House of Commons
CANADA

Standing Committee on Agriculture and Agri-Food

AGRI • NUMBER 028 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Thursday, March 10, 2005

Chair

Mr. Paul Steckle

Standing Committee on Agriculture and Agri-Food

Thursday, March 10, 2005

● (1530)

[*English*]

The Chair (Mr. Paul Steckle (Huron—Bruce, Lib.)): The chairman is calling the meeting to order.

The Chair: Before we get into the order of business this afternoon, I wonder if we could rise at this moment as we're beginning this meeting. Many of our colleagues who are absent today and absent from other meetings are paying tribute to four brave men who died for this country and for their families. Out of respect, I wonder if we could stand for one moment, please.

[*A moment of silence observed*]

The Chair: Thank you. You may be seated.

I apologize for the fact that we have empty chairs today, but this is the best we could do under the circumstances.

We're always pleased to have our representatives from Farm Credit Canada here, and today we do our annual briefing. In fact, I think we maybe met more often than that, but at least on an annualized basis we try to get together. Today we want to look at some of the activities with Farm Credit as they pertain to the BSE crisis and of course to our grains and oilseeds. It seems all areas of agriculture are basically in crisis today.

Today we have with us someone who is of course no stranger and a good friend to this committee, John Ryan, president and chief executive officer. We also have Greg Stewart, senior vice-president, national operations; and Jim Taylor, vice-president, venture capital.

Welcome, gentlemen.

I presume, Mr. Ryan, you want to speak first.

Mr. John Ryan (President and Chief Executive Officer, Farm Credit Canada): Yes, Mr. Chairman.

Thank you very much for that kind introduction.

Good afternoon, honourable members. It's a pleasure to be here today. As the chairman has indicated, this is an annual event. I think it's a good opportunity for us to talk about Farm Credit Canada and how things are evolving from an agriculture perspective.

I'll take the next eight to ten minutes for some brief introductory remarks and then open it up in terms of questions to myself, Greg Stewart, or Jim Taylor on the venture capital side. I'll give a brief update from an FCC perspective, then we'll talk about BSE, and I'll finish the presentation with some commentary on the venture capital.

Last year was a record year for Farm Credit Canada in terms of the corporation approving $3.4 billion of new money going out to the agriculture industry across this country. In the first 10 months of this year we've approved $2.9 billion of new funding, again to all industry sectors across the country, and we expect that by year-end, which is March 31, it will be around $3.5 billion in terms of new dollars authorized in favour of the agriculture industry. So it's another record year, actually surpassing last year. This is our eleventh straight year of growth in terms of the portfolio for Farm Credit Canada. Our portfolio overall has basically doubled in the last five years, and it is now at the $11 billion mark.

The corporation has been very active in new product development. Some of you may recall the discussions we had in other meetings here when we talked about some of those new products. By way of example, 43% of the business we did last year came from new products we didn't have five short years ago. Really, the message there is that we've been spending a lot of time with the industry, producers in particular, getting feedback from them on things we need to change in order to accommodate their particular needs and developing new products and services to meet those needs. I think that's the outcome of new product development and is reflected in the growth we've seen in our portfolio.

The Report on Business section of the *Globe and Mail* recently named FCC as one of Canada's 50 best employers for the second year in a row. In addition to that, in October *Maclean's* magazine included us in the top 100 companies in Canada to work for.

Mr. Chair, I'll now turn my attention to the beef sector. When we talk about the beef sector, we're talking primarily about our customers who are in the primary production side of things—cow-calf operations and backgrounder and finisher operations—as well as producers who have beef as a secondary line of their overall business. Our beef customers, both primary and secondary, make up about 17% of that $11 billion portfolio I just made reference to. There's no doubt that BSE has impacted our customers in the beef sector as well as the dairy sector, and indeed other sectors.

To help address the cashflow problems of our 14,600 beef customers, both primary and secondary, we put in place what we refer to as the customer support program. Basically, that is an opportunity for our customers who are having problems to achieve payment adjustments, either in terms of principal or interest postponements, so that we help them through this difficult period of time, because that's our ultimate goal.

At the end of January 2005 the arrears rate in our beef portfolio stood at 1.06%. That's about $19.6 million in arrears on a portfolio that's worth $1.8 billion. That's up slightly from a year ago, January 2004, when it was 1.03%, which is about $18.8 million in arrears on our portfolio. To put that in perspective, compare it to the arrears on the rest of the portfolio. The rest of the portfolio is what we refer to as 0.40%, or 0.396% to be exact, which is approximately $35 million in arrears on a portfolio of $9 billion, in round figures, if I exclude the beef on both arrears and in terms of total portfolio. So our beef arrears are about two-and-a-half times higher than what we see in the rest of the portfolio. So, Mr. Chair and honourable members, there's no question that there are challenges out there, and BSE and the continued closure of the border have had an impact on us.

We continue to look at the new beef lending on a case-by-case basis because we do believe in the long-term viability of this industry. As well, we're always open to looking at proposals for additional slaughter capacity in the country.

● (1535)

Again, each project is analyzed on its own individual merits. We don't just look at the short term; we have to look at it in terms of what is the long-term liability here of the slaughterhouse facilities proposed.

I believe our continued support of the beef sector can be demonstrated in at least three different ways. We went back and looked at May 2003 and said, “What have we done in terms of new authorizations since May 2003?” We have made 10,234 new loans to 7,200 customers, and we've authorized $884 million in new money to the beef sector, post-BSE or post-May 2003. Our portfolio, on a net basis, has actually increased from $1.6 billion to $1.85 billion. So clearly we see viability long term and we continue to support the beef industry in that perspective.

In addition to that, we have put something like 1,000 of our customers through what we call our customer support strategy, which was basically referred to earlier as providing a postponement of principal, or principal and interest, to help them through this difficult period of time.

As for the slaughterhouse facilities, since May 2003 we've approved seven loans for $15.3 million, and we're currently looking at eleven more applications.

I'll turn my attention now to the venture capital loan. It's relatively new to us. For those who are on the committee, you'll recall that it was part of our new legislation in 2001. We actually did get the venture capital division up and running in the fall of 2002, but from the very beginning we took a cautious approach to venture capital. Clearly, we wanted to start off and not see ourselves with a lot of early losses that could actually negatively impact the corporation, other producers, or the long-term benefits that we could see by having venture capital in the agriculture industry. So the approach was intentionally positioned as cautious.

You might recall that when we did the new legislation there was research put on the table at the time that despite the fact that something like $36 billion of Canada's GNP was coming from the agricultural sector between the 1998 and 2001 timeframe, less than 1% of venture capital was going into the agricultural industry. So we thought there was an opportunity there for us to help the industry and help our customers.

We also made a conscious decision that we wouldn't go it alone and that part of the role of Farm Credit on the venture capital side would be to leverage our dollars with others, bring other venture capitalists into the market. So when we launched the venture capital division in the fall of 2002, we decided to focus on small and medium-sized firms in the following areas: one, agriculture and plant biotech; two, food processing and manufacturing; three, commercial scale primary production; and four, businesses that support agriculture.

When we look at the venture capital proposals, clearly they need to be Canadian companies with a well-defined market and high growth potential. We don't invest in the very early pre-commercialization, in the R and D stage of companies. We're clearly looking for companies that have credible sales and distribution channels, with a sustainable competitive advantage, given the risk that we're taking on when doing venture capital.

We are looking for management that's experienced, well balanced, and has a financial commitment to the business. They must also have a long-term incentive to succeed as shareholders, and we need, from a Farm Credit perspective, to see what our exit strategy will be some years down the road.

From January 2003 to January 2005, the last two years, we've invested in 10 companies. We've placed $21.2 million of new capital, and with the investment partners I referred to earlier, we as a catalyst have invested another $48 million in agriculture.

As I stated earlier, only 1% of venture capital was going into agriculture prior to 2001, or during that 1998 to 2001 period, because their focus clearly was on the high-tech side of things. But during all of 2003 and the first three quarters of 2004, the number grew to 6.8%. So I think we're moving in the right direction.

I believe FCC Ventures has significantly increased the amount of capital investment in the agriculture sector, and that comes from the contribution together of ourselves with our partners in venture capital. FCC Ventures is involved in 35% of the dollars that were invested in agriculture-related venture capital initiatives over this period of time.

● (1540)

In total, Mr. Chair and honourable members, we have reviewed something like 476 proposals to date. I referred earlier to the fact that we actually invested in 10. We actually authorized 11, but there was one we didn't disburse on, thus the change in the risk. And we have about dozen more that are in due diligence at this point in time. We have included—and I believe the package has been circulated—a summary of the 10 investments that have been made to date.

You might ask what's next from a venture capital perspective now that we have a couple of years under our belt. We're looking at expanding our operations. We're looking at establishing a new office in Ontario and a new office in Alberta. Really, our goal is to be fully national in scope and be as close as we can to the regional markets so that we continue to build on the reputation of success in the agricultural side of things in terms of investment.

