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# Standing Committee on Agriculture and Agri- Food

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**Chair**

Mr. Gerry Ritz

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Tuesday, November 7, 2006

• (1105)

[English]

**The Chair (Mr. Gerry Ritz (Battlefords—Lloydminster, CPC)):** Order.

Good morning, everyone. It's a pleasure to have a new group of folks before the committee.

This morning, for the first hour, we are going to be hearing from departmental officials on the Canadian farm families options program. We have Clair Gartley, director general of the agriculture transformation programs directorate—good morning, Clair—we have Charlene Kosowan, director of the Canadian farm families options program—good morning, Charlene—and we have Michèle Bergevin, deputy director of renewal regional services with Canadian agri-renewal services; great, and welcome.

You folks have a presentation for us. Then we'll open the floor to questions.

Thank you so much.

**Mr. Clair Gartley (Director General, Agriculture Transformation Programs Directorate, Department of Agriculture and Agri-Food):** Thank you, Mr. Chairman. It's a pleasure to be here this morning to appear before the committee.

I want to make a few comments. I'll try to keep them very brief. I think the committee members were provided with a package yesterday with some background to the program and details on it. I hope you have that with you.

Thank you for inviting us to speak on behalf of Agriculture and Agri-Food Canada about the Canadian farm families options program. As you know, Canada's new government committed to reducing the pressures on low-income farm families in budget 2006. This commitment involved putting in place the options program with a \$550 million federal investment. The program was announced nationally on July 31 and delivery began immediately, with the exception of Quebec, where a delivery of the options program began on August 16.

While a number of business risk management programs address income drops, some farm families are continuing to experience serious and continuing income pressures. The program is designed to encourage low-income farm families to pursue options that will help them to improve their longer-term prospects for on- or off-farm income.

The options program is a pilot program, a new program comprising two components. The first part of the program provides

and encourages applicants to participate in farm business assessments and skills development training services that will be available to them until 2009. The second part is an income payment component that is in operation this year, in 2006, and next year, in 2007.

A new and innovative approach was adopted in the options program by coupling the farm business assessment and training in order to develop the skills, knowledge, and tools farm families may need to earn a better living either on or off the farm. The income payment is designed to help them take advantage of this opportunity—in essence, to give them some breathing space while they consider their options.

Eligible applicants, or those eligible for an income payment, are required to commit to participating in the farm business assessment or skills development services within 24 months of their application to help them identify longer-term income opportunities. As I mentioned, these activities include completing a farm business assessment or an individual learning plan detailing skills development, training, or an equivalent activity.

While establishing the eligibility requirements for the options program, a number of parameters were examined to ensure that those in greatest need would receive assistance. Eligible applicants must meet all the eligibility requirements to receive an options income payment. They must be actively farming in the year of application, 2006 for this year; they must have a minimum gross farm income, reported in 2005, of \$50,000; and the income from all sources must be less than \$25,000 for a farm family or \$15,000 for an unattached individual.

The \$50,000 gross farm income requirement was established to direct payments to those low-income farm families whose operations are commercial farms. The \$15,000 or \$25,000 income threshold is designed to ensure that the options program is targeted at individuals or families most in need. When combined with the gross farm income threshold, the targeted families are trying to make a go of commercial farming but are not making very much net income.

The rural low-income cut-off levels, or the LICO levels, published by Statistics Canada were considered as we developed the program parameters, but in the options program, the income threshold for a farm family of two or more is increased to \$25,000, and individuals to \$15,000, slightly higher than the rural LICO levels used by Statistics Canada.

We estimate that about 26,000 farm families across the country would be eligible for the program. Corporations, cooperatives, and communes are not eligible for options payments. However, individual farmers and farm families who own at least 20% of the farm corporation are eligible to apply.

To ensure that the program addresses those in greatest need, shareholders of closely held corporations are eligible. The options payment is made to the individual shareholder rather than the corporation.

Applicants receive the difference in the payment between the threshold amount of the \$25,000, or \$15,000 for an individual, and their total incomes for each year from all sources, including other program payments.

The farm business assessment, administered by the Canadian farm business advisory services of Agriculture and Agri-Food Canada, helps farm families set goals for their business and develop plans to meet their goals. Eligible applicants are provided with up to five days of professional consulting services and follow-up services resulting in each family receiving a business profile, statement of assets and liabilities, and an analysis of their operation.

The CASS, Canadian agricultural skills service, is the other program that helps options participants. CASS involves a skills assessment process and the development of an individual learning plan. Financial assistance is provided to eligible clients with an approved learning plan to support training in areas such as agricultural business management, accounting, finance, human resources management, training for other employment off-farm, or training to acquire skills for starting a new business.

Eligible CASS costs include tuition fees, textbooks, and travel while attending training away from home. The level of financial assistance can be up to \$16,000 per participant according to net family income levels.

Options applicants who have completed the farm business assessment or have participated in CASS within the previous 12 months of their application are deemed to have met their commitment upon evidence being submitted to the department. Based on the applications we have so far, it appears that roughly 12% of the participants in the program have already met those requirements.

