National Cattle Feeders' Association

Finance Pre-Budget Consultations 2017

NATIONAL
CATTLE FEEDERS'
ASSOCIATION

ASSOCIATION
NATIONALE DES
ENGRAISSEURS DE BOVINS

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EXECUTIVE SUMMARY

About the National Cattle Feeders' Association

The National Cattle Feeders' Association (NCFA) represents Canadian cattle feeders on national issues and collaborates with beef industry stakeholders and government to strengthen and improve the cattle feeding sector. Through NCFA, Canada's cattle feeders speak with a unified voice.

The Opportunity

Canada's agriculture and agri-food industries are responsible for 8% of Canada's GDP. Of the 205,730 farms in Canada, 37,406 are dedicated to beef production. In 2015, these farms generated $10.5 billion in farm cash receipts out of a total of $57.3 billion. With multiplier benefits, the total economic impact exceeds $15 billion annually. This vibrant industry is a result of innovative and sophisticated production technologies that result in some of the most affordable, nutritious, and safest beef in the world.

The Canadian beef industry has tremendous potential to increase its contribution to the national economy and create new jobs—especially given new emerging export markets, recently signed free trade agreements, and growing global demand for high quality and trusted protein sources.

If Canada's beef industry is to realize its export potential, sufficient and reliable public infrastructure must be in place to support day-to-day operations and the quality of life in rural communities in which the industry operates. In short, investments in infrastructure that support agriculture will serve as an economic driver, a job creator, and a rural community builder.

The challenge lies in the fact that much of the infrastructure investment required to support agriculture is located within small municipalities with small tax bases that cannot afford—even with matching funds—to make the required investments. This is particularly the case with the maintenance and rehabilitation of rural roads and bridges that provide the national benefit of moving Canada's agriculture goods.

Finance Committee Questions

The NCFA recommendation directly addresses two of the three focus areas identified by the Finance Committee:

- What federal actions would assist Canada's businesses—in all regions and sectors— meet their expansion, innovation and prosperity goals, and thereby contribute to economic growth in the country?

- What federal measures would ensure that urban, rural, and remote communities enable residents to make their desired contribution to the country's economic growth, and businesses to expand, prosper and serve domestic and international customers?

NCFA Recommendation

NCFA recommends that the 2017 federal budget commit significant and dedicated funds to the rural infrastructure required to enable trade and growth of Canada's agriculture industry, particularly the maintenance and renewal of roadways and the rehabilitation and replacement of bridges.

FULL SUBMISSION

The Opportunity

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Growth of the sector rests on the ability to undertake long-term business planning and this requires reliable infrastructure systems.

The agriculture and agri-food sector stands ready to realize its full potential as an economic driver. The sector's extensive untapped economic potential, combined with the necessary support via reliable infrastructure, will ultimately produce tremendous growth, wealth and jobs in Canada's rural communities.

However, the public infrastructure needs for the agriculture sector fall on the shoulders of the small municipalities within which their operations are located and these municipalities do not have the tax base to undertake these infrastructure projects – even with matching funds. This is particularly the case with the maintenance and rehabilitation of rural roads and bridges that provide the national benefit of moving Canada's agriculture goods.

The Need

Roads

The economic and social health of rural Canada depends on well-maintained road and bridge infrastructure that connects rural and urban—linking our highly productive agricultural regions to the national transportation network and then to global markets. Because Canada exports up to half of all its agricultural and agri-food production, rural roads and bridges are vital—they are the only transportation conduits for agricultural producers to move their products to national and global markets.

However, one of the key infrastructure challenges for agriculture—including the beef sector—is that the communities within which they operate have small populations, large land bases, and growing responsibility for facilitating the movement of Canada's resource exports. These small municipalities simply cannot afford the infrastructure investments required—investments that spur national economic benefits.

NCFA encourages the government to consider establishing a federal infrastructure fund—in partnership with provincial and municipal governments—for the maintenance and rehabilitation of rural roads and bridges. As it is currently structured, infrastructure funding does not provide realistic opportunity to address the conditions of rural roads.