So, Mr. Chair and honourable members, that's a very high-level overview. I've tried to keep my remarks brief because I know there'll be lots of questions. I thank you very much. Jim, Greg, and I would be happy to respond to your questions.

● (1545)

The Chair: We'll begin the questioning, and we'll take most of the questions from this side today.

Mr. Ritz, you're first, for seven minutes.

Mr. Gerry Ritz (Battlefords—Lloydminster, CPC): Thank you, Mr. Chair.

Gentlemen, it's good to see you again. We always welcome your comments.

One of the mandates of Farm Credit way back when was that of a major role as a lender of last resort. Does that thought process still go into some of what you're looking at?

Mr. John Ryan: The short answer to that is no. In 1993 we received a new mandate, which basically ended the lender of last resort mandate for Farm Credit Canada.

You might recall that at that point in time we had come through some considerable losses. The federal government recapitalized the organization at the time, to the tune of about $900 million, and we were given very clear direction and guidance that the government wanted us to stand on our own two feet from then on and move away from being the lender of last resort.

So, Mr. Ritz, that doesn't apply now.

Mr. Gerry Ritz: All right.

We're getting back into a situation in which cash is at a premium at all levels of agriculture, coast to coast. You've seen the numbers: negative $13 million; 2004 is looking bad; 2005 isn't looking bright as we start into it.

We're also seeing the federal government withdraw from the one minor program they're still involved in, the farm improvement loans. That's going to have a major impact in Saskatchewan, which used a lot of those. Credit unions are going to be left holding a lot of those dollars.

Where will agriculture producers go as they continue to hit this fan if the mandate of FCC...? And that's basically why it was created way back when in the first place. Do we have to build another Farm Credit Canada from the ground up, or can we re-mandate? Where are we going to go?

Mr. John Ryan: I don't think you need to build another one, and I didn't want to leave anybody with the impression that all we're interested in is taking low-risk proposals. I don't believe there is any way we would find ourselves into authorizing $3.5 billion in new financing if we were just interested in the low-risk side of things.

What we're clearly interested in doing, though, is spending time with producers one on one, looking at their individual proposals. If we feel there's viability there, short-term and long-term, we're going to be there to support them.

Mr. Gerry Ritz: On a case-by-case basis?

Mr. John Ryan: On a case-by-case basis, yes.

Mr. Gerry Ritz: The farm debt right now, coast to coast for all commodities, is sitting somewhere in the neighbourhood of $50 billion and climbing. You guys are carrying some of that, the chartered banks are carrying some, and of course the credit unions are carrying a big chunk too. A lot of people try to categorize this as so-called good debt. Do you follow that logic? Good for whom? Of course, it's not good for the farmers out there.

Mr. John Ryan: The whole question of how debt has risen is a very good one. We look at it from the perspective of the basis on which those dollars were borrowed and whether the producers can take those dollars, invest them, and get a return on them. That's the process we follow when we go through looking at any of our loan applications.

So, yes, the debt has grown, but we just don't look at the direct debt only; we look at the balance sheets of the individual producers. What strengths do they have? What's their earnings ability on a go-forward basis? The thing I'll give full credit to the producers for is that they work extremely hard to repay their debt.

Mr. Gerry Ritz: The equity-to-debt ratio out there on the farm is just horrendous. I'm looking at numbers that say it takes $130 worth of overhead to create $1 worth of income. How are producers and you as the lender going to handle this short-term and long-term? We have to come out of this at the other end with producers still on the land. We don't want to be importing our foodstuffs when we produce the safest and the securest. What kinds of plans do we as a government and you as a lender need to work at?

Mr. John Ryan: The big area we work on—and I can only speak from a Farm Credit perspective—is working very closely with producers, sitting down with them on an ongoing basis, one on one and in focus groups, and saying, okay, here's our spectrum of products and services, but what else do we need to do?

In my opening remarks I made reference to the fact that 43% of the new loan business we did last year came from products we didn't have over the last five years. That's clearly a result of listening to producers and making changes to our program to best suit the individual producer's needs.

Mr. Gerry Ritz: You were talking too in your address, John, about $3.5 billion in new loans in the past year. Can you give us a regional sectoral breakdown of this? Can you tell us what part is actually going to the farm gate and what is going to what I will call the agrifood side? I know you are getting into processing and so on more and more. Is it fair ball to ask for this?

Mr. John Ryan: Sure it is.

I'll ask Greg Stewart, who is actually in charge of operations, to provide the region-by-region detail.

● (1550)

Mr. Gerry Ritz: You don't have to do it right now. You can write it on paper and submit it to the committee clerk.

Mr. John Ryan: I think we can do both. We have it now and are able to provide you with it. Anything we don't have, we can always send back to you.

I'll turn things over to you, Greg.

Mr. Greg Stewart (Senior Vice-President, National Operations, Farm Credit Canada): Thank you.

I have this year's numbers for the year to date, if that would be okay. I think it would be reasonably similar to last year. This is to January 31.

For Alberta and B.C., year to date, Farm Credit has dispersed in total \$705 million; in Manitoba and Saskatchewan, \$613 million; in Ontario, about \$900 million; in Quebec, \$242 million; and in Atlantic Canada, about \$190 million. That totals about \$2.9 billion as of January 31. We expect to finish the year up at \$3.5 billion this year, \$100 million more than we lent last year. Of that money about \$460 million, year to date, would be in our agribusiness sector, as you would classify it.

Mr. Gerry Ritz: Is that farm gate or agribusiness?

Mr. Greg Stewart: About \$2.5 billion would be direct farm gate. The way we currently classify agribusiness, probably \$200 million of that would also be in super primary, large hog operations and things like that. Really, it would be \$250 million, roughly, in true value-added operations.

Mr. Gerry Ritz: And that would be out of that total of \$460 million.

Mr. Greg Stewart: That's correct.

Mr. John Ryan: I think if you used round figures it would be \$2.7 billion on the primary side with \$200 million to \$250 million on the value-added, which is a pretty good split, or very close to what we're seeing there.

Mr. Gerry Ritz: All right.

The federal government's response to getting the packing industry expanded in this country—of course the major packers are already doing that, and nobody's concerned about the under-30-month capacity any more, or shouldn't be. The concern now is with all other livestock sectors. Our hogs are being challenged now—but not if we put them in a box—so we need to ramp up our hog slaughter facilities.

Buffalo and elk have nowhere to go. There is demand for those products but no place to take them. And of course there are concerns with the over-30-month animals, including our culls. That's where I think we really need to put some pressure on and develop those markets.

You're talking about some packing incentives. You've signed on. Of course, nobody's putting concrete in the ground at this time of year. But there's a huge concern out there that we should have been doing this a year ago. With the loan loss reserve, you guys are the first lenders to actually cross the t's and dot the i's and be ready to go. There are no forms yet, but I understand you've already put one project together with that as a backstop.

Is there any other vehicle, maybe your venture capital? I've talked to a number of people up in my area. We have a third of the cow-calf up there. They would love to do something. I've talked to Larry Hayes out of the Saskatoon office. It's just a matter of getting all the players around the table.

There are some great business plans out there, but everybody talks about sustainability. The mindset with the government is—we're already doing that—that it's concentrating on that other line of productivity, the under-30-month segment.

Are you making the differential between what's sustainable that doesn't go against the Tysons and the Cargills, or do you strictly look at a business plan and its numbers?

Mr. John Ryan: If part of the question is would we look at culled cows as well as those under 30 months, the answer is yes. In fact in my opening remarks I'd made reference to our having authorized financing for seven slaughterhouse facilities to date. One, if not two, will be totally focused on culled cows only.

I don't know if that fully answers your question.

Mr. Gerry Ritz: I'll get back to it. Thanks.

The Chair: Madam Rivard, you're up next.

[*Translation*]

Ms. Denise Poirier-Rivard (Châteauguay—Saint-Constant, BQ): Thank you, sirs, for coming here to enlighten us on this subject.

First of all, I'd like to know what kind of business relationship you have with La Financière agricole du Québec.

[*English*]

Mr. John Ryan: The question is, do we have relationships with La Financière agricole du Québec at the provincial lending level?

[*Translation*]

Ms. Denise Poirier-Rivard: That's right.

[*English*]

Mr. John Ryan: I'll ask Greg Stewart. He works closely with Alain Gagnon, our vice-president of the Quebec region.

Mr. Greg Stewart: I don't believe we have any formal relationship with them, although Alain certainly has an informal working relationship with that organization. Beyond that, unfortunately, I don't know.

Mr. John Ryan: I could add that we have had discussions with La Financière agricole. In fact, I know within the past 18 months, I did sit down with the president of La Financière agricole and asked how the two organizations could work together. I can't honestly say at this point in time that anything substantive came from that, but we did sit down and have some discussions. We try to maintain those discussions to see what might be possible. We are not what is considered to be an approved lender under the *financement*, the actual program today, though.