Participation in these services is gradually increasing as more options applicants meet their commitment to complete the requirement. As of November 5, 2006, there have been 13,460 applications submitted and entered into our processing system, with 5,732 payments distributed already, representing \$59.7 million, almost \$60 million, in payments to families and individuals.

When we developed the program, we set an income payment processing standard of 30 days from the receipt of a completed application and we are successfully meeting this standard. The reason we did that was to get the payments out as quickly as we could to families who need these funds.

With that, Mr. Chair, I will close my comments. I appreciate being here and will welcome your questions. Thank you.

●(1110)

**The Chair:** Does anyone else have opening statements? Okay, great.

I had one before we started. Were any of you folks involved in the design of the program or just the administration?

**Mr. Clair Gartley:** A couple of us were involved in the design of the program, Michèle and I. Charlene joined the program as director on October 10.

**The Chair:** Good. Thanks.

Mr. Steckle, seven minutes, please.

**Mr. Paul Steckle (Huron—Bruce, Lib.):** Okay, very quickly. I have a lot of questions this morning and probably not a lot of time to ask the questions.

First of all, how long has this program been in the works? Is this something new? Is this something that's been around for a long time or is it a creation of this government?

**Mr. Clair Gartley:** It is a creation of this government. It was a commitment made in the action plan for agriculture that was approved by cabinet in June, I believe it was, so it is a brand new innovative program.

**Mr. Paul Steckle:** You've dedicated \$550 million to this program. What portion of that \$550 million is going to be used to offset accounting costs? You're asking farmers to prepare a business plan in their application processes. Obviously you're paying for that. How much of this \$550 million is used for the administration of that part of it?

**Mr. Clair Gartley:** Out of the \$550 million, \$380 million will go to the income payment part of the program this year and next year. As I mentioned, we have that income support there for the pilot program for 2006 and then again in 2007. Then there's \$126 million that will be used to provide the services—the farm business assessment, the professional consulting services to the applicants, as well as the Canadian agricultural skills services program that will be available to these participants. The rest of the money is administration funds.

I should have mentioned that the \$126 million will flow out over the next few years, actually to 2009, because the applicants have 24 months to meet their commitment to participate in one of those services. There are income payments in 2006 and in 2007, but then the farm business assessment and skills services go beyond that for two more years.

**Mr. Paul Steckle:** How do you evaluate...you said minimum gross sales of \$50,000. You have a target of \$25,000 and \$15,000 respectively for dual and single. What constitutes \$25,000? If with your farm income, along with off-farm income, your gross or your net taxable.... What are we talking about here?

●(1115)

**Mr. Clair Gartley:** It's the income reported on line 150 of your return. So it's income from all sources.

**Mr. Paul Steckle:** On which you pay taxes. It's before taxes.

**Mr. Clair Gartley:** Yes, it is.

**Mr. Paul Steckle:** If combined incomes of all sources is \$25,000 or less, then you would qualify as a couple?

**Mr. Clair Gartley:** Yes. Let's say you're a family and your income was \$20,000, then you would get a \$5,000 payment. If you're an individual and your income is \$5,000, you would get a \$10,000 payment to take you up to the \$15,000 level. The maximum payment we'll make is \$25,000 to a family or \$15,000 to an individual.

**Mr. Paul Steckle:** I'm hearing from a number of farmers who have called me about the program, and they immediately draw their conclusion that this is an exit program from farming—getting out of agriculture. It's a welfare program. Once farmers in the business, if they call themselves truly farmers, realize that their incomes are at that level, then they're basically not farming anymore. So this is an exit program.

Certainly when you look at the second year, reducing that by a further 25% or whatever, then really it is moving that person onto the welfare rolls. I don't understand. You're saying 26,000 farmers would be eligible for the program. We can pretty much determine that 26,000 farmers are going to be off the roll of legitimate farmers probably in the next five years. If you've deemed these farmers by their income tax returns to be at that level, we're writing 26,000 off the list.

Is that an assumption we could make?

**Mr. Clair Gartley:** The goal of the program is to help that farm family that is struggling because of their income levels—give them a breather and encourage them to think about what they may do. It's up to them, their choice, whether they want to look at the operation and do a real thorough assessment, or whether they do want to consider perhaps some other training for more off-farm income or set up an off-farm business. It's to give them that option. So it really is their choice. It's a pilot program. It's not meant to be long-term income support. It really is designed to encourage them to consider participation in these programs.

The farm assessment and CASS programs have been around since the start of the agricultural policy framework in 2003. We were starting to see increased uptake and were getting some good results back from people who had used the programs. We felt that encouraging more people to use the programs would be a very positive thing. They don't have to exit farming to be eligible. They just commit to taking a look. They can make the choice of which service they use. We haven't said they have to use both—they can if they want to, though. Based on the feedback we've had on these services we felt it would be beneficial for them.