Railways

While new technologies and approaches have modernized the agriculture sector, railways continue to be of critical importance. Cattle feeders depend on a reliable railway system to ensure they have a consistent source of inputs for their cattle. Policies and regulations must create a competitive environment in the rail transport sector, with open access to all rail lines for all rail companies. This ensures that agriculture producers can access efficient rail transportation at the best price. ***Changes to the rail system, rail policies and regulations, and freight rates, should begin with stakeholder consultations that consider the needs and interests of agricultural producers.***

Border Infrastructure

North America's beef industry is highly integrated—significant numbers of live cattle are bought, sold, and then moved across the Canada-U.S. border. Not only does the free movement of cattle allow producers to secure sufficient numbers of feeder cattle, it also allows them to take advantage of better or more profitable feeding opportunities and better prices for fed cattle that accrues from competition between Canadian and U.S. processors.

In 2015, approximately 36,000 head of live cattle were imported into Canada, primarily from the U.S. However, Canada exported over 830,000 head of live cattle to the U.S.

Ensuring that infrastructure at border crossings is sufficient to meet the increasing demands of the sector is essential. Delays at the border are extremely costly to cattle feeders and place them at a disadvantage to their U.S. competitors. In addition, animal welfare is put at risk when infrastructure at these crossings is not maintained. ***The federal government must commit to the highest standards of infrastructure and technology at U.S. border crossings in light of increasing demand.***

Canada realizes significant gains from trade within the integrated North American beef market. A significant portion of this gain is related to improved access to more purchasers of finished cattle. Cattle feeders are always better off when there are more purchasers bidding on fed cattle.

Telecommunication

Telecommunications infrastructure is also key to ensuring the current and future competitiveness of Canadian agriculture. Cattle feeding operations are innovative and sophisticated, making it essential that producers have access to modern communications technology that is equal in price to services in urban areas. This includes reliable Internet access, private lines with the capacity to handle faxes, competitive long distance and cellular services, and touch-tone and other customized services.

While once a world leader on this front, ***without new federal government investment in the development of new and emerging telecommunications technology for rural communities, the Canadian agriculture sector will continue to lag behind in its ability to compete globally.*** Looking forward, the role of the farm will become less attractive as a career path for the next tech-savvy generation. This lack of infrastructure is costly, time consuming, and reduces the opportunities for growth.

Energy

Energy infrastructure and affordable availability of energy is essential to rural communities and cattle feeding operations. ***The importance of energy costs to the profitability of farm businesses cannot be overestimated***—this includes all forms of energy, such as farm fuels, natural gas, electricity, propane, and others.

Social Infrastructure

Equally important are the social infrastructure needs of rural communities that can do much to attract and retain labour for local agricultural operations. This includes childcare, health care, social services, recreation, and education infrastructure. Small rural communities face greater challenges than large urban communities in their efforts to ensure such services. ***Without support to provide this much needed social infrastructure, agriculture will find it increasingly difficult to attract and retain the required labour, further exacerbating labour shortages that are already a chronic problem for cattle feeders.***

EXAMPLE: Rural Infrastructure Issues in Manitoba

Repeated flooding and excess moisture events have severely taxed both Manitoba's beef industry and government treasuries alike. Gaps and deficiencies in Manitoba's water management system have created vulnerabilities in many rural areas of Manitoba that are well-suited to cattle production.

For example, residual work remains to upgrade Highway 75. This roadway is the major north-south transportation linkage through the Port of Emerson. Further work is necessary to ensure that Highway 75 is less prone to flooding during years when the Red River overflows.

Without effective long-term water management strategies—including investment in infrastructure—further beef industry downsizing in Manitoba is a very real threat.

In April 2013, the *Manitoba 2011 Flood Review Task Force Report* was released. The report notes the following as a result of the 2011 flood disaster:

- Three million acres of cultivated farmland in Manitoba was left unseeded in 2011 due to flooding. The problem was so severe that it spilled over into the spring of 2012 in many areas;
- Tens of thousands of cattle had to be relocated, and some sold, because of flooded pastureland. The largest numbers were from the area around Lake Manitoba and Lake St. Martin, some the most productive cattle-producing regions of the province; and
- The flood affected 154 provincial roads and highways and 500 municipal roads.

In January 2016, the *Assiniboine River and Lake Manitoba Basins Flood Mitigation Study* was released. This 1,600 page report identified a series of upgrades to mitigate the risk of future flooding and to address vulnerabilities in the system. The upgrades were estimated at a cost of $1.159 billion.

The Government of Manitoba has accepted the recommendations of the report, but has not outlined a timeframe for acting upon them. It is expected that the Manitoba government will likely pursue federal investments in some or all of these projects.

Infrastructure funding should be committed by both levels of government now to swiftly put into play the required infrastructure upgrades and improvements.

EXAMPLE: Rural Infrastructure in Lethbridge Country, Alberta

The County of Lethbridge in southern Alberta is home to Canada's most productive agricultural land for both crops and livestock. The region's unique climate—marked by higher than average sunshine and significant heat units—results in a productive and longer than average growing season. Significant federal investments in the region's irrigation infrastructure have levered these natural conditions to establish southern Alberta as one of Canada's most valuable agricultural regions.

Southern Alberta's mild climate, abundant natural grasslands, and its suitability for growing forage and feed grains have also established the region as North America's fourth largest cattle feeding jurisdiction after Texas, Nebraska, and Kansas. The region is also home to Canada's largest federally-inspected beef processing facilities (Cargill in High River, AB and JBS in Brooks, AB) with a third facility set to open shortly (Harmony Beef in Balzac, AB).

As of January 2016, Alberta held 4.8 million head of beef cattle, or 47% of the national beef herd. The province's cattle feeding operations are responsible for 71% of Canada's total fed cattle production and have a standing capacity of 1.3 million head with an annual output of 2.0 million head.

In 2015, Canada's farm cash receipts from beef cattle totaled $10.5 billion, of which Alberta was responsible for $5.2 billion. Beef production in Alberta represents 80% of the province's total farm cash receipts from livestock, with a significant amount of this important national agricultural activity centered in southern Alberta.

At the same time, municipal governments in southern Alberta are hard pressed to make the infrastructure investments required to continue supporting the needs of Canada's most valuable agricultural region, particularly as it relates to rural roads and bridges. For example, the County of Lethbridge has a $3.5 million annual shortfall in funding to repair, renew, rehabilitate, and replace critical road and bridge infrastructure. Because of this funding shortfall and its limited property tax base, the County has increasingly resorted to road bans and bridge restrictions and closures.

What is more, the County recently passed two new bylaws establishing a "Special Tax" on agriculture and a "Business Tax" on all livestock producers. The Business Tax will see a $3.00 "head tax" placed on every beef animal in the county this year, rising to $4.00 next year. This is causing considerable alarm right across the beef industry:

- Over the past 10 years, the average annual profit for cattle feeding was $18 per head. A $4.00 "head tax" represents a new 20% tax on average long-term net income.
- In the first quarter of 2016, the average loss across the cattle feeding sector was $400 per head. The timing of this new tax proposal could not be worse.
- Implementation of this tax makes cattle feeding in the County of Lethbridge uncompetitive to other counties in southern Alberta, and makes the single largest cattle feeding jurisdiction in Canada less competitive against US producers.

Future infrastructure programming and federal funding must not ignore the needs of Canada's rural areas. This is especially the case for those areas marked by critical agricultural production and resource development. Past federal infrastructure funding has often included a separate rural component. Examples include the federal Prairie Grains Road Program (2000-2005) and the Municipal Rural Infrastructure Fund (2003-2014). Together, these two programs provided approximately $1.5 billion in federal funding for rural infrastructure.

In the 2017 budget, NCFA believes that the federal government must make a funding commitment to Canada's rural communities, with a particular emphasis on critical economic infrastructure required to sustain our nation's agricultural production, particularly rural roadways and bridges. Together, these two items can consume up to 70% or more of a rural municipality's annual budgetary expenditure.

The Recommendation

NCFA recommends that the 2017 federal budget commit significant and dedicated funds to the rural infrastructure required to enable trade and growth of Canada's agriculture industry, particularly the maintenance and renewal of roadways and the rehabilitation and replacement of bridges.

Conclusion

NCFA represents only one sector of a very large agriculture and agri-food industry, all of which depend on a reliable infrastructure system to sustain and grow the sector.

The federal government has actively invested in the agriculture sector through opening new trade markets, supporting research, disease surveillance, and other targeted programs. However, these steps forward are all for not - if producers cannot efficiently and competitively move their goods to market.

While past federal infrastructure programs have benefitted many sectors, they have not been designed in a manner that has allowed rural infrastructure to receive the required support. Primarily, this is due to the fact that many of Canada's farms are located in small rural municipalities that cannot afford their portion of various tri-partite infrastructure programs.

If new infrastructure programs continue to be exclusionary, this will severely compromise the agriculture operations and the rural communities that surround them. There is an acute need for the federal government to develop and implement infrastructure programs that apply a "rural lens" which acknowledges the fiscal limitations of Canada's rural municipalities and the pressing realities of their infrastructure needs. If this challenge can be met, Canada's agriculture and agri-food industries stand poised to vastly increase their contribution to the economic health and well-being of all Canadians.