• (1555)

[*Translation*]

Ms. Denise Poirier-Rivard: In Quebec, the focus of our concern at this time is young farmers. The Bloc Québécois has a number of proposals that it would like to make. I'll share a few of them with you, and I'd like to get the FCC's reaction to them.

The first proposal concerns the future of young farmers. We'd like the amount eligible for the capital gains and farm property exemption to be increased from $500,000 to $1 million, solely in cases where farming operations are subsequently maintained.

Is this an option that the FCC is prepared to consider?

[*English*]

Mr. John Ryan: Actually, the translator didn't catch your question.

[*Translation*]

Ms. Denise Poirier-Rivard: I'll repeat the question slowly.

We're proposing that the amount eligible for the capital gains and farm property exemption be increased from $500,000 to $1 million, solely in cases where farming operations would subsequently be maintained.

[*English*]

Mr. John Ryan: Although this certainly is not within our realm of authority or anything like that, anything that can be done to support or encourage the young farmers would be a plus, from our perspective. I do know we work with the Canadian young farmers right across the country very closely. We have been financially supporting them over the last three, maybe five years, and we spend time with them on a regular basis, asking where their needs are, where we need to change, and what would be good to help young farmers.

Last year, for example, about $650 million of that $3.4 billion of new funding went to young farmers.

Does that answer your question, though? It's as best as I can, because we don't have any authority here to say. That was not our program.

[*Translation*]

Ms. Denise Poirier-Rivard: Do you think that proposal is feasible?

[*English*]

Mr. John Ryan: I don't know because we don't have any authority in that particular area. I guess I'll repeat myself. I'll only say that if things are done that work for the benefit of the young farmers, great.

[*Translation*]

Ms. Denise Poirier-Rivard: I'd like to share with you some of our other proposals and perhaps you can respond.

Our second proposal calls for the government to extend the transfer rollover rule to all immediate family members under the age of 40.

Since you weren't able to answer my first question, I'm assuming you won't be able to answer the second one either. What matters is that persons can leave and assign their property to the young farmers. The industry is facing a serious crisis at this point in time and we're concerned about the fate of Quebec's young farmers.

That's why I'm asking you these questions.

[*English*]

Mr. John Ryan: Is the question around what more can be done for the transfer, then, or does it tie back to the capital gains exemption?

[*Translation*]

Ms. Denise Poirier-Rivard: It ties in with both aspects. Is there some way that you could intervene? What kind of assistance can you lend to young farmers? What possible solutions do you see to this situation?

[*English*]

Mr. John Ryan: Greg has just signalled to me that he has some thoughts, so I'll hand it over to him.

Mr. Greg Stewart: Thanks, John.

In terms of young farmers under 40, 17% of Farm Credit's portfolio is to producers under 40, so it's very important to us as well.

We also have a suite of products under our agri-start banner to help enable that. We work with our producers, the Canadian Federation of Agriculture, the Canadian young farmers, to see what they need. We have loans like the transition loan where we disburse up to 90% of the purchase price and allow it to be paid out over four years. The entrant into agriculture, for example, doesn't have to come up with all the money up front. They have to come up with only a little bit at first, and the vendor gets paid out over four years—guaranteed by us. They have no money at risk. We're trying to facilitate the transfer of assets from one generation to the next.

We also have a first-step loan where we lend money to people who have recently graduated with a post-secondary degree or are currently enrolled. If they do a business plan, we will, again, loan up to 90%.

We have payday loans where we allow limited down payments to people who are just getting started, people who have off-farm jobs and are trying to transition into agriculture. We facilitate that.

We have a cashflow optimizer loan where we allow interest-only payments to allow people to maximize the use of their money.

Currently, those are some of the products we have. We're continually open to new ideas or to developing other ones.

• (1600)

The Chair: Your time has expired.

We'll move to Mr. Bezan.

Mr. James Bezan (Selkirk—Interlake, CPC): Thank you, Mr. Chair.

I just want to follow up on the venture capital that Mr. Ritz was questioning on. I believe I talked with Mr. Taylor last fall. I called in to the office to talk about the venture capital fund, its use, and I'm glad to hear there have been seven authorized.

I'm just wondering if the program is being used also to address some of the regional disparity that we have, to make sure that packing plants are getting developed in areas where we don't have sufficient capacities. Has there been any consideration of that? Have there been any plants approved for this program in Manitoba?

Mr. Jim Taylor (Vice-President, Venture Capital, Farm Credit Canada): We have no criteria in venture capital to focus on any one region of the country more than any other. That answers the first part of your question.

In venture capital we've looked at seven proposals, including one in Manitoba. We have not decided to invest or participate in any of those yet. There are no unique investment criteria for the beef industry versus any other type of proposal we would look at in venture capital. The criteria remain the same.

I think when we spoke, Mr. Bezan...each proposal comes in and is evaluated against the same set of criteria independent of which industry it's in or where it may come from in Canada.

Mr. James Bezan: You realize, though, that the health of the overall cattle industry is going to be largely dependent upon getting plants built across the entire country and addressing this regional disparity. If FCC's venture capital fund is not going to help make those investments to make sure those plants get up and running, it's going to affect the health of all the producers in that area. It could affect the entire bottom line—versus the little bit of money that you could throw in as seed money to get these plants going.

Mr. Jim Taylor: We have nothing against investing in the slaughter industry. The criteria are no different, as I mentioned, for that industry from any other. We've looked carefully at the plans and matched them against the criteria that we've set for the fund. To date, the plans have not matched up.

I should mention that of the seven we've looked at, only two of those actually followed up with completed plans. Five of the seven were executive-summary-type plans that were submitted, and detailed business plans never followed.

Mr. James Bezan: I would suggest, then, that the board of directors need to take into consideration some policy changes and criteria selection to make sure that the overall health of the agriculture industry is not going to affect the bottom line of FCC.

Mr. John Ryan: I think we are pointing toward having slaughter facilities where the cattle producers are. We couldn't agree with you more. As we talked about earlier, there's $1.8 billion that we have out there, so quite frankly, it's in our best interest. On a selfish basis, you could look at that from the point of view of FCC to see slaughterhouse facilities move forward.

In regard to the proposals, what I referred to earlier about seven new authorizations post-BSE, three are in Alberta, two are in Ontario, and two are in Saskatchewan. I think that does to some degree at least touch on your question. I think where Jim was going with his response was that it's not a separate criterion in itself, but it does get factored in at the end of the day.

Mr. James Bezan: We're still missing Atlantic Canada and Manitoba. They're without any facilities and are largely dependent upon other areas to take their animals. And they become the last source because there is so much opportunity closer to the plant than having to go far away. So that affects the bottom line of those farms that already are in the red.

● (1605)

Mr. John Ryan: This is a work in progress, if I could put it that way, from the perspective that this is not all we're going to do, but as the proposals do come through, they come in and they have a business plan, we'll go through them and see if they make good business sense. Our position on it, be it on the venture capital or the regular term lending, is it's no good for us to put something in place that's going to last for 12, 24, or 36 months. We want to look at the long-term viability; we want to see what commitment the producers have, what tie-in they have there, so that post-border-opening they're there and there's going to be longevity. So I think over time you will see others come on board.

Mr. James Bezan: We can't bank on the borders opening, so we have to take a look at right now. You guys have some capabilities here, as agricultural lenders and investors, to help move us along, and with a crown corporation to boot we should be taking a little higher risk than what we would in the commercial industry.

One of the things I also wanted to take a look at is foreclosures. I have seen some FCC foreclosures in my riding. Some guys are forced out. I was hoping that there would be a little more compassion in my area from Farm Credit Canada, that they wouldn't be as aggressive as a bank, because I don't hear of as many other lender foreclosures in my area as I do from FCC. Maybe they contact me because I'm an MP and you're a crown corporation. Regardless, I thought there would be some compassion that way. I'm not saying that all these people were great clients before BSE, but I think the timing couldn't be worse. And there's even some fairly strong wording used in some of the letters that were circulated to them from lawyers—it actually came from an FCC lawyer, I believe—saying that they're going to leave them penniless and homeless. So it was quite strong wording, and I was disappointed to see that.

Mr. John Ryan: Perhaps I'll start on it, and Greg might want to add to it.

I'd like to speak on behalf of the corporation, the whole area of accounts, or customers, and problems. We do take it very seriously. And quite frankly, the going into foreclosure realization is absolutely the last option. We've come through very difficult times, the late 1980s and early 1990s, and at one point in time the organization had something like $1.4 million of land that it held in Saskatchewan. We made a conscious decision in 1999 that we should not be in the land business and we want to return that land back to the producers.

Today, we have about 5,000 acres. I went through and had a look at it before coming into this particular meeting to see how many loans we have in what we call “special credit”. Those are the ones that are in challenge or in difficulty. About 1,000 customers are there at this point in time. And then I went a step further to see what kinds of resolution rates we are having. In the first 10 months of this year we resolved—what we call resolved, but they were dealt with—something like 855 accounts, 297 of those ended up getting repaid in full. I suspect that there must have been refinancing that took place. There was another 400, or 47% of those, that actually returned to full performing status, which means we're working through with the customers through postponements, restructuring, and so on, to bring them back in good standing. There were 75 more about which we've reached settlement terms, but things just haven't been finalized to date. And out of the 855 there were 67 that went through a power of sale and we acquired title on 17. So about 90% of them were addressed in some other way versus going into a power of sale or acquiring title. That's really our last option. It doesn't do us any good and it certainly doesn't do the producer any good.

The Chair: Your time has expired.

We'll move to Mr. Gaudet.

[*Translation*]

Mr. Roger Gaudet (Montcalm, BQ): Thank you, Mr. Chairman. I'd like to begin with a comment.

You appear before the committee only once a year. Your brief appears to be quite interesting and it contains a lot of figures. Next time, would it be possible to have copies for us in both official languages? You spent eight minutes reading your text and I can't recall everything you've said. I only hope that next year, everyone will receive a copy of your submission in both official languages. Thank you.

Now for my first question. You awarded $3.4 billion in loans in 2003 or 2004. How many cases of debt consolidation did you see?

● (1610)

[*English*]

The Chair: I should point out to you, Mr. Gaudet, in fairness—

[*Translation*]

Mr. Roger Gaudet: I was referring to his statement which was not available in French.

[*English*]

The Chair: —Mr. Ryan didn't have an official presentation for anyone today, so none of us got a presentation. It was spontaneous.

[*Translation*]

Mr. Roger Gaudet: It wasn't a criticism, Mr. Chairman. All I'm saying is that next year, I hope his submission is available in both languages and is circulated to all committee members. I didn't say anything about his brief being in only one language. I asked him to provide us with copies in both official languages next year. I think he understood what I was saying.

[*English*]

Mr. John Ryan: Yes, and indeed my apologies, because whatever we do, we do in both official languages. In fact we did have a copy of my speaking notes provided to the translators, so your request is not a big request at all. And in future when we come we will have English and French and we'll circulate it before we start the meeting.

As it relates to your question on the new financing of $3.4 billion and how much of that is involved in refinancing or restructuring, I'll give you an estimate right now, because I don't have precise figures: About 80% of it is involved in land, building, quota, equipment purchases, and so on. About 20% we would find in the restructuring consolidation side, and that may vary a little bit on a regional basis but not appreciably.

[*Translation*]

Mr. Roger Gaudet: If my understanding is correct, the Farm Credit Corporation operates much like a financial institution. Loans are fully secured. Does the FCC offer first or second mortgages? Does it intervene in the lending process before or after the bank, or financial institution? I don't want to use the word “bank” because we also have credit unions. Does it intervene in the process before a financial institution?

[*English*]

Mr. John Ryan: On a point of clarification, we don't get into loan guarantees. There are straight loans where we take mortgages, be it on land, building, equipment, quota, or whatever the case might be. When we do go in to provide the financing, the bulk of our financing would be provided on a first mortgage basis. It wouldn't be secondary to the charter banks or other financial institutions. What we often find is that we will take a charge on what I'll call the “hard assets” of the organization or the business—a primary production operation or otherwise—and the charter banks would look at securing a line of credit by accounts receivable, inventory, and so on, which is a different charge from what we'd look at.

[*Translation*]

Mr. Roger Gaudet: Mr. Ryan, if I understood you correctly, you stated earlier that your institution had recorded a deficit of either $1 billion or $900 million in 1993. Is that correct?

[*English*]

Mr. John Ryan: That is correct. I used the figure of $900 million, but be it $900 million or $1 billion, it was a cumulative deficit that took place over a number of years from the 1980s into the early 1990s. In the late eighties or early nineties the government started to recapitalize the corporation, and the cumulative amount was close to $1 billion.

[*Translation*]

Mr. Roger Gaudet: At the time, your institution was helping farmers. Today, that's not the case. It's virtually a co-owner. If the FCC provides a loan and a problem arises, the corporation repossesses the property, sells it and doesn't lose any money. The FCC has become a virtual financial institution.

Given the current crisis within the agricultural industry — and you're not to blame for this — perhaps the time has come for the committee to ask the government in power to offer interest-free loans to farmers. Judging from what I've learned recently, farm debt totalled $2.1 billion in 2003. Many people must be behind in their loan payments, or else the bank only made loans to its good customers.

[*English*]

Mr. John Ryan: There are several components to your questions or your comments, sir, so I'll look to try to address them one by one.

Yes, we are a financial institution. I think the second part of it, in terms of drawing a conclusion that because we're a financial institution we're not helping our primary producers in the value-added operations, I don't agree with because what we get is regular feedback from our customers right across the country that if it wasn't for Farm Credit Canada, they wouldn't be here today.

We do take risks. We take lots of risk, and it does show up in our portfolio in terms of realizations, arrears, and so on. The key difference I would see within the corporation is we truly do look at our customers as partners. We want them to succeed and we'll do everything in our power to help them succeed. As a financial institution this is not about just wanting to make loans. There has to be a good proposal there, and we want to get behind the producers and help them succeed and achieve their dreams.

● (1615)

[*Translation*]

Mr. Roger Gaudet: If my understanding is correct, your program is funded by the Canadian government. Where do the loan funds come from, farmers or the government? Where did you get the $3.4 billion loaned to farmers last year?

[*English*]

Mr. John Ryan: We don't get any money from the federal government through the consolidated loan fund.

[*Translation*]

Mr. Roger Gaudet: I'm not saying the government gives you money. As is the case with certain other programs, the government may loan you some funds and when loans are reimbursed to the FCC, it in turns reimburses the government. That's what I'd like to know, to be certain that the government is not investing a cent in this institution. Where do you get the $3.4 billion provided in loans each year? Do you get these funds from banks or from financial institutions?

[*English*]

Mr. John Ryan: We pour all our money into the open market, which means we have a full-fledged treasury operation. We'll borrow money in Canada, the United States, Europe, or wherever we can get the cheapest cost of funding. Then after we borrow that particular money, we lend it out to our Canadian customers. We charge our markup on that, from what we have to pay to what we charge our customers, to cover our overhead and finance our growth.

At one point in time, we used to get all out money from the consolidated revenue fund, from government, but we don't do that now, with the exception of the last two budgets. There was an announcement that there would be $20 million a year going into venture capital. We haven't received that yet, but it's planned and allocated for, I guess.

[*Translation*]

Mr. Roger Gaudet: Thank you, Mr. Chairman.

[*English*]

The Chair: Thank you.

We move on to Mr. Miller.

Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC): Thank you, Mr. Chair.

There's something I want to go back to, John, related to what Mr. Bezan was asking you. You made a comment that a thousand producers—I call them farmers—who had loans with you were in trouble. Was that specific to Manitoba, where Mr. Bezan is, or is that nationally?

Mr. John Ryan: The thousand I was referring to are a national figure. Those dollars have specifically taken advantage of working through what we call our customer support strategy, which is postponing payments, be it interest or principle, and having some form of restructuring. That's all just in beef, though.

Mr. Larry Miller: Oh, it's just in beef.

Carrying that just a little bit further, do you have a breakdown on either a percentage or numeric basis, per province or region? Do you have that off the top of your head?

Mr. John Ryan: Very much so. Just in the beef sector or the total portfolio?

Mr. Larry Miller: No, carrying on with just the beef end of it.

Mr. John Ryan: I'm not sure we have it. I'll just confer with Greg to see if we have the details.

Mr. Larry Miller: I'll maybe let him look for that. Maybe he can come up with it later.

Mr. Greg Stewart: Sorry, but are you looking for the number of customers who would have applied under customer support, by province?

Mr. Larry Miller: Yes, I just wondered if you had it by province or region or something.

To carry on here, going back, one thing I am pleased to see to a degree is the 3.4% that your outstanding loans are up. But at the same time, that makes a bunch of bells go off.

First of all, for two I see that the loan size has decreased. That tells me or could tell me a number of things. One is that basically you're not putting as much trust in the individual. I'd like some explanation on that. I know that rather than just lending money for farms, you are getting more into lending money for cows, along the lines of how the feeder finance co-ops work. Maybe you could comment on that a bit.

Mr. Greg Stewart: So just for clarification, you're wondering about the loan size decreasing.

Mr. Larry Miller: Yes, that's part of the question. I have some more to go with it, but perhaps you could address that part of it.

Mr. Greg Stewart: The reason why any of our loan sizes would be decreasing would simply be because of the kinds of businesses we're now lending to. To your point, in our feeder finance loans we're doing a lot more personal property lending on equipment. Typically that type of lending would be a smaller dollar amount than a mortgage on a property. So I don't think it's a change in the industry year over year or anything like that, it's just simply that clients are coming to us for more different types of loans than they have historically. We're doing more personal property lending and feeder lending to support the industry, so the average loan size would be shrinking.

● (1620)

Mr. Larry Miller: In your opinion, would a lot of them maybe be farmers who were sitting in fairly good shape before and maybe didn't owe a lot on their machinery, but because of the crisis in the beef industry they're coming out and are refinancing or taking out a loan to survive through this?

Mr. Greg Stewart: Generally speaking, my belief is that would not be the case, actually. Certainly there would be examples of that, for sure. With many of our industries today.... I believe there's no doubt that certainly in beef and in grain or other sectors there are individuals who are having difficulties, without a doubt. There are also individuals, with today's rate environment, etc., who see opportunities in agriculture and they are expanding their operations. The one thing that gives me comfort, as opposed to 10 or 15 years ago, when I was certainly well involved in the farm debt situation with Farm Credit in this country, is that the asset values are holding their own or increasing at the same time that the debt levels are going up. Somebody is seeing an opportunity to expand their operation, to get into agriculture, because the asset values are being maintained while the debt is going up. That does give me some level of comfort that we're not on the cusp of.... Generally, it's a healthy industry out there. We have some severe problems in some areas, but there are people who see opportunities.

Mr. Larry Miller: Going back to the lending on the cattle end of it, in one way as a producer it's nice to have another option out there, whether it's feed or borrowing money, or what have you. But I have this feeling that in this case with the crisis we're in, it could actually be prolonging and maybe be contributing toward the overpopulation, that kind of thing.

I guess I would like to get an idea as to what percentage of your loans are out in actual cattle versus farms, say, compared to five years ago, or something like that.

Mr. Greg Stewart: I'll take a stab at this.

Roughly 8.5% of our $10.8 billion portfolio in our traditional lending is outstanding to producers who are primarily beef. A lot of that would be around their land—their pasture land, hay land, etc.—as well as some on the cattle. Our pure feeder financing-lending, our more short-term financing, would be somewhere around a couple hundred million, I think. Our lending is down largely because there are not as many opportunities out there and also the asset values are down.

The Chair: Okay, for now.

Mr. Simms.

Mr. Scott Simms (Bonavista—Gander—Grand Falls—Windsor): Thank you, Mr. Chair.

On early to mature stage, I'm just reading what you have here, which is “Build on Success”, and you say “a sustainable competitive advantage”. How do you gauge what exactly is a sustainable competitive advantage, and with whom?

Mr. Jim Taylor: I assume that's for venture capital.

Mr. Scott Simms: Yes.

Mr. Jim Taylor: It is one of the criteria. In relation to against whom or with whom, it would be compared to other companies in that sector or in that industry. Some of the companies that we evaluate, for example, would be in agricultural biotechnology. An example of a sustainable competitive advantage would be a new development in crop science. We would want to know that the patent position of that business was sound and not something that could be stolen easily or replicated easily by another company, another larger business, that would simply put them under very quickly

Mr. Scott Simms: It's primarily in the broad international market, you said.

Mr. Jim Taylor: No, I didn't say that.

Mr. Scott Simms: No, but if you're talking about a patent, you want to put this and make it—

Mr. Jim Taylor: That would just be one example. For example, we would also look at a business that would be developing its ability to produce biodiesel fuel here in Canada and a business that perhaps would have a better methodology or a better process to produce that, such that they would be a low-cost producer. That would be something that would be sustainable over the long term. It would be a business, for instance, that had some presence in the market that could not be easily overtaken. They would be largely Canadian companies, remember. These are businesses that are mostly concerned with what they can do here in Canada.

● (1625)

Mr. Scott Simms: Okay. You are a member of the Canadian Centre for Philanthropy. Is that correct?

Mr. John Ryan: Yes, we are.

Mr. Scott Simms: Okay, 1.5% of your net earnings go to various organizations, 4-H and food banks. How do you figure out who gets this money out of the 1.5%? How do you decide that? Are there more than what I see here, or other than 4-H and the food banks?

Mr. John Ryan: Yes. I'll deal with this question.

We decided about seven years ago that we would be part of, or participate in, the Centre for Philanthropy. To be a member of that, you have to dedicate 1% of your profits. So we've established a focus; it's on hunger and food, and it's on safety. They're the two areas we focus on. That's where the food banks would come in, as an example—or 4-H could come in there on the safety side. Those are the two key areas, but there are others that could be on the fringe.

For a small group of people within our corporation that's their only job, because every single day we receive requests. They're all good proposals, but we can't support them all.

Mr. Scott Simms: How much do you...?

Mr. John Ryan: I can't tell you the precise amount that it was last year, but it would have been in the $1 million to $1.5 million range. If it's 1.5%, for example, and our profits last year were $106 million, 1.5% of that is going to get you in the $1.5 million range.

Mr. Scott Simms: Is 1% the minimum threshold to be involved? Is that correct?

Mr. John Ryan: Yes.

I'm not getting hung up on just saying it has to be 1% or 1.5%, but the position we've taken as a corporation is that if we're going to live and work in these communities, we should be prepared to give back to those local communities. What we find ourselves doing an awful lot is that the local employees in our FCC office will identify something going on in the community that's good for the local community. They'll invest their time and some of their money, and we'll do a matching of that to help. United Way would be an example of that.

So anything we see that is of value to the local community, we'll look at that with certain criteria and make a conscious decision: can we support it or can we not? In most cases, we find their requests are way up here, but we find ourselves coming in down here. But we still think we should be a participant in those local communities.

Mr. Scott Simms: Do you divide it up, say, within regions? Do you make sure it's an equitable portion across the entire country?

Mr. John Ryan: We make sure that every single proposal we're looking at comes through one of the local offices. We don't want to find ourselves in the corporate or head office looking at this and saying yea or nay. Instead, what does the local office actually do?

Greg, I think you can touch on this in terms of the rural development fund component of it. I think with the recent dollars we've been looking at on the infrastructure side, it's actually broken down on a percentage basis across the country.

Mr. Greg Stewart: I don't know the exact percentages either, John, but we certainly look at distributing them equitably across the country, based on where our staff are located and what's going on within the area.

The Chair: Ms. Rivard.

[*Translation*]

Ms. Denise Poirier-Rivard: What impact is BSE currently having on the FCC and do you anticipate an increase in the number of problem loans? If so, what steps are you planning to take to help farmers weather this very unique crisis?

[*English*]

Mr. John Ryan: Well, let me start by stating that we've already seen an impact from BSE. We have more customers in arrears than we've had before. If I look at the beef portfolio versus everything else we have lent to, the number of arrears in the beef portfolio are about two and a half times the size of the rest of the portfolio. So we have already seen the impact there.

We've seen the impact in terms of having to work with more customers through the customer support strategy, as far as reconstructing loans and providing postponements of interest and principal are concerned. I expect that's going to continue; I don't see any short-term solutions to that. But we've made a conscious decision as an organization that we'll continue to support the beef sector, not just on the new financing side but also very clearly working to support the customers we already have.

● (1630)

[*Translation*]

Ms. Denise Poirier-Rivard: I'd like to get back to the subject of young farmers because we are very concerned about their plight. If several young people were to present to you a very detailed business plan in an eligible sector, would you come through with a loan for them, even if their business was people-driven? How far are you prepared to go to help young farmers in the processing or value added sectors?

[*English*]

Mr. John Ryan: Certainly from the point of view of supporting the young farmers, we'll do everything it is in our power to do, because we do think we have to do everything we can. At the end of the day, we'll have to look at the business plan and ask, Do we see long-term viability there? Do we see a commitment from the young farmer? Do we see an opportunity for them to grow and develop either on the primary production side or on the value-added side?

It was only two weeks ago that we spent a full day with the Canadian Young Farmers Forum as part of the CFA, going through, providing workshops in terms of business management, demonstrating and profiling our new software called AgExpert on the financial management tool side of things. We spent about three hours with them just talking about what it is they need on the financing side of things, and what it is they need in terms of what they're not getting today that FCC could step up to the plate and make some changes on.

We clearly do find it is very important for us to work with Canadian young farmers, and we've selected primarily the Canadian Young Farmers Forum because it's a cross-section from across the country for us to get that feedback and for us to be able to make changes.

[*Translation*]

Ms. Denise Poirier-Rivard: You're not telling me what you're prepared to offer them financially. I want to know what kind of financial assistance you can provide to these young persons.

[*English*]

Mr. John Ryan: Perhaps I'll get Greg to go back.

You made some reference earlier, Greg, but be very specific on the ones that are targeted to the Canadian Young Farmers.

Mr. Greg Stewart: Thanks, John.

We absolutely would be willing to look at any proposals, certainly from young farmers. And the Agri-Start suite of products that I mentioned before would be there to help facilitate their starting, whether it be in primary production or in agriculture value or in an agribusiness operation. The transition loan or the first step loan or cashflow optimizer loan allow them to get started with limited down payments and a limited history, and to be able to grow their business over time.

Young farmers are the future of agriculture and the future of our company as well, and we are trying to do everything we can to help them continue in agriculture and help agriculture to be a viable industry for many, many years to come.

[*Translation*]

Ms. Denise Poirier-Rivard: Many young farmers contact us and want to know if we can give them some assistance. Could you tell us what kind of eligibility criteria you apply?

[*English*]

Mr. John Ryan: It would, without a doubt.

I think, Mr. Chair, what I would do is say let's put a package together and send it here for all members to have.

[*Translation*]

Ms. Denise Poirier-Rivard: Thank you, Mr. Chairman.

[*English*]

The Chair: Madame Poirier-Rivard, you're finished?

Okay, we'll move to Mr. Anderson.

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

I want to cover a couple of areas, but first of all I'm just wondering.... There is an announcement today about the Farmer Rail Car Coalition. I'm just wondering, have you lent them any money in the past? Have you been approached to lend them money in the future?

Mr. John Ryan: We're on a very narrow line here on client confidentiality in terms of saying whether we have or have not lent money to an individual. Greg has indicated we haven't. I don't want to go down a path and talk about individual customers. I could speak from the perspective of whether someone like that would be eligible, but I can't talk about specific applications.

Mr. David Anderson: It's just that the government has put around $800,000 into that project, so it's not an entirely private project, either. So I'm just wondering about the financing of that.

You have a feeder finance program in western Canada that's set up through Heartland. Do you deal exclusively with them, or is that available to other lenders now as well?

Mr. Greg Stewart: We don't have any exclusive relationships with any of our partners, so we have established alliance partnerships with individuals to provide feeder financing. And certainly we do it with several companies and as well for our crop input supplies. We don't have any exclusivity with anybody, so if any organization out there would like to work with us to find a way to put money into agriculture and to facilitate that, we would be happy to do so.

● (1635)

Mr. David Anderson: And there are other organizations accessing basically that program with the same terms?

Mr. Greg Stewart: Absolutely, and we're looking for more all the time.

Mr. David Anderson: You'd mentioned that your beef arrears are two and a half times what your average is, and I can understand why that would be happening. Have you done any study of the impact of what these low commodity prices are going to do to some of your other loans to the primary producers of grains and specialty crops? I'm just wondering where you see things going through the summer and fall, given the situation we have right now.

Mr. Greg Stewart: We've done no specific studies on what's going to come out. We continue to get surprised every year at the resilience of our clients and the people in agriculture in general. Last year we thought things were going to be tight and again we had a record year. Certainly given the low commodity prices in the grain sector for the upcoming year, for example, as of today it's not looking like it's going to be a banner year, and things are going to be tight out there. But that's really all we know for now. We're going to make sure we're on top of it and are around for our customers, but we'll see how the year unfolds.

Mr. David Anderson: Do you have projections into the future? What are you projecting?

Mr. Greg Stewart: For lending for this upcoming year?

Mr. David Anderson: No. In terms of arrears on those producers that are primarily grain, especially crop producers, what are you projecting will happen with your loan portfolio in those areas?

Mr. Greg Stewart: We believe overall that the health of our loan portfolio a year from now will continue to be relatively good. Actually, it's exceptionally good right now. We're not anticipating, nationally, any significant jumps in our overall arrears.

Mr. David Anderson: In that specific area.... Do I need to ask the question again?

Mr. John Ryan: Maybe one of the things on the crop side.... I don't know, Mr. Anderson, if this is where you're going, but that August 20 frost really is going to have a negative impact on those producers—there's no way around that—in terms of quality, in terms of quantity, in terms of price. They're going to get a triple whammy.

Mr. David Anderson: I understand that. I'm just wondering, do you know what it's going to do to your portfolio or not?

Mr. Greg Stewart: We do not know exactly what it's going to do. For example, May and November are big payments for our crop producers. We thought this fall, for example, on our November installments, the arrears would spike considerably because of what happened this year. By the time we got to the end of December, our arrears were actually lower this year in the crop sector than they were a year ago. May, again, will be another story. We're trying to guess. Did people use up a lot of their cash to make their fall payments and spring is going to be tight? For sure, we think it's going to be tight, but it's very hard to predict, come May or June, what the arrears will be.

I can tell you today, the arrears on the crop sector are 0.68%. So they're less than beef, but higher than, as John would have said, the other average.

Mr. David Anderson: I just want to ask you about one specific loan. You have the loan where you basically only have to make the interest payments on the loan. To me, that seems like a good idea in the short term but a bad idea in the long term. I'm just wondering what percentage of the producer clients are accessing that. Is it adding to debt that later is not going to be manageable, or do you think it's staying within reasonable bounds?

Mr. Greg Stewart: We created the cashflow opportunity loan, which is interest only, or our advancer loan, which you're allowed to continue to readvance and leave the principal amount unchanged from the original approval. For both of those products, we're reasonably diligent about who we allow them to be lent to. We want to make sure that we're not getting our customers in trouble, in terms of granting them excess credit that they're going to use and then they're not going to be able to cover depreciation or anything that comes up. So we limit that. Certainly fewer than 10% of our clients right now have taken those products. And we make sure we're lending to the right people. We're not offering those products for a high loan to security or for individuals who are in financial trouble. We would structure a repayment that would work better for them than that.

Mr. David Anderson: This may be more for Mr. Taylor, but I'd like you to run us quickly through, if you can, how a venture capital application would work. What's required from applicants? Do you provide the funding? Where does it come from outside? What kinds of things have you done to put those projects together?

And then a second part of that question is do you have a $5-million restriction on the financing?

Mr. Jim Taylor: Yes.

Mr. David Anderson: Has that affected your ability or your interest in financing packing plants? I guess that would be part of the question.

● (1640)

Mr. Jim Taylor: On the first part of your question, our process is simple and similar to any other fund. The way it would work is we currently have four investment managers across the country. They would receive an application, and the applications really come from three different channels. The majority of our applications come from businesses or individuals who have been in contact with our branch network across the country. An account manager would refer that to FCC Ventures. About a third of our applications would come from other financial institutions that may like a proposal, but they are uncomfortable or have less experience in dealing with the agricultural sector. It hasn't typically been one that they understand and want to invest in. A smaller portion of our applications would come from business brokers and consultants who would help individuals prepare a business plan.

Our investment manager would review the proposal and decide whether the basic criteria were met. The basic criteria would be on whether there is a management team in place that understands the plan, whether the proposal is financially viable over the long term, and the types of products or services they contemplate.

If the initial review of the plan goes well, they would go out and meet the people involved in the plan. If all went well, we would then present them with a financing proposal and begin another due diligence process that can take anywhere from two to six weeks to complete. At the conclusion, if all was prepared and lined up, we would go to an investment committee and seek an approval to fund that.

In terms of others who may participate with us, we often try to go out and deal with other financial institutions. All of my staff are familiar with and have worked at other institutions prior to coming to us. We would take a good plan when looking for an investment partner to try to bring them in.

Mr. David Anderson: There is a question in that. What part of ownership control and management control do you retain?

Mr. Jim Taylor: We want to retain only a minority interest. Preferably to date we wanted to stay under 20%. We can go as high as 49%, according to our mandate, but there's no situation where we want to take a controlling interest in a business. We feel that we need to find management people who are capable, strong, and able to manage their businesses.

Mr. David Anderson: What about the packing plant question?

Mr. Jim Taylor: It's a very good question. The plans that we have seen, or those we were spoken to about, often require significant equity. Some of them are in the neighbourhood of $20 million to $30 million.

FCC Ventures is set up to be a real partner in a business and to participate with management in helping them grow and develop their businesses. It's very difficult to do if you take a $2 million or $3 million interest in $30 million or $40 million of financing. It hasn't had an impact on our decision as a single criterion, but as we evaluate a plan, we certainly want to be a meaningful part of the transaction.

The Chair: We move to Mr. Gaudet.

[*Translation*]

Mr. Roger Gaudet: I have two or three quick questions.

How many bad debts did you report in your last financial statement?

[*English*]

Mr. John Ryan: Are you looking at the last year-end? Our write-off was $22 million to $23 million in total in the last fiscal for 12 months at March 31, 2004.

[*Translation*]

Mr. Roger Gaudet: That's before net earnings.

Earlier, you stated that last time around, you gave either $1 million of $1.5 million, or 1.5 per cent of your net earnings, to the Canadian Centre for Philanthropy. I believe your net profits totalled $150 million. Was that before and after you accounted for the $22 million in bad debts?

[*English*]

Mr. John Ryan: As I said earlier, we had $106 million in profit last year. The $22 million was taken off before. This is the very bottom line of the corporation. The $106 million was after we allocated the provisions for losses, after we paid the 1.5% round figures in the philanthropy program.

● (1645)

[*Translation*]

Mr. Roger Gaudet: I see.

Who is your principal shareholder?

[*English*]

Mr. John Ryan: The government is our only shareholder.

[*Translation*]

Mr. Roger Gaudet: That is your sole shareholder. Earlier, I asked you if the government invested in your institution and I seem to recall that you answered no to my question. That's what had me troubled a bit. You borrow money on the markets, but you need a shareholder.

Do you pay dividends annually to the government?

[*English*]

Mr. John Ryan: Let me back up, and I understand where the confusion is. The government is our only shareholder, and between the late eighties and 1993 they recapitalized the corporation to the tune of $900 million, so that's their equity in the corporation. From there, they asked us to stand on our own two feet, which basically meant to generate enough profit to finance our growth, that is, our reinvestment back in our products, services, and people. That's what we've been doing since then.

Part of our legislative mandate allows us, for every dollar of equity we have, to lend $12 on a leverage basis. For example, our portfolio grew by $1.2 billion last year. That meant we needed another $100 million in equity, and we could either generate it from our bottom line profitability or ask our shareholder. We made the conscious decision, given the direction of the government some years back, to generate the bottom line profitability.

So on an ongoing basis, they're not putting new money in, but they certainly have put all the equity in, less any net we've earned through profits.

[*Translation*]

Mr. Roger Gaudet: I see. That answers my question.

Thank you, Mr. Chairman. I have nothing further.

[*English*]

The Chair: Thank you, Mr. Gaudet.

Mr. Ritz.

Mr. Gerry Ritz: Thank you, Mr. Chair.

Twenty million dollars a year is basically what the federal government is coming up with for venture capital. You've had that for how many years in a row, and is it continuing?

Mr. John Ryan: The government approved $20 million in venture capital. We've not received anything yet.

Mr. Gerry Ritz: You too?

Mr. John Ryan: That hasn't stopped us from moving forward with the venture capital. We made a conscious decision with our new legislation to put $50 million aside for venture capital purposes, and that's what we've been working on.

Mr. Gerry Ritz: So $30 million will come out of your pool of money and $20 million will come from the federal government?

Mr. John Ryan: No, it's $50 million. We'll still keep that commitment, and over and above that, when we receive the additional funding from the federal government, that $50 million becomes really a $90 million pool; you can refer to it as an overall pool itself. So we will get—and I guess the expectations are that it will be in the very near future—the venture capital dollars that have been committed by the federal government to the corporation.

Mr. Gerry Ritz: That's when you use up your $50 million?

Mr. John Ryan: Yes.

Mr. Gerry Ritz: So you get nothing until you've used up $50 million?

Mr. John Ryan: No, they're going to put the investment in, and then we'll then have an overall pool for venture capital to the tune of $90 million. What will happen is that it will go into the general equity of the corporation. It will allow us to continue to support agriculture as a whole, but we'll draw upon it when we need it.

● (1650)

Mr. Gerry Ritz: So you'll use it as a lever.

Mr. John Ryan: Yes.

Mr. Gerry Ritz: Is that going to be enough? When you look at agriculture across this country, you see we're basically short on processing in almost every sector. Look at all the niche markets people are trying to get into, needing second lines of processing in organics. We have to double up on everything in order to keep our organics lines clean. Berry growers—it doesn't matter who you talk to—need to value-add, and that's what we're missing in this country.

Venture capital to the tune of $50 million is a drop in the bucket, and if the federal government is only going to put in $20 million, do we as legislators need to push the federal government? They have to be the catalyst because nobody else is going to do it, and you guys as a lender...do we need to go there?

Mr. John Ryan: At this point it's a great question, but I can't crystal-ball and say it's going to be enough or not. Our view or our feeling at this point in time is yes. What happens is that not only do you do your investments, but at some point in time you'll generate an internal rate of return that you in turn can lend back to or invest back in other new businesses.

Mr. Gerry Ritz: You talk about long-term strategy for the agricultural sector, but would these not be just no-brainers, that we should be talking about this type of thing and nobody's driving it?

Mr. John Ryan: Well, I guess it really boils down to, then, how solid the business plan is. If they have a good business plan—and Jim made some points earlier relating to how he goes about assessing these things—and if the points are there, we're interested in stepping up to the plate and doing something. If they're not there, then in many cases we're back to the same thing: have you considered this, this, and this?

Mr. Gerry Ritz: For lack of a better term in agriculture, I can say it's a chicken and egg situation. Somehow we have to move beyond this. Somebody has to move first, and I think it has to be the federal government. Certainly, we have to be judicious with taxpayers' money, but somewhere along the way here....

Everybody likes to eat in this country, and they have the safest, securest, cheapest food in the world. Somewhere along there we're going to have to bite the bullet and say this is our long-term strategy for agriculture and start down that path.

I'll move away from that, because we're not going to get anywhere on that today.

The next question is, are you folks able to lend to primary producers for them to make their CAIS cash deposit?

Mr. Greg Stewart: Yes, we could lend them money for that.

Mr. Gerry Ritz: Are you?

Mr. Greg Stewart: We don't have a specific program for that. I'm sure somebody in this country has used some of the money we've lent them to make the CAIS. But that would not be a regular thing.

Mr. Gerry Ritz: I'm talking about a specific program to identify that hole in the market right now because the cash advance situation the government is talking about will only work if you're involved in CAIS. A lot of my guys, at least two out of three, aren't even sending in the forms because they don't have access to the cash to buy into the program to start the trigger effect. Somehow we're going to have to fill that need. High risk, low risk, however you want to classify it, we have to do it.

Mr. Greg Stewart: That's certainly an eligible purpose for us, and we are willing to do that.

Mr. Gerry Ritz: It's on a case-by-case basis. Go to your local guys and talk about it. So I can tell my guys that. Good.

With regard to the avian flu, we held a hearing in Abbotsford, which was hit really hard. I know Farm Credit is involved in a lot of the barns. They're looking at 18 months to two years before they're actually back into a paying situation. You guys have had to re-term some loans. Are you okay with that?

When we were out there, Richard Fadden, the head of the CFIA, said CAIS will pay out. The unfortunate part—and I'm wondering if you guys realize it, too—is that you have one bad year out of the five-year cycle and that disappears with the Olympic average. So there will be no CAIS payout. How are you re-terming those notes, just on the value of the supply-managed sector and the physical structures?

Mr. Greg Stewart: As soon as the avian flu hit, we implemented a customer support program for the poultry producers in B.C. We deferred interest and payments and all of that stuff to allow them to manage their cashflow. We are standing by the industry. We believe it's a very strong industry.

Mr. Gerry Ritz: It added to the overall debt level as well.

Mr. Greg Stewart: For them, for sure. They have more outstanding today than they would have had if they had made a payment. We're making sure that the way they're working with us will work for them and their operation in the timing of their payments and recovering from the flu.

Mr. Gerry Ritz: We're asking those particular producers to take the hit for the safety and security of the Canadian food supply, and they're really the ones who are going to pay through the nose for all of this. How do we level that out? You guys have termed out the debt, but they still have an accumulating debt.

Mr. Greg Stewart: I'm not sure how we level that. We're doing all we can to ensure that they remain viable and involved in the industry. I think that's all we can do, given our mandate.

Mr. Gerry Ritz: That's the best you can do.

Mr. John Ryan: There's one other point I would add. I was in B. C. two weeks ago as part of the B.C. agriculture days. I talked to a number of the producers who received the customer support. They were very appreciative, to say the least. Some of those we offered it to said “No, I won't take it at this point in time, but I feel awful comfortable knowing I have a letter so that I don't have to wonder day in and day out”. So even if some people don't take it, they know it's there and available to them, and it has given them tremendous relief.

Mr. Gerry Ritz: Thanks.

The Chair: Madam Rivard.

[*Translation*]

Ms. Denise Poirier-Rivard: On looking at the breakdown by province of the loans awarded, I see that 14 per cent of the loans were granted to Quebec farmers. Did these loans go to farmers who were new to the business? Where they made in respect of value added, machinery and production? Are these loans connected in some way with the crisis currently affecting the industry? Can you give us any details on the loans awarded in Quebec?

[*English*]

Mr. Greg Stewart: I don't understand what the 14% you're referring to is. Could you clarify that? It's....

● (1655)

You're looking for the breakdown of the 14% in Quebec. The vast majority of our lending in Quebec would be in dairy. Historically, we would have done a lot of lending in the hog sector as well, but as you know, since the hog moratorium our lending has slowed down more than considerably, actually.

The strongest agribusiness sector in the country is in Quebec for us as lenders. We lent $90 million last year to value-added operations in Quebec. The amount for their farm lending, their primary production, would have been less than $200 million. So the percentage is higher than anywhere else.

[*Translation*]

Ms. Denise Poirier-Rivard: If I understand correctly, they were made to dairy farmers.

[*English*]

Mr. Greg Stewart: The large percentage of that 14% would be in dairy, absolutely.

[*Translation*]

Ms. Denise Poirier-Rivard: Do you include cheese factories in this category?

[*English*]

Mr. Greg Stewart: Yes, we do.

[*Translation*]

Ms. Denise Poirier-Rivard: Thank you.

[*English*]

The Chair: Mr. Anderson, for a short question.

Mr. David Anderson: I just have questions on the loan loss reserve fund that you've been approved for. I'm just wondering how large a portfolio you have in that. What amount of money are you going to be able to lend? There's some $50 million in that fund. Have you been given a portion of it? Is it going to be done on a first come, first served basis? Do you know?

Mr. Greg Stewart: Yes, it's first come, first served, and the maximum loan size within it is $50 million.

Mr. David Anderson: When you are participating in that, do you guarantee dollar for dollar? Are you able to leverage $10 of loan for $1 of the program? What does the federal government expect from you? If you're guaranteeing $3 million, does that tie up $3 million of the fund, or do they allow that to be used a number of times because some may go broke and some may not?

Mr. Greg Stewart: When a loan is approved, 40% of the loan amount would then be tied up. That would be from the fund. For example, if it was a $10-million loan, $4 million of the $55-million fund would then be tied up.

Mr. David Anderson: You are saying that the FCC would be lending $10 million, and 40% of that would be tied up.

Mr. Greg Stewart: That's correct, and then it's eligible for 90% of that amount.

Mr. David Anderson: Is the loan loss reserve available on the venture capital loans?

Mr. Greg Stewart: Yes.

Mr. David Anderson: It will be, as will be your regular ones.

The loan limit on venture capital is $5 million. What's the loan limit in the other areas?

Mr. John Ryan: The maximum that we can lend out to any customer or group of customers that is connected is $35 million.

Mr. David Anderson: Okay, good. You could go to potentially a $35-million loan on a packing plant, and 40% of that could be guaranteed by the loan loss reserve.

Thank you.

The Chair: Mr. Ritz.

Mr. Gerry Ritz: Just for a point of clarification on that, gentlemen, correct me if I'm wrong, but as I understand it, if you lend $10 million and 40% of that is guaranteed or underwritten by the loan loss reserve, you're guaranteed 90% out of that 40%.

Mr. Greg Stewart: Yes.

Mr. Gerry Ritz: So in a sense, you have $10 million at risk and you're guaranteed $3.6 million.

Mr. Greg Stewart: That's correct, and it's 95% if it's a co-op.

Mr. Gerry Ritz: I'm just doing it quickly. I could be wrong. I'm not the numbers guy that you are.

Mr. Greg Stewart: No, you're doing well.

Mr. Gerry Ritz: Okay, so you have $6.4 million. Two-thirds is at risk, and you're okay with that. You'll settle, you'll take 36¢ on the dollar.

Mr. John Ryan: You also need to look at it from the standpoint that if we're going in and providing funding—and let's use your example of the packing plant—

Mr. Gerry Ritz: It's secured.

● (1700)

Mr. John Ryan: —we'll be taking security on the hard assets. We need to liquidate that security to determine what our loss is at the end of the day. So we're not completely unsecured to the tune of the two-thirds, or 66.6%.

Mr. Gerry Ritz: I'm just trying to figure out how you don't end up with double security, how the plant doesn't end up putting up double, because there's a margin for error in there.

Mr. John Ryan: I don't think there's a recognition in the designing of the program itself. My expectation is that there's a recognition that—

Mr. Gerry Ritz: Well, there's been an announcement. The program isn't designed.

Mr. John Ryan: You're working with very specialized assets, and just because you pay $1 for something, you're not going to get $1 in return if you have to go through a whole liquidation process at some later date.

Mr. Gerry Ritz: You'd never recoup it dollar for dollar.

Mr. John Ryan: The loan loss reserve is intended to help bridge that shortfall in order to raise the comfort level, be it Farm Credit or another lender, so that they can make the decision, sign on the dotted line, and provide the funding.

Mr. Gerry Ritz: But the thing I'm getting at—and correct me if I'm totally out to lunch here—is that the federal government is underwriting $3.6 million of the $10 million loan. When you take the loan or place the loan with whomever, me, you're going to want asset coverage then for only $6.4 million. Or are you only going to want asset coverage for the full $10 million?

Mr. John Ryan: It very much depends on the situation. What we'll do is certainly add and see that there is value there in the $3.6 million used in this particular example. We may find ourselves with not even $6.5 million. There could be a security shortfall because the fixed assets are not going to cover it and the guarantee is not going to cover it, but if we think the proposal is strong, has merit, and has a future—

Mr. Gerry Ritz: The point I'm making is you're almost doubly secured.

Mr. Greg Stewart: I'm not sure if this helps or not, but if you were the proponent of the project, we would absolutely be willing to take less security from you if we had the loan loss reserve than if we didn't.

Mr. Gerry Ritz: If you have a secure portion you'll take.... Okay.

Mr. Greg Stewart: So as a proponent of the project, you would have to commit less to us with this loan loss reserve in place than if it wasn't there, for sure.

Mr. David Anderson: Have you made any other arrangements with the federal government to cover potential losses on that other money?

Mr. Greg Stewart: No.

Mr. Gerry Ritz: On that loan loss reserve, the government is telling us that will help me as a borrower lever more money.

Mr. Greg Stewart: I would agree with that as well, for sure.

Mr. Gerry Ritz: All right. The proof's in the pudding.

Mr. Greg Stewart: Absolutely.

The Chair: I suggest we get a bit of a picture on where we might go with this one. As you may or may not already know, there's quite a movement in Manitoba and Saskatchewan to build a plant, a cooperative. There would be a lot of people involved. In fact, all of the producers would be part of that cooperative. They have a plan and the municipalities have become involved.

Let's assume the plant costs $100 million. You can lend $35 million, I believe. That would be your input. If you had banking partners that would partner the rest of the money, would you have no problem lending the $35 million? The government again would come up with the loan guarantee on the loan loss program. Even at $100 million, your $35 million, those kinds of percentages, you would still...?

I'm not suggesting you're going to get into this, but you may be asked to do that. I think we have to know that there's a place where these people can go if it ever goes that way.

Mr. John Ryan: We have the physical capacity to do that. It's really going to come down to the business plan.

The Chair: Sure. I understand that. I think that's basically where a lot of the loan loss.... We say we haven't put any money into it because basically no business plans have come forward to the point where they could actually be approved.

Going into the slaughterhouse business is pretty complicated. It's a long-term commitment. This is something that has been tried and has failed many times in this country. So I think we understand that.

I have one small technical thing. A number of years ago I remember someone at the committee asking if Farm Credit was involved in the leasing of equipment. Do you come up with money to lease equipment? Obviously at some time you're going to end up with four- or five-year-old equipment. What do you do with it? Are you in that business?

Mr. John Ryan: We have the physical capacity under our legislation to go into the leasing side of things. We worked on that and had an alliance with the credit unions in the west to be able to do just that. The take-up has been so small, I'd basically say we're not active there.

The Chair: The farm machinery companies have their own lease plans that are pretty lucrative in many cases. The incentives are pretty high there.

A voice: They're in the same money markets.

The Chair: Yes. I just wondered whether you ever got into that.

Mr. John Ryan: I guess we tried through the alliance side, versus trying to set up our own infrastructure, and found there was such a low take-up. It's still possible, but it's not contributing to that $3.4 billion or $3.5 billion we expect to be doing this year.

● (1705)

The Chair: I think we've come to the end of our meeting. We're a little early in recessing today. I apologize for the absence of a number of members. I think the questioning has been fair, and I guess we can leave this meeting thinking that things really aren't as bad for you as we thought they might be. The worst is maybe yet to come. Things certainly don't look good out there. But farmers are resilient and have ways of bounding back. Sometimes we wonder how, but they do.

I want to thank Mr. Ryan, Mr. Stewart, and Mr. Taylor for coming. We look forward to your presence here again, we hope with a similar good-news story, under the circumstances.

Thank you very much. Have a great weekend.

Mr. John Ryan: Mr. Chairman, there was one question.... We looked in the book for Mr. Miller, and we don't have the details, so we'll have to get back to you on that.

The Chair: Sure. We'll make sure that if you distribute it to the clerk, we'll give it to the committee members.

Mr. John Ryan: Thanks very much for your time and attention.

The Chair: The meeting stands adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

Also available on the Parliamentary Internet Parlementaire at the following address:
Aussi disponible sur le réseau électronique « Parliamentary Internet Parlementaire » à l'adresse suivante :
http://www.parl.gc.ca