**Mr. Paul Steckle:** A farm accountant has reminded me that in his overview or summation of the program, if there is a review and appeal of your tax application, there's no consideration for any appeals. In the final determination, it would be based on the first assessment of your taxes, not on a further appeal process. For instance, if you're doing the further appeal and looking at the negative margin, it would not go into that area where you would have an appeal and it would be reviewed. Is that correct?

**Mr. Clair Gartley:** That's correct. If there was incorrect information, for whatever reason, when the application was filled

out, we would allow that to be corrected, but when you apply, whatever the Canada Revenue Agency has on file as your tax return, that's the return the program would use to calculate it.

**The Chair:** Thank you, Mr. Steckle.

Mr. Bellavance, seven minutes, please.

[Translation]

**Mr. André Bellavance (Richmond—Arthabaska, BQ):** Thank you for coming and thank you for your evidence.

When this program was created, of course the Bloc Québécois said that it was not enough to solve the farm income crisis, but one cannot be opposed to helping the producers who are the most in need.

The deadline for program application was October 31. How many farm producers applied?

• (1120)

[English]

**Mr. Clair Gartley:** *Merci.*

Actually, the minister did announce that the deadline has been extended to November 20. I'm sorry I didn't mention that in my opening comments; I should have. So applications are still rolling into our processing centre in Winnipeg.

As I mentioned, as of November 5, we have well over 13,460 applications, and we're still expecting to get quite a few more applications into the program.

[Translation]

**Mr. André Bellavance:** How many of the 13,000 producers in Quebec put in an application?

[English]

**Mr. Clair Gartley:** Yes, actually, participation from Quebec has been very good. As of November 5, 3,260 families and individuals have applied to the options program.

[Translation]

**Mr. André Bellavance:** An estimated 5,000 producers in Quebec would qualify for the program.

Have you set up a mechanism for letting the other 2,000 producers know that they might be eligible or are people expected to find out about the program on their own?

[English]

**Mr. Clair Gartley:** We have done some communications. Actually there was a mail-out about a month ago in Quebec to all producers and farm families.

You're right, we did estimate there will be about 5,000 eligible participants from Quebec. However, we usually don't get 100% participation in our programs; it's usually some other rate. When we developed the program, we looked at something like a 75% participation level, so we'd be very satisfied if we hit the 4,000 mark. The 5,000 is an estimate of the potential participation, but you do have families there for whom the payment might only be a few hundred dollars, and they may not want to participate because they have to make the commitment to participate in one of the other programs. So it would be great to have all 5,000, but we don't really expect it. We think the participation is quite good at the level it's at, and we expect to get more, so we're quite pleased to see the participation there.

[Translation]

**Mr. André Bellavance:** Were any of the 3,260 applicants found to be ineligible for the program?

[English]

**Mr. Clair Gartley:** This is the number of applications. It's possible that some may not be eligible. Currently in Quebec, we've processed 1,121. Keep in mind too, because of the original October 31 deadline, we did get a lot of applications right at Halloween, thousands of them.

Based on that, we still have about 2,100 more applications to process in Quebec. We've paid out in Quebec almost \$8.7 million as of November 5. As I said, we expect more applications and there's still quite a number yet to process.

[Translation]

**Mr. André Bellavance:** When the program was announced, the Quebec Minister of Agriculture said he was disappointed that he was not consulted more on the actual procedure. By his estimate, more than 9,000 Quebec producers would not qualify for the program because their income was too low.

One of the eligibility criteria is a minimum family income of \$50,000. Has anything been done for those left behind, for those with family incomes below that level? After assessing the pilot project, will an effort be made to include these marginalized producers or do we not yet know what will be done in this regard?

Minister Vallières estimated that 9,000 producers were excluded from the program. Is his estimate accurate?

• (1125)

[English]

**Mr. Clair Gartley:** The number sounds quite large, but I'm not sure if we have a number.

You're correct, it is a pilot program, and there will be an advisory committee set up with stakeholders and academia and so on to consider and evaluate the program and see how effectively it helped address the low-income challenges of these farm families.

For the people who did not qualify, perhaps because their levels were below \$50,000 for gross farm income, they still can access the other services. Quebec has services that are part of the agricultural policy framework in Quebec. The province actually delivers the farm business assessment service in Quebec, and there has been participation in that. Those services would be available.

It would be a policy decision down the road as to whether or not the \$50,000 level was changed. The other thing to consider for farm families that... There are people operating farms with less than \$50,000. On average, there is rarely any positive income, so most of their income now would be coming from off-farm sources. With that size of operation, it's very difficult to make much in the way of net income.

But you're absolutely correct, these are things that would be considered, I'm sure, by an advisory committee. That's part of the commitment to the program, that this committee will be established to look at the results of the program and consider its future. That information would then be provided to the minister.

**The Chair:** Thank you, Mr. Bellavance.

Mr. Gourde, seven minutes, please.

[Translation]

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

I congratulate the Department officials for putting this program in place as quickly as they did. As we know, last spring, the farm income crisis was raging and some families were in dire straits. The intention of farming families is to feed people and, unfortunately, they even had trouble putting food on their own tables because their income was often insufficient.

Farmers are proud people. In order to survive, they have considered having some family members find employment off the farm. Unfortunately, in several regions of Quebec and Canada, there are no jobs to provide additional short-term income.

Were there more young family farmers among those who qualified for the program? Or were they well-established farming operations that had been around for 20 or 30 years? Generally speaking, is the program open to everyone or is it accessible to a particular category of producer?

[English]

**Mr. Clair Gartley:** I don't have an assessment or evaluation that I could give you today. That is one of the things, though, that we will certainly be looking at as we evaluate the program—who participated, where they're from, demographics, that kind of thing, what their situation is. That will help us make suggestions for the minister to consider later on.

But we don't have that information available yet on the participants. As soon as we get past the deadline, those are the kinds of things we'll start to look at and assess.

[Translation]

**Mr. Jacques Gourde:** I am very surprised to see that even in Quebec, where provincial programs are relatively more generous than those in the rest of Canada, more than 4,000 families applied for this program.

I know pork and grain producers. Although in theory their income is guaranteed by stabilization insurance, they still have to register for the program because their circumstances are so dire. That is why our government is proud to have been able to help these families.

Will this program help these families to make a transition, to improve the way they do business or to basically improve their structure to augment their income?

• (1130)

[English]

**Mr. Clair Gartley:** In a way, the program is designed to help them think about that through the farm business assessment service that's available. How much change will occur in their operations as a result of using these services through the program remains to be seen. But we have testimonials from people who have participated in farm business assessments in the past couple of years—because the program was already available—and the results are interesting. They have learned things about their operation that they could change or improve, or perhaps they were always thinking of doing something different, but they just didn't have time or the professional assistance they needed to crank the numbers and do the assessment and make the decision.

The goal of the program, again, is to improve income. We'd be happy to see it occur. If it's on-farm, again it's the farm family's decision if they want to try to do it that way, or whether it's off-farm. It's to improve their family income.

[Translation]

**Mr. Jacques Gourde:** Will this professional assistance be available free of charge? How long will the family have access to it?

[English]

**Mr. Clair Gartley:** Under the farm business assessment, there are five days of professional services, and the program is paying 100% of the cost of that service. Under the Canadian agricultural skills service—and Michèle is an expert in this, so she can correct me if I don't get this correct—the funding is there to pay to have a professional, I think it's 100%, do an individual learning plan, and then there's support for training and even travel to get to the training at 100% level as well. So yes, it's paying all the costs.

[Translation]

**Mr. Jacques Gourde:** I think this initiative will give producers a chance to reflect on their future; it provides them with information and training, while helping them to continue to work on the land and to get through this crisis, which has dealt us such a devastating blow.

Again, I congratulate you for the speed with which you set up this program; it will enable some 3,000 or 4,000 producers in Quebec and approximately 15,000 farm families in Canada to pursue their work in agriculture for a long time to come.

[English]

**The Chair:** Thank you, Mr. Gourde.

Mr. Atamanenko, seven minutes please.

**Mr. Alex Atamanenko (British Columbia Southern Interior, NDP):** Thank you very much for being here and for your hard work. Obviously something's better than nothing.

On November 5, there were 13,460 people who had signified their intent. Is that meeting your expectations? Would you have thought there would be more or fewer? Are you happy with that?

**Mr. Clair Gartley:** I would have to say we're pretty happy with the numbers that are coming in. We can deal with more applications, and we'd love to see more applications, but this is a pretty good result so far.

**Mr. Alex Atamanenko:** From talking to farmers, I know there are a couple of concerns. One is the idea of a business plan and skills that are compulsory to participate in a program, the assumption being that these people aren't good farmers and that it's almost an insult, for want of a better word.

As a farmer, I'm going through all this; I have this problem and I have to fill in this business plan. In retrospect, could this not have been an option rather than compulsory?

I'd like a couple of comments on that.

• (1135)

**Mr. Clair Gartley:** The reason for making the link is again to encourage participation. We had those services available, but the participation wasn't as much as we would have liked, where we were getting good feedback on farm business assessment, CASS. People who used it were maybe very timid at the start, but in the end they were pleased in general with the service.

We needed to have an innovative program that really addressed the low family income issue. I believe the government decision was that we needed this linkage to make sure there was a real result; that this had a deeper, more significant, longer-term impact than just making the income payments alone. There was a move to provide the help the families needed to address the issue, because they really have to find their own way. They make their own decisions on which program to take, what they do with the results, what learning they take, and those kinds of things.

The view was to have an innovative program that would have a longer-term benefit than just the income payments alone.

**Mr. Alex Atamanenko:** But isn't the assumption still that they're not victims of the market or they're not doing something right; that by going through this, they'll do something right and become better farmers? Is that the implication?

**Mr. Clair Gartley:** All of us often need outside advice or professional advice on how to manage our finances or businesses, and that kind of thing. It's often very beneficial, when you're deep into it yourself and the pressures are on you, to have some professional from outside, who doesn't know you or the operation, just come in and give you some good advice. I think people are nervous about it at first, but once they've tried this service they realize it's helpful.

Even our larger farms that are doing well and are more profitable are saying that in the next generation they would like to have these services available to them. They think the skills thing is something that should go on for a lifetime, and assessment by a professional of your business from time to time is a really beneficial thing.

So there seems to be quite a lot of interest in the programs.

**Mr. Alex Atamanenko:** The other feedback I'm getting is on this whole idea of off-farm income being included in the cap of \$25,000. It's no secret that a lot of farmers have negative incomes, and the only way they're able to survive is because somebody's working somewhere else. The feeling is that it's really not fair that some people miss the program by a couple of thousand dollars because somebody in their family has worked as a waitress or something in town.

I'm just wondering what your feedback has been on this and when that will happen. Are you going to take that into consideration and maybe exclude off-farm income when setting caps?

**Mr. Clair Gartley:** I imagine all these things will be raised in the evaluation when the committee is set up. We hope to be working on that in 2007 and get the evaluation under way. Right now we're running the program, getting the applications in and processed, and letting people have some time to decide which service they're going to use, and that kind of thing. So we need to let some time go by before we have a lot to evaluate, but we'll certainly start next year.

On the issue of off-farm income, the goal of the program is the family income. How do we improve the overall family income situation? That's why off-farm income is included. That's the policy decision that was made. I can't comment at this time on what may happen in the future on that.

• (1140)

**Mr. Alex Atamanenko:** Regarding the \$550 million—and probably there'll be some unused money that won't be going out—do you have any specific plans for that?

**Mr. Clair Gartley:** I assume you're probably talking about the income payment money, what we'll do if we don't need the \$190 million that will be available this year, although that remains to be seen because we're not at the deadline. It certainly would be up to the minister and the government to decide what they might do with that money. There are no plans at this point.

**Mr. Alex Atamanenko:** I probably don't have much time, but just in a general sense, what is the feeling you're getting? You talked about this a bit in your presentation. What's the general feeling you're getting about the program?

**Mr. Clair Gartley:** I think we're very pleased so far with the amount of participation in the program and the amount of funds that we've been able to move out quite quickly through the program. From a program management perspective, things are going well, and we're trying to meet the service standards that we've set and process applications and get the cheques out as quickly as we can. That aspect is going well.

**The Chair:** Thank you, Mr. Atamanenko.

Just before we move to the five-minute round, I had one question myself. How many of these farm gate trainers are out there across the country? We've got probably \$170 million that goes into the administration side—the trainers, the administration, and so on. How many folks are actually out there under contract?

**Mr. Clair Gartley:** Public Works actually manages that for us. There are about 190 consultants on a roster that we have to provide to the farm business assessment services. We can supplement that list with what we call a short-form contract, so we can add more trainers. We're also looking at other ways in which we may be able to increase

the number of people available to deal with the applicants to the options program.

**The Chair:** How are the credentials for someone filling that post ascertained?

**Ms. Michèle Bergevin (Deputy Director, Renewal Regional Services, Canadian Agri-Renewal Services, Department of Agriculture and Agri-Food):** That's done by looking at their education, their experience in performing financial assessments, and so on. There are very set criteria.

**The Chair:** So they may not necessarily have any background at all in agriculture or a working knowledge of farm gate—

**Ms. Michèle Bergevin:** They also have to have a background in agriculture.

**The Chair:** Do you mean an education-based background or a background in the actual upbringing?

**Ms. Michèle Bergevin:** I mean both.

**The Chair:** I'm just wondering how you get that job; I don't qualify for the program, so as a farmer, I thought maybe I could be the consultant. That sounds like a lot better deal than the program.

Mr. Easter, go ahead for five minutes, please.

**Hon. Wayne Easter (Malpeque, Lib.):** Thank you, Mr. Chair, and thank you, folks, for coming.

The simple question on the management side would be how you achieve a positive net income when, even for your most efficient producers, the return for the product is less than the cost of production. How do you do it? I'm looking for a simple answer.

**The Chair:** Mr. Easter, if there were a simple answer we'd be out of work.

**Hon. Wayne Easter:** The problem here, and my major concern with this program, is that the government failed to provide immediate cash in the spring as they had indicated they would, which could have been under an ad hoc program based on what the problem really is, which is low commodity prices. Instead, we have this program, which is clearly a blame-the-victim approach.

If you look at your brochure, Clair, it says, "Enhance skills", "Develop a business plan", "Improve your income prospects". Look at the global statistics. Canada has had three low-income years, three record low-income years. The United States has had the three highest years. The problem is not management on the farm. Go to my report. These guys might love my report, and you've got it gathering dust over there in the department. When you look at every economic indicator—production per acre, production per cow, etc.—every one, except net farm income, is positive. The problem isn't this.



If you're a farmer who's farmed for 30 years—and I know a lot of them—ten years ago their net worth was \$1 million. Today they're going in to you with their head down, saying that they're going to have to take a skills development program. This is all wrong. The problem is low commodity prices, not skills. That's where the problem is. So why don't we deal with the problem?

• (1145)

**Mr. Clair Gartley:** I think the problem we're trying to address—

**Hon. Wayne Easter:** I have one more question.

**Mr. Clair Gartley:** —with this program is the low family income. Regardless of what else is going on, there are those families that are having this difficulty, and we're trying to address that problem and bring every tool we can to bear. As I mentioned, we've had people who have used these other services and found that it has really helped them.

**Hon. Wayne Easter:** There is no question that these services are fine. The problem is that the whole thrust—and this program is symbolic of that—is as if it's a skills management program, when it's a policy program within Canada as a whole that results in low commodity prices.

Ken has to get in here on my time, but there's a problem with the \$50,000, in it being one year. Why wasn't it done over an average of three years? Some people had either health problems in their herds or feed wheat problems, or whatever.

The problem with line 150 on income is that there are some cases where, in order to pay their electricity bills or their fuel bills, they actually sold inventory that they normally wouldn't have sold, which brought them up over the threshold, and now they don't qualify.

So just those couple of points alone...

Ken.

**Mr. Ken Boshcoff (Thunder Bay—Rainy River, Lib.):** In northwestern Ontario and in northern Minnesota, there was a horrendous drought, a record low rainfall, and water levels are at an all-time low. If you had to pick one pilot program in the whole agriculture department, why wouldn't you go to a disaster relief program? Isn't that what the farm groups are saying? They're doing it—the Ontario Federation of Agriculture and the Canadian Federation of Agriculture.

With the low uptake that you're getting from here—and I understand that the previous minister had also recommended against going to an option program—why wouldn't you have gone to something where there's an immediate need, whether it's drought relief, flood relief, or disaster relief in some form or another? These people haven't had a response from the minister, and there has been no action from the department. Clearly there's a need for disaster relief, as opposed to something like this with low uptake. All the people in my riding have been complaining to me that they don't qualify for this, whereas I have several hundred on the drought side.

**Mr. Clair Gartley:** Certainly a number of tools are available, and the minister has committed to looking at things like disaster relief. The cover crop protection program came out this year. My colleague who's next, Danny Foster, can probably address this better than I can, but certainly those are things that the minister is definitely

considering doing. There are a number of approaches we're trying to take to address the issues.

**The Chair:** You're out of time, Ken. I'll get back to you.

Mr. Anderson, five minutes.

**Mr. David Anderson (Cypress Hills—Grasslands, CPC):** I have just a couple of questions, and then I'll turn it over to Mr. Bezan.

One of the criticisms we've heard has been from tax planners who, in doing 2005 tax forms for farmers, had the opportunity to do a couple of different things with inventories. They had options on how that was reported. They did what they felt was right at the time, but in light of this program, they made some wrong decisions there. The farmers who did not have the income would have qualified for the programs. Because of the tax planning, they made those changes. Do you have any way of dealing with that?

My second question actually applies to the same thing. I have been told by accountants that next year the number of people who will qualify will probably go up by 50% because they're able to move the numbers around in the 2006 tax forms. I'm just wondering if you can address those two issues, and if you do, I'll turn it over to James.

• (1150)

**Mr. Clair Gartley:** To the first question, the goal was to get the program out. To respond to that, we would have had to delay the program a year, which really wouldn't have helped the people who needed the help this year. Certainly next year when the program is available, everybody will be much more aware of it and will manage their tax situation and be advised accordingly by their accountants.

Again, these are the kinds of issues—why we didn't look at three or four years of returns, and those kinds of things. The more you do that, the more you complicate the program and slow down the ability to get funds out. The real goal was to try to move things as quickly as possible.

As I said earlier, whatever is there at CRA when you make your application to the program, that's the information we're using to do the assessment on your application. How this changes in the future is probably something the advisory committee will look at.

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

I have a couple of quick questions. In my area, a lot of the cow-calf operators who thought they would qualify under the program don't hit that \$50,000 mark. They're full-time in farming, but because of BSE and depressed prices, they're just under that \$50,000 mark for gross farm sales. Is there anything we can do? These are more than just depressed commodity prices; they were caught in a very serious situation with an animal health issue and border actions taken by other countries.

I'll let you comment on that first.

**Mr. Clair Gartley:** The \$50,000 is an eligibility parameter. It's a policy decision we can't change. That's the parameter to use as we assess applicants coming to the program. However, there are a lot of other tools that Agriculture and Agri-Food Canada works with directly or with the provinces to try to address the issues you mentioned. A number of BSE programs, income stabilization programs, and other programs help address issues for those individuals.

**Mr. James Bezan:** The second point I wanted to make was this. A lot of farms are incorporated now and a lot of farm owners draw salaries out of their farm corporations. That has made them virtually ineligible under the program, even though the farm corporation can be losing hundreds of thousands of dollars. Because they pay themselves a salary of \$25,000 or slightly above, essentially they've taken themselves.... Because the wife takes a salary, the husband takes a salary, and some of the kids take salaries, there is a huge net loss there, but because of the way it's structured they're not qualifying for the program.

Is there no way to balance that through farm loss versus income?

**Mr. Clair Gartley:** There isn't. But I would assume the corporation would benefit if they've applied to the programs that are available to help with income. The CAIS program and things you're going to be talking about next, I think, would apply. This program is looking at family income, so if they did draw down income from a corporation on- or off-farm, and that income was above the \$25,000 per family, then they wouldn't qualify.

**Mr. James Bezan:** But there isn't a policy that a farm corporation.... If the income level for the family is down, even if they're incorporated, they still would qualify if they hit the other parameters.

**Mr. Clair Gartley:** If the corporation doesn't qualify—

**Mr. James Bezan:** The family does.

**Mr. Clair Gartley:** The family does, if they own 20% or more of the corporation.

**The Chair:** Thank you, Mr. Bezan.

We're back to Mr. Boshcoff for five minutes, please.

**Mr. Ken Boshcoff:** Thank you very much.

When we have a chance to decide in terms of whether we're going to go for support programs or disaster programs, what is it within the public service that decides those priorities?

**Mr. Clair Gartley:** It's certainly driven by government policies. Our role is to provide all the information, the best information we can, and make the situation as clear as we can, and then policy decisions will drive what the approach may be.

• (1155)

**Mr. Ken Boshcoff:** We have these questions coming up about CAIS next. You have the Canadian Federation of Agriculture, the Ontario Federation of Agriculture—you name the organization. They're all saying, okay, one of the shortcomings is it's either disaster or it's adapting the CAIS so that you don't have to be a chartered accountant to be able to fill out the forms. Why wouldn't we go that way if we had to do something, as opposed to the brochure and all that kind of thing?

Why couldn't we adapt...? If the Americans in Minnesota have already paid all of the people who've suffered from the drought, and it's just across the border—it is essentially the same geography—surely there has to be.... I'm only using one example, but anybody in this room can use any part of their own riding or constituency, to use an example. Where should our priorities be? Clearly our priorities should be in addressing that.

My concern also is that you see the low uptake. You see exactly the same questions coming from at least three of the four parties, saying that they've heard from people that it isn't working and it's still in its pilot stage. Can't we be flexible enough, even as a public service, to say, okay, with a 10% uptake, clearly it's not working? If we have to extend it and we're only going to get a marginal increase, why don't we re-examine the criteria? Why don't we re-examine what we're trying to do here? And, above all, does the farming community need a lesson in business management to do business plans now when they're thinking about surely just getting through the year?

**Mr. Clair Gartley:** Our view would be that the uptake isn't low. On the uptake, we're looking at almost 13,500 applications, as of November 5. We actually budgeted based around having about 19,000, at an average of \$10,000 payments. So we're getting quite a good uptake on the program.

Again, I think the intent was to address the family income issue and to provide all the services and to encourage people who we're going to participate in the program to use those services, on the basis that things are difficult and that it is beneficial to have as much advice as you can get when you're in that kind of situation.

**Mr. Ken Boshcoff:** From a public service standpoint, is it your duty to alert the minister that there are...? And what is that relationship, where you could actually get him to act?

**Mr. Clair Gartley:** Our role is to report to the minister on the implementation of the program and the results that we've received so far. I'm in the program branch of the department, not the policy branch, so I couldn't address it any more than to say that.

**The Chair:** Ken, I'm sorry to cut you off, but you've finished again.

Monsieur Roy, a final point. You have two minutes left.

[*Translation*]

**Mr. Jean-Yves Roy (Haute-Gaspésie—La Mitis—Matane—Matapédia, BQ):** I only have one question and it pertains to the program results, since that is the part that interests me.

If you find that 90 per cent of the 26,000 farms in question are well run and that the problem lies instead with the income they draw from their production, what will you recommend?

[English]

**Mr. Clair Gartley:** Again, I think all we can do is provide those results, and the strategic policy people in the department will look at that and provide whatever advice and recommendations to the minister. I couldn't say what that may be at this point.

[Translation]

**Mr. Jean-Yves Roy:** In your view, how many of the 26,000 farms will do the business assessment and what percentage will do the training?

• (1200)

[English]

**Mr. Clair Gartley:** Roughly, we anticipate something like 60% will do the farm business assessment, and 40% the training.

[Translation]

**Mr. Jean-Yves Roy:** Personally, do you think that these 26,000 farming operations are poorly run?

That is my last question.

[English]

**The Chair:** Go ahead, Mr. Gartley.

**Mr. Clair Gartley:** I don't think that was ever the view. Again, with the challenges they face, the idea was always to provide every bit of service that we could provide with the program to help them in whatever way they wanted, either with their operation or off the farm.

**The Chair:** Thank you, ladies and gentlemen, for your appearances here today. It's certainly a controversial issue. There has been a lot of input from this. We'll try to distill that down and make some recommendations to the minister.

This meeting will suspend for a couple of minutes while we make the necessary changes to bring our next panel up.

• (1201)

\_\_\_\_\_ (Pause) \_\_\_\_\_

• (1207)

**The Chair:** Welcome back, everyone, to the second hour.

We have before us, from the Department of Agriculture and Agri-Food, Danny Foster, director general, business risk management program development—no stranger to the committee—and Rosser Lloyd, director, income stabilization program development.

Welcome, gentlemen.

You have a short presentation for us; then we'll move into questions.

Danny, could you lead off, please?

**Mr. Danny Foster (Director General, Business Risk Management Program Development, Department of Agriculture and Agri-Food):** Thank you, Mr. Chair, and good afternoon. I guess we just made it. Good afternoon to the committee, and thank you for the invitation to meet with you once again on the CAIS program.

As you are aware, federal, provincial, and territorial ministers agreed this past June in St. John's to take the steps necessary to

implement a new margin-based program and to create a new disaster assistance framework, something separate from income stabilization.

Ministers also tasked officials with reviewing production insurance and reporting back in the fall with options on expanding production insurance to better include livestock and other commodities such as fresh horticulture. As Minister Strahl indicated about a week ago in front of this very committee, he will be meeting with his provincial and territorial colleagues next week in Calgary to discuss the work of officials and industry on these three fronts, those being the new income stabilization program, production insurance, and disaster relief.

In the meantime, the CAIS program. I made sure this was the topic of discussion for the committee before I made up my presentation. The CAIS program continues to operate and pay out significant assistance to producers. The deadline for information for the 2005 stabilization tax year was September 30, and as I have mentioned to the committee many times before, this is the busiest time for program administrators as the bulk of applications received are received close to the application deadline.

To date, over 31,000 producers have received close to \$600 million in payments for the 2005 program year, and we are forecasting that once all processing is complete, some \$1.6 billion will be paid out, bringing total payments for the first three years under the program to well over \$4.5 billion. That's just under the CAIS program, and these numbers do not include the \$900 million federal inventory payment announced this past spring to help producers transition to a better method of measuring their income, or the \$755 million grains and oilseeds payment program, which was paid out earlier this year.

Now under the inventory initiative, CAIS participants for the 2003, 2004, and 2005 program years are having their CAIS program benefits automatically recalculated using the better method of inventory valuation commonly referred to as the P1-P2 hybrid method. If the numbers show that the producer would have received a higher payment using the new method of inventory valuation, then the producer will get an additional benefit. To stay within the \$900 million funding, inventory payments for 2003 and 2004 are being pro-rated at 50%, with payments for 2005 pro-rated at a percentage to be determined once the 2003 and 2004 processing is complete.

Payments under the inventory initiative are currently being processed where Canada delivers the CAIS program, which you may recall is B.C., Saskatchewan, Manitoba, Nova Scotia, New Brunswick, and Newfoundland, as well as Alberta and P.E.I. Ontario is expecting to begin within the next month, and we are finalizing the agreement with Quebec for the transfer of funds to La Financière agricole du Québec. We expect the bulk of payments related to the 2003 and 2004 program years to be completed by the end of this year for all jurisdictions, and payments for 2005 will go out early in the new year.

While the special inventory payment is separate but related to the CAIS program, the improvements to the rules around the eligibility for negative margin coverage that were announced at the same time as the inventory payment announcement require an amendment to the CAIS program agreement with provinces and territories. This change will see more producers qualify for negative margin coverage under CAIS and it is estimated the cost will be some \$80 million, cost-shared on a 60-40 basis with provinces, for the 2005 and 2006 program years. So approximately \$50 million of that \$80 million would be from the federal government for just those two program years.

This assistance will flow to producers as their 2005 and 2006 CAIS applications are processed. So once again, there's not a separate process or separate application for that additional assistance. These federal budget initiatives are initial investments to facilitate the transition to the new income stabilization program agreed to by ministers, and that's, again, federal, provincial, and territorial ministers, at their June meeting in St. John's.

• (1210)

For the 2006 stabilization year, the sign-up deadline—that's the year we're in right now obviously—for CAIS was September 30, 2006, and we are estimating, based on our preliminary numbers, that over 140,000 producers will be in the program protecting over \$11 billion in margins.

As you may recall, effective for the 2006 program year, the deposit requirement under CAIS has also been replaced by a fee of \$4.50 per \$1,000 of coverage. The deadline for the payment of the fee is December 31, 2006.

As far as payments to producers for 2006 go, to date over \$32 million has been paid out to over 500 producers, primarily in the form of interim payments. There may be some producers who have already received their final payment because their tax year-end has finished for 2006. They could have a June 30, 2006, tax year-end and they would be eligible for a final 2006 payment.

I realize I've thrown a lot of numbers at you in the last few minutes, and trust you've been provided with the latest summary of program payments. Many of the numbers I've mentioned in my opening remarks are reflected in that document. But if there are any questions for clarification, I'd obviously be pleased to provide them.

I'll leave it there. Along with my colleague Rosser Lloyd, I'm prepared to take your questions. Thank you.

**The Chair:** Thