Hoffort: That's a great question.

One reality is that 95% of new entrants typically are connected to an established farm. A really nice number of new entrants are getting into agriculture; it's just as you'd want it to be. Whether those are intergenerational farms—many times three generations are in a farming operation—or multi-family, brothers, sisters, cousins working together, you draw on some of that from a credit history perspective. It's not uncommon for that established farming operation to offer some of their assets as security to allow the new entrant to get in. In many cases that's the way we would look at it.

The other side is that if you're starting very much from that greenfield operation and growing your way in, typically they would also hold an off-farm job, would have a good credit history, and would size up in a reasonable amount of time that would allow them that. You would draw on some of that as well, their off-farm, their credit experience, their behaviour, and all those things to allow you to make a good judgment that they'll be successful.

Mrs. Alaina Lockhart: Thank you.

Mr. Gervais, I had some questions for you about the debt-to-asset ratio. I understand that here in Canada it's about 16.5% for farms. Has there been a calculation to look at what would happen to that ratio if interest rates increase? That is, if and when, because they will eventually.

Mr. Jean-Philippe Gervais: Yes, an increase in interest rates would probably have an impact on the amount of debt that farms would be willing to take on, as well as, perhaps, even the asset values. If the demand for assets is weaker because of higher interest rates, because it's a little harder to make a good business plan to purchase a piece of land and turn a profit on it, then perhaps you'd see the demand for asset values slow down.

We haven't done any analyses that would look at the farm debt-to-asset ratio, in terms of what would happen if interest rates go up. I would suggest that, perhaps, it's not going to come up very fast. As I said, that would have an impact on asset values as well as an impact on debt. The two would probably balance out and somewhat cancel out. I would probably see a slight increase in debt-to-asset if higher interest rates come up, but I don't think it would put the financial situation of Canadian farms in a difficult spot.

Mrs. Alaina Lockhart: Are there any sectors that might be more susceptible to that pressure?

Mr. Jean-Philippe Gervais: The sectors that are more capitalized or that are a bit more intensive in assets would probably be feeling a little more of the crunch, especially given that maybe asset values on that are high or wouldn't climb as much as in the past. The farms that carry a little more debt because of the stability of revenues would be, perhaps, dairy and poultry farms, which historically have had a more stable flow of revenues. They would perhaps see a little more challenge on the debt-to-asset part of it.

Again, when you look at it from a lending perspective, income is the primary driver of debt repayment, and we emphasize that quite often to our customers. It's not the asset values; income is the primary driver of debt repayment.

The Chair: Thank you, Ms. Lockhart.

[*Translation*]

Thank you, Mr. Gervais.

[*English*]

Now we move to Mr. Longfield. You have six minutes.

Mr. Lloyd Longfield (Guelph, Lib.): Thank you.

Given the connection between Canada's strategic objectives of getting to $75 billion of exports by 2025 and some sectors that we're focusing on within agriculture, how closely do you match your strategic policy around debt to the strategic objectives of the government?

Mr. Tom Rosser: Certainly we are in the midst of asking ourselves how all our policies and programs enable the attainment of the target for 2025. The attainment of the target, the growth in the value of our exports, will require significant amounts of capital, both in the primary agriculture industry as well as in the processing sector. As part of a broader consideration of the role of government in enabling the attainment of the target for exports, certainly access to capital is an important consideration.

● (1145)

Mr. Lloyd Longfield: That's a very good answer.

I was hoping that was where we were heading, but I'm also thinking along the lines of Ms. Lockhart. With the proportion of debt that's tied up in land, you can be asset rich and cash poor if you're trying to invest in new technologies or enter new markets that maybe you've never farmed in. Is there something around the mix of land debt to debt for innovation, let's say?

Mr. Tom Rosser: Certainly when we look at the data, it's true. I think somewhere in the order of 60% or 70% of farm assets, if memory serves, are in land and buildings, but in recent years we have seen significant capital investments in machinery and equipment.

Part of the debt that we have seen the agriculture sector take on over the past couple of years wasn't simply to buy land. A significant portion was in productivity-enhancing investments, in machinery and equipment and other things.

As for innovation and market development, that too is an area where we as a department, in partnership with provincial and territorial colleagues, have a suite of programs to help the farm sector, as well as its associations and the institutions that serve it, so the sector can innovate and enter new markets, etc.

Mr. Lloyd Longfield: Thanks.

Let's look at the young people. From your testimony, it sounds positive.

I've heard of a dairy farmer down in Niagara whose son is now splitting off, starting up, and putting in new equipment. His son's friend is down the road and also splitting off. Three farms are getting created down in Niagara around dairy, which is very capital intensive.

How difficult is it for youth to come forward? Do they need to have the parent beside them? I'm thinking in particular of the buddy of the son who is opening up a farm down there.

Mr. Michael Hoffort: Yes, it's clearly helpful to have a parent who supports them with that strong backing, whether it's from assets, or perhaps for security on loans, and who has that management capability and the experience that comes with multiple generations of seeing highs and lows and all the things you learn along the way.

It's not unprecedented, though, to have young people start and build their way into very viable operations. As farming got more robust, that was one of our challenges, even on our staff, where we have a lot of agriculture grads who clearly want to be farmers. It wasn't unheard of for them to start and to work their way into full-time operations totally independent of the family that they grew up operating with. It does happen. It is facilitated faster and probably with more ease with that financial backing of a parent or a family structure like that, but that's not absolutely necessary to make it happen.

Mr. Lloyd Longfield: As chair of the co-op caucus, I have to ask a question around co-ops and the role that co-ops are playing in terms of transition and generational planning. How does FCC partner with co-ops?

Mr. Michael Hoffort: From the co-operative perspective, the credit unions would be a key factor on the finance side. Their service to rural Canada in particular is very strong.

We've done a lot of work with the credit union system to work more co-operatively and in a more coordinated fashion to help their members in terms of being able to develop their operations from a financial perspective. It's just a reality that the FCC doesn't offer every product they're going to need, so we do work with other banks in almost all cases.

The other area where you see it, though, is in extensive investment in the co-operative sector in the agribusiness side, whether it's service to those along that value chain or on the processing side. It's very robust. I've seen some very exciting things happen. I think they'll be part of the solution in achieving some of the governance objectives as it relates to that 2025 goal. It will be driven to some degree through the co-operative movement and their investment out there.

Mr. Lloyd Longfield: Thank you.

Finally, with the 30 seconds I have left, the library says that potato, fruit, nut, dairy, and hog farms have 27% liability. Why are these farms higher on liability than, say, grain, poultry, and beef, which are around 17%?

Mr. Michael Hoffort: I don't have the stats you're looking at, so I don't know if I can comment. I'd be happy to follow up with you afterwards if you wanted to, just to look into the information.

● (1150)

Mr. Lloyd Longfield: Again, if those are key areas for us to develop exports in, are we providing the right tools from the government side?

Mr. Michael Hoffort: That's a good question.

Mr. Lloyd Longfield: Thank you very much.

The Chair: Now we'll go to Mr. Ritz for six minutes.

Hon. Gerry Ritz (Battlefords—Lloydminster, CPC): Thank you for your input today. I have weeks and months of frustration in terms of questions I want to ask on agriculture. It all comes down to management and the variables that are out there, as everybody knows: the weather, the markets, and all the other things that go into it.

Could you comment on the education level of today's farmers as compared to my generation and my dad's generation? It was grade 10 and then it was grade 12 with maybe a year or two of...and so on, but now these guys all have degrees and are going back.... They have a lot more knowledge, but they're also seeking out more knowledge. I know that we put on a lot of informational gatherings and so did the FCC. The turnout is always really good, and how helpful you find them in educating.... It's a two-way street.

Mr. Michael Hoffort: Yes, one of the exciting things in agriculture in terms of the seeking out of knowledge is that the agriculture colleges are full to the brim. There are 12,000 students right now in Canada studying agriculture, in either a university or a college, which is really good because we're going to need every one of them. Think of what's happening with the industry.

Hon. Gerry Ritz: This is true of the techs, as well, with mechanics, welding, and all of that.

Mr. Michael Hoffort: Exactly. We're seeing lots of good things there.

What's very interesting is the reinvestment in continuous learning that we see. Over 11,000 people attended one of our seminars this past year, and 14,000 the year before that.

They are out seeking knowledge. We're not the only ones who are providing it. There are lots of industry participants who are providing excellent knowledge offerings to their customers and the people they deal with. We're seeing really good things there, and I think it's only going to escalate in terms of that side of the equation.

One area that we hear people are interested in learning more about is how to get connections across like industries that may be national, and we've been facilitating some of that.

Hon. Gerry Ritz: Mentorship.

Mr. Michael Hoffort: Exactly. We've done a little bit of that. We dabbled at FCC with a next-generation council.

We had young producers under the age of 35. There were just a dozen, but it was a chance for them to connect from coast to coast with people who are like-minded and up to things, and to learn from each other. We're out of it now, but they're still connected and able to carry that forward.

From an industry perspective, that's something that I hope we'll be able to do a little more of in the future.

Mr. Tom Rosser: The only thing I would add very rapidly, Mr. Chair, is that, obviously, as the industry becomes more sophisticated, education levels and educational requirements are increasing. There are a number of different organizations that offer seminars and the like.

I understand that the committee will be hearing shortly from the Canadian Young Farmers' Forum. One of things we do to help build skill levels is to provide support to organizations like that one, so that they can do outreach and education with their membership.

Hon. Gerry Ritz: This question is for both Tom and Kara. From the strategic side of the equation, how much of what you do is proactive and how much is reactive?

Proactively, you're looking at markets, access, value added, and so on. Reactively you're looking at business risk management, what's working and what's not, as you develop the next policy framework.

What's the split between reactionary views and looking proactively to build agricultural capacity?

Mr. Tom Rosser: I guess it's both, and it's hard to say precisely. Certainly, on an ongoing basis, we regularly monitor developments in markets, looking for signs of changes in trends.

As I think I noted in my opening remarks, we do produce forecasts and the outlook for income in the agricultural sector on a regular basis, and between forecasts we continuously monitor developments to see if things are deviating from the expected paths.

We work closely with colleagues at the FCC and other institutions that share an interest in that. I feel we are fairly proactive. Clearly, we respond and react to events as well.

I don't know, Kara, if you have anything to add.

Ms. Kara Beckles (Acting Director General, Research and Analysis Directorate, Strategic Policy Branch, Agriculture and Agri-Food Canada): The only thing I would add to that is that from an economic analysis perspective we do a lot of “what if” scenarios as we see things changing in the economy.

Suppose we saw that the interest rates were going to go up or exchange rates were going to change. We would do analysis on that. Looking forward, we ask ourselves what the impact on the industry would be if it did change in these ways, so that we can be prepared and inform our programs as they are being developed.

Hon. Gerry Ritz: In terms of their global production, and highs and lows as well.

Ms. Kara Beckles: Absolutely.

Hon. Gerry Ritz: When you're making a loan, and now that you're developing the next policy framework, how much does the availability of business risk programming come into your thought process in terms of the percentage of a farm's income it backstops? Is that a significant part of it, or is it something that ices the cake so that when a farmer has loans out he or she will have debt servicing ability?

Mr. Michael Hoffort: “Icing on the cake” may not be quite how I would term it. We would look at the farm operation, where they are in their life cycle, and how much leverage they have.

The more of a risk stage they are in, the more we would be looking for basic things like crop insurance and some types of business risk tools that are out there.

As they grow their business, become larger, and may be exposed to more international pressures, we might be looking more for what they're doing on currency risk management, foreign exchange risk, and some of those types of things. On both ends of the scale, we would look for it, and vary in terms of what we would focus on, depending on the producer in front of us.

● (1155)

Hon. Gerry Ritz: There has been some discussion sectorally as well. A lot of that comes down to the cycle of the sector, one calf, one crop, as opposed to pork, where you'll get three cycles per year, or chicken, where you'll get multiples every six weeks, and so on. It depends on what you're in.

How does that factor into cash flow and serviceability? Their costs go up accordingly, but there is a correlation to the cyclical nature of sectors, too.

Mr. Michael Hoffort: Yes, absolutely. Again, it's looking at their history, where they're looking to go if they're expanding, and then what kind of space we have from a repayment ability perspective. Where the risks are apparent, we'll look at what they're up to in terms of actively managing. How much of the crop they are pre-pricing, from an insurance perspective what they are up to—and do leave some of that open to the producer in terms of making their management decisions—but for sure it would come into the conversation on management ability, and what they're up to.

The Chair: Thank you.

As we conclude this first hour of our witness testimony, I'd like to add that we mentioned a little while ago that the population of the college has increased. I can go back to my time at Nova Scotia Agricultural College. There has also been a big shift in the ratio of men and women who attend the college. There were 300 men—or boys, I guess, at that time, and I won't mention the year—and 100 girls. I think now that has reversed and, again, the population has increased.

I also want to say that I appreciate the role that FCC is playing. As a lifelong customer of FCC, I appreciate the fact that we can sit down and talk about life on the farm and agriculture, so thanks, again.

Thanks, Monsieur Gervais, Mr. Hoffort, Mr. Rosser, and Ms. Beckles.

We shall now break and change the panel.

● (1155)

(Pause)

● (1205)

The Chair: We will continue our second hour of the meeting.

Today, from the Canadian Young Farmers' Forum, we have past chair, Paul Glenn. Welcome, Mr. Glenn. Also, we have Justin Williams, from the board of directors. Welcome, Mr. Williams.

As an individual, we have Brady Deaton, professor and McCain Family chair in food security, Department of Food, Agricultural and Resource Economics, University of Guelph. Welcome to our panel, Mr. Deaton.

We will give 10 minutes to each party to make their opening statements. Whoever wants to go first may begin.

Mr. Paul Glenn (Past Chair, Canadian Young Farmers' Forum): Thank you, Mr. Chair.

As you said, I'm Paul Glenn, the past chair of the Canadian Young Farmers' Forum. With me today is Justin Williams, our Ontario and Quebec director.

I would like to thank you for the opportunity to speak to you today about the very important issue of farm debt and its effects on young farmers.

I, myself, am a third-generation farmer from Keene, Ontario, growing soybeans, corn, wheat, and hay.

Agriculture is such a vast industry. Each sector has its own challenges in financing capital and operating capital, especially. With crop production, land values vary, from upwards of $100,000 an acre in B.C. to $100 an acre across Canada. This depends on the region in which you live and what type of climate you need to support the crop production and the cost of land.

On the high end, you have high-value crops, like flowers, blueberries, cranberries, and greenhouse production. That is just the start, which does not include any input or infrastructure costs for greenhouses. On the lower side, you have the cost of pasture land.

We do have some very savvy young farmers creating new farmland in the Yukon and also in Newfoundland, but it isn't easy. Not that much in farming is easy, I have found.

For young farmers transitioning between generations, I find it is more and more difficult with higher debt loads, rising costs of production, variables on crop sales, and also retirement planning for the exiting generation. People are living longer and need more income to retire, which adds complexity to transitions and requires extensive planning to complete successfully. Start-up farms, operating 10 years or less, are still in a growth phase, expanding their market share and clientele, servicing debt, and incurring debt to grow. This is one of the most important times, especially for young farmers. They are starting families and transitioning from previous generations. That's when they need the most support with strong financing, operating capital, and income stabilization programs to continue to operate and grow their businesses.

The ability to grow current operations is also tough because of increasing land input, equipment costs, and lower margins, which make debt servicing more difficult. The economy of scale is also variable for every operation and commodity, so having support for variable operations is a must.

Young farmers are diversifying their agribusinesses to help stabilize income streams. That is why supply-managed sectors are typically very attractive to young farmers, but they are very capital-intensive.

On that note, I'll pass it over to Justin Williams.

Mr. Justin Williams (Member, Board of Directors, Canadian Young Farmers' Forum): My name is Justin Williams and I am working on becoming an eighth-generation farmer. Our family has been farming since 1814.

I am very happy to be here with you today.

About 12 years ago, I started my own maple syrup business in order to diversify the farm a little bit. Currently, we have dairy, as well as crop farming, and in the last couple of years, we've had the maple syrup business.

With decreasing margins, the younger generations are having to work harder to pay off the debts from previous generations, such as my grandparents who were paying off debts from their fathers. When I take over the farm, I'll be paying off debts that my dad has acquired, even from his grandfather.

Higher debt on farm business has led to less gifting of farms. In previous generations, generally the farm was gifted from the father down to the son or daughter, but now, with increasing debts, it's a business transaction and young farmers are having to pay more in order to acquire the farm from previous generations. Increasing debts for farmers has also meant increases in stresses, both for the previous generations, as well as for younger farmers getting into agriculture.

As Paul mentioned, the economy of scale is variable by commodity. In dairy, I have supply management and these sectors are minimally affected by economy of scale because price paid to the producer is stabilized due to the controlling of supply based on the demand of the consumers. Due to supply management, these sectors of agriculture more easily handle the highs and lows of the economy, without requiring government programs.

With increasing use of technology in agriculture, it is ever more important for farmers to further their education, as mentioned in the previous session. As well, they need to continue to network with sectors within agriculture, whether it be their own sectors or other forms of agriculture. Technology is greatly increasing in the use of tractors and what we're using in the barns to collect data on the animals, as well as for controlling debt.

We'd like to thank you for inviting us here today and we'd like to leave lots of time for questions afterwards.

● (1210)

The Chair: Thank you, both, from the Young Farmers' Forum.

Now we have Mr. Deaton for up to 10 minutes.

Professor Brady Deaton (Professor and McCain Family Chair in Food Security, Department of Food, Agricultural and Resource Economics, University of Guelph, As an Individual): Thank you for the opportunity to share my thoughts and research regarding contemporary issues facing young and start-up farmers who seek to begin or expand their farm operations. I'll also address the associated issue of debt and the transfer of farm operations from one generation to the next.

Before getting into the heart of my comments, I want to recognize that there are many unique aspects of farming, most of which were raised in our previous discussions. Farming requires a unique partnership with nature, and this dynamic relationship poses an ongoing challenge. Second, many farmers and future farmers grow up on farms and come to know farming as a way of life. In this regard, farmers are committed to place and farming in a way that many of us view as important.

Let me begin with a very important question. How do young farmers fare in the agricultural sector? This question poses a bit of a challenge because, to answer it, one needs to find an occupation to compare with farming, and as I've mentioned, farming is unique in many respects. With that caveat in mind, one starting place might be to compare the percentage of Canadian farm operators under 40 with the percentage of Canadian owners of small to medium-sized enterprises under 40.

Using data from the 2011 census and Industry Canada, we calculate that, as of 2011, 10% of the total farm operators identified as the oldest operator on the farm were under the age of 40. Comparatively, in the same year, 12% of majority owners of small and medium-sized enterprises were under the age of 40.

Should we be surprised at the percentage of farm operators under 40? I'm not in a position to answer that question for you, but as you continue to contemplate this issue, keep in mind that farm operations typically involve millions of dollars of assets and hundreds of thousands of dollars in debt; hence, these kinds of capital-intensive industries require unique operational and managerial skills. We need to assess our age expectations in farming against similar capital-intensive businesses in Canada.

As we do this, we should keep in mind farming and its unique partnership with nature. This means that, as one farmer recently put it to me, 80-hour work weeks are a good thing, and during some seasons, they work when the sun shines and enjoy a day off when it is raining. In these times, weekends are just part of the calendar. These seasonal demands may discourage some young people from entering the industry. Also, it is important to recognize that modern farming is not as biased against older folks as it used to be and is less demanding physically than in the past.

Farming requires a broad suite of capital investments, including land and buildings, machinery, and equipment, and in some cases, livestock. Importantly, it is unlikely that the magnitude of debt for any particular farm can be associated with the soundness of the farm operation. Farmers running the highest debt are likely to be doing so because creditors are comfortable that they are in a position to repay this debt. For this reason, there are other measures used to assess the financial well-being of the farm sector. These were gone over in detail in your last session, but they include measures like liquidity and debt-to-asset ratio. In reviewing these current measures, FCC suggests that they are generally in line with or more favourable than historic averages.

For farmers in general and young farmers in particular, incurring debt allows them the opportunity to undertake enterprises that could not be financed by personal wealth. The current debt reflects in part the capital cost of being a competitive farm operation in today's agricultural sector. In addition, some of the increase in debt is due to the decisions of farmers to invest some portion of their net income, which has generally been increasing in recent times, into capital investments. One of these investments has been farmland, which as you all know well, has appreciated in recent years. For example, in Ontario the Municipal Property Assessment Corporation estimates that between 2012 and 2016 the average increase was 16%. The increase in value of land does not, however, as someone recently pointed out, mean a farm is sustainable from a cash flow basis.

It goes without saying that the ability to manage any business and its debt is easier when net income flows are favourable and interest rates are low, a setting that describes the agricultural industry these last several years. The situation becomes more challenging when these flows become attenuated or interest rates rise. This issue emphasizes the importance of making productivity-enhancing investments in good times and making sure that the generation of farmers is prepared to manage the farm, not only from an operational perspective, but also from a financial perspective. We therefore rely on our credit markets to appropriately weigh the risks of lending to young farmers.

● (1215)

This helps to avoid the deleterious effects of incentivizing less productive investments or supporting farmers who can be profitable in good times but not in less favourable times. One challenge here is that young farmers will be more highly leveraged because of their need to make high levels of capital investments and their lower levels of accumulated assets. This implies greater risk.

Given the high capital costs of becoming a competitive farmer, you might ask how these young farmers get in the game, get up to scale, and stay in the game. There's not one answer, but borrowing money from a financial institution will most likely play a role in all of these stages. There are many ways young farmers start out to develop the wealth that allows them access to these loans. I will discuss three: off-farm income, renting in farmland, and support from parents.

On off-farm income, many young farmers, and indeed farm families in general, supplement their income with off-farm work. The average farm operator in Canada has about a 41% probability of engaging in off-farm work, and the probability for the youngest farm operators is higher. Spouses of farmers also often work off the farm.

As for renting in farmland, as noted earlier and discussed earlier, farmland is expensive. In many places, the price of farmland may be such that a moderate return on investment requires continued farmland appreciation. One option for young farmers is to scale by renting farmland or through contract farming. The farmland rental market is well established in Canada. Close to 40% of the Canadian farmland is in the rental market. A long-established exchange between landlords and tenants suggest benefits to farmers and non-farmers alike.

Now I'll talk about support from parents. Farm families help their children get into farming by developing their knowledge of farming. They transfer assets through bequests, gifts, or sale. In many cases, farm families use a combination of all of these approaches. Increased debt can complicate the situation. As an extreme example, in the event that a parent dies intestate, without a will, there may be confusion as to who is responsible for paying the debt, and they go into arrears.

Moreover, the farming operation may suffer as families attempt to clarify how the farm assets should be distributed. Importantly, the appreciation in key assets like land poses a challenge to parents who, on retirement, want to treat themselves and all their children equitably. Children who may want to continue the farm operation at the same scale as their parents have may have a difficult time purchasing farmland from their parents or from their siblings' share of inherited land.

There are presently a variety of institutions designed to support young farmers and the transfer of farms from one generation to the next. There are a variety of tax policies that influence these transfers of assets. Provincial-federal cost-share programs support succession planning. FCC has a young farmers program. Importantly, universities throughout Canada, including the University of Guelph, are actively engaged in preparing the next generation of farmers with the management skills that they will need to effectively manage a farm operation.

Finally, if you will allow me to end this testimony on a personal note, I have spent the last 13 years of my life working with young people. Many have become farmers. Many want to become farmers and many have gone on to research issues relative to our agricultural sector. I'm constantly impressed by their innovative capacity and their work ethic. I have been a beneficiary of their new ideas and our agricultural sector will benefit as well.

Our investment in youth, which needs to be a focus of a broad suite of policies, is our best chance at making the most of the good times, diminishing losses in the bad times, and increasing the likelihood that the former will characterize our future more often than the latter. No generation is better suited to address the future than is the future generation. I'm committed to that. I'm glad you're having these discussions, and I am prepared to discuss this testimony and other questions you might have.

Thank you very much.

● (1220)

The Chair: Thank you, Mr. Deaton.

Now we will start our questioning round, with Mr. Ritz for six minutes.

Hon. Gerry Ritz: Thank you, gentlemen, for your presentations here today. They are always interesting.

Professor Deaton, I'm wondering if you have any specs or ideas of the off-farm use that we're now seeing with accountants, legal.... Farming is big business. You can't just do it all sitting around the farm kitchen table like we used to do in my dad's generation.

What kind of percentage of farmers, especially young farmers, are seeking outside information from accountants, lawyers, estate or succession planners, and even financial..., as they make these tough business decisions?

Prof. Brady Deaton: I don't have the data for that spec. My anecdotal suggestion would be that the larger operations are having discussions with accountants, particularly tax advisers—that's very common—and also with lawyers in some cases for succession planning. I would imagine it varies with the scale of operation, but I would imagine it's very common.

Mr. Paul Glenn: Definitely most, if not all, of the young farmers who I know that have gone through transition planning used lawyers, accountants, bank managers, to obviously mitigate any risk in the transition. I think typically now with young farmers, we do operate them as businesses, and we're not just talking to the accountant once a year at tax time. We're talking to them multiple times a year.

Hon. Gerry Ritz: Do you find these professionals educated enough in agriculture-speak to be able to give you good advice? Or is it just, here's a pamphlet, and go home and take a look?

Mr. Paul Glenn: It's actually really tough to find institutions that are...besides FCC or some of the ag accounting firms.

Hon. Gerry Ritz: Universities....

Mr. Paul Glenn: Exactly, yes. I know I've struggled with that, and I've now moved to very ag-specific companies to work with because of the knowledge base. I had my accountant out to my farm for a tour and he saw my gravity wagon. He said, “Oh, is that how you plant your field?”

So, there's a big disconnect in the knowledge of those professionals. And that makes a huge difference when you're trying to operate your business, to understanding why you're buying a $300,000 planter. It's definitely tough if you don't find that knowledge base with your professional, so seeking that out is tough.

Prof. Brady Deaton: Perhaps I could follow up on an earlier question that you asked, and I have the data footnoted in the report that I provided you. Farmers are in a much stronger human capital situation in order to interact with those groups. Of farmers under 35, 65% or so have a post-secondary education.

Hon. Gerry Ritz: That was my next question, how important that is. In my father's generation, if you had grade 10, you were done. In my generation, it was grade 12, and maybe a year or two of college or a year of technical school—welding, machine shop, all those types of things.

The same holds true now with my dad. If he didn't own the land, he didn't farm it. He didn't even consider renting or so on.

In my generation, we were at half and half, what we owned and what we rented, to give us the land-based economies of scale.

Now my nephew has taken over the whole operation, and the vast majority of what he's farming is on a contract or rental basis. He doesn't care whether he owns it or not. He just wants the ground to run on.

Does that fit into your decisions, as well, and then you machine up accordingly?

● (1225)

Mr. Paul Glenn: Yes, it's all cost to production, so if you have some big equipment, you need some more land, then renting is definitely a very common answer.

It is tricky being near more urban areas for people who are owning the farmland to rent. That farm rental relationship is a bit tougher as there are more environmentalists and less understanding of what farming today looks like. Some of those things are a bit tougher, but definitely renting land is always an option, and more of an option for young farmers to grow.

Hon. Gerry Ritz: One of the strengths of the young farmers' organizations is the mentorship, talking to other people. They could be from Saskatchewan or Ontario, but they're still talking about planting and harvesting and those types of things. Do you find that useful, seeking out that knowledge from counterparts?

Mr. Paul Glenn: Probably the greatest strength of our young farmer organization is the networking. I know I've utilized a lot of information from our friends out west, some from farmers who were growing larger operations, on how they made the transition, or from people who have transitioned from their parents...what worked, what didn't work, learning from their mistakes.

Hon. Gerry Ritz: How do we educate consumers that farmers do what they do because of animal husbandry? Farming is constantly changing, but how do we stop the people who are not directing it on a science basis? We saw the situation in Ontario with neonicotinoid and bees, and really we were chasing that science, where the rules that came down weren't based on any kind of science.

How do we get the message out to consumers that what we do in Canada is the best way we know how, and that there are proven practices that work?

Mr. Paul Glenn: Definitely, I think it's going to start in our education system. That's been lacking starting very early in the public school system. It's educating the general public on what modern agriculture is currently. Then there would be less disconnect on how we do things and why we do things for animal welfare.

Hon. Gerry Ritz: In my generation, we had a mixed farm, so we had 300 head of cows and land and so on. I don't remember a Sunday when we didn't have friends and relatives come out from the city to the farm, and we had a wiener roast in the pasture where we checked cattle, or something like that. There was that connection.

We don't have that anymore. You're down to 2% of the population actually on the ground, doing the job; and 98% are consumers, and they're all smarter than you. There's this huge push against GM products, and there's this huge push against all these different things. I guess the struggle for government is how you make sure that what's done is done on an educated, knowledge-based, science basis? How can we help you do that?

Mr. Paul Glenn: That's a really great question.

Hon. Gerry Ritz: Give me your top 10.

Mr. Paul Glenn: I don't know if I have the answer. Educating the public is the biggest thing, especially in Ontario with the neonic and how that worked out. More regulation for farmers doesn't help us. It's not that regulation is bad. We're all trying to do the best thing for the environment and for animal welfare.

Hon. Gerry Ritz: We actually have a good story to tell when it comes to the environment and agriculture. The footprint is 10% of what it was even two decades ago.

The Chair: I'm going to have to end it there. Thank you.

Now we have Mr. Longfield for six minutes.

Mr. Lloyd Longfield: Thank you.

It's great to have Mr. Ritz at the table here with his experience and his input. I'd love to go down that top 10 list. We never have time, though. That's the problem.

Speaking of time, I'm looking at the age of farmers. Mr. Deaton, you told us that 10% are under 40. With SMEs, 12% are under 40. It's very comparable to what you would see in an urban environment. That's surprising to me.

Prof. Brady Deaton: I guess I might have been a little surprised, too, when we started to look in the data and looked at 2011. Again, I want to get back to the point that whatever you do, you want to find a comparable, and it's kind of hard to find a comparable. In your footnotes you'll see some sensitivity analysis if you look at small enterprises versus medium enterprises.

What was interesting when we looked back was how it had changed over the last 10 years. There had been a fall—probably largely for demographic and economic reasons—in the under 40 categories in both small and medium-sized businesses and farming. Interestingly, though, the fall is again comparable between the two, so if you went from 2001 to 2011, the decline was similar in both industries.

Mr. Lloyd Longfield: I'm looking to Mr. Glenn and Mr. Williams on this. The average age of farmers, I believe, is still up around 56 years. There is a retirement wave that's going to be hitting the same as it's hitting in urban settings. Do you see the access to mentors and the opportunity that might come from these people retiring as a business opportunity that your network is looking at? Maybe you could describe, in terms of farm debt in this study, how that older mentorship to younger farmers works. Does it work?

● (1230)

Mr. Paul Glenn: Yes, something we are working on is creating a mentorship and exchange program for exiting farmers to mentor and having an exchange program for young farmers to go to those farms. There already are some programs out there now that are linking farmers looking to exit the industry with young farmers looking to get in. Again, it does come down to financing, and if you only own a pickup truck, sometimes it's tough to get into the market on an economy of scale size. That's why they're typically doing fruits and veggies and going to farmers' markets initially until they get their foot in the door.

Mr. Lloyd Longfield: When we look at the development of superclusters—and Dominic Barton said that agriculture should be a supercluster we consider—you have mentioned the University of Guelph. There's Saskatchewan. There are university mentorship opportunities across the country. Regarding the government's involvement in helping to establish these mentorship opportunities, in getting 12% of people under 40 to become farmers, and in having a good percentage of women and indigenous people being included, is that happening yet, or is it something still in the theory area?

Mr. Paul Glenn: I think it's probably still in the theory area. I don't have a lot of data for you on that. It's obviously on our minds that we need to get more young farmers excited about agriculture and interested in it, because fewer people know about it, so there are fewer people wanting to get into it, too.

Mr. Lloyd Longfield: I was hoping we weren't going to see the lights flashing. They said they weren't going to have a vote at 1:00, and now it looks like that's going to happen.

The Chair: Do you want to go 15 minutes? Are we good?

Mr. Lloyd Longfield: The role of universities across Canada to try to tie these mentorships—

The Chair: Just hang on, Mr. Longfield. I need consensus to continue. Do I have that for 15 minutes?

We're good.

Mr. Lloyd Longfield: Thank you very much.

Regarding this industry and academic collaboration, you graduate from college and university, you have ties to schools, and schools have ties to you. Is that something you draw on as you go through your farming, develop your farm, and develop your career in farming?

Mr. Paul Glenn: Education never stops when you're a farmer, that's for sure. A lot of your suppliers typically put on education for you. I don't know a lot of link going back to the universities, necessarily, once the farmers are on farm—and maybe you can speak a bit more to that, Mr. Deaton—but education never stops.

Mr. Lloyd Longfield: Yes, and technology is always changing.

Mr. Paul Glenn: Absolutely.

Prof. Brady Deaton: We're constantly interfacing with the public and with farmers, based on a variety of different research that is going on in our department. Our students are often involved in the research that's going on. We might be researching farm prices and rental rates, which is something I would research, and then we would have students involved in that, bringing both their on-farm knowledge but also extending that into the community.

If I can just dovetail back to what Mr. Ritz was talking about yesterday, we constantly have outreach material that is science based. For example, I do a podcast show where we talk about things like these...and neonics, and we talk about GM products.

That's a constant role of the outreach efforts in our department. I think the university is heavily involved in all of these.

Mr. Lloyd Longfield: Great opportunity.

Thanks, all of you, for the work you're doing.

Back to you, Mr. Chair.

The Chair: Are we done?

[*Translation*]

Okay.

Ms. Brosseau, you have six minutes.

[*English*]

Ms. Ruth Ellen Brosseau: Thank you, Chair.

I would like to thank the witnesses for their presentations today.

I'm happy I get to ask a question and that we were able to hear from the two panels. I'm sorry it had to be cut short, but that's part of the business.

There was a bill that was put forward a little while ago. It was a private member's bill from my colleague, Guy Caron. It was a bill that proposed to make the transfer of family farms a little easier. Right now if you want to transfer your farm, it is more profitable to sell your business to a stranger than it is to keep it in your family.

This bill was based on many recommendations and a lot of consulting over quite a few years. Initially we thought we would have support, at least to send it to committee where it would be further studied. Sadly, there was some disinformation that went about. Recently there was a report from the parliamentary budget officer that said the costs weren't nearly as high as the information pushed about by the finance department.

Mr. Glenn and Mr. Williams, I know you mentioned in your presentations third generation and eighth generation. Could you speak about the importance of what a bill like that would be to transferring family farms?

We've talked a lot about the age of farmers now. A lot of them are going to be reaching the point where they're thinking about transferring their farm to their children or somebody else in the family. Can you speak about the importance of maybe fixing this tax injustice, please?

● (1235)

Mr. Justin Williams: As I mentioned in my presentation, I am the eighth generation working on becoming part of the farm. As of right now, there is no succession plan in the works, but the conversation has begun.

Generally, succession plans for farms take a minimum of 10 years to transition from the parents down to the children, and some farms can take even longer. I think it would have been very beneficial to be provided with some help in that sense, because it is a lot of money and a lot of debt for the next generations to be taking on.

Eight years ago, my parents were able to take over a partnership from my father and his grandfather, so they are servicing the debt from the previous generation. That's going to be passed on to me, as well as the tax implications, when that transfer takes place.

Ms. Ruth Ellen Brosseau: So if this piece of legislation were to be adopted, that would be potentially helpful to you and people like you in the same situation.

Mr. Glenn, do you have any comments on that bill?

Mr. Paul Glenn: In any of the data, we show there is a bit of a decrease in growth of the farm when there is a transition made. I can share that data with the chair later on. Basically, any time that the farm has to be completely bought out, there is a decrease in growth, at every stage.

If you can transition the farm, there is very little decrease in growth, if not increase in growth, to continue on the transfer. Even if it's not to a sibling or a child, transitioning the farm to continue on so you're not taking on that excess debt.... It just takes the five-year growth out of it.

Ms. Ruth Ellen Brosseau: Mr. Deaton, do you have any comments on that bill, or any other measures that the federal government could adopt to facilitate the transfer of family farms?

Prof. Brady Deaton: I don't have any comments on the particular bill because I'm not familiar with the nuances of it.

I would say, as I indicated in the testimony, one of the challenges is really of wealth. You are there with a lot of assets that you're thinking about splitting among your kids equally, or, if you're going into retirement, treating yourself equitably. It is a very challenging situation. It's not necessarily in and of itself a bad thing; most farmers like the idea of having higher-valued land. However, it is a challenge to that intergenerational transfer.

To echo the point that was made earlier, planning for that, having a good conversation with the next generation, so they are operationally, managerially, and financially ready to take on that debt or buy a portion of the land for their siblings, is really important.

Ms. Ruth Ellen Brosseau: I was wondering if maybe Young Farmers' Forum could talk about how young farmers are feeling about the future. There are a lot of opportunities, and there are maybe some things that might weigh a little bit harder on them.

Can you maybe comment on what the general feeling is of young farmers about their future?

Mr. Paul Glenn: Generally speaking, it is a great time to be in agriculture. There's no doubt about that. I know you always hear the doom and gloom from farmers all the time, so I don't want to be like that. There are lots of young farmers excited to be in agriculture, really happy about pushing the envelope on technology and where we're going. We are dealing with a lot larger numbers, so there is definitely that stress in your mind: you're not financing $500,000 farms anymore; you're financing million dollar-plus farms. There is a little bit more mental stress that goes along with that.

● (1240)

Ms. Ruth Ellen Brosseau: In addition to the financial barriers, are there any other kinds of barriers or things that could disadvantage the sustainability of our family farms?

The Chair: Can I get a quick response?

Mr. Paul Glenn: I don't have anything specific that comes to mind right now, but I know transitioning farms is a big one, continuing on the family farm. Then the more we can train our young farmers and educate the public, the better.

The Chair: Thank you so much.

We're going to end our meeting here. I want to thank the panel and apologize for a bit shorter session. I do appreciate your taking the time to come over.

I just want to remind the committee that this Thursday we shall not have a meeting because of the Friday schedule.

The meeting is adjourned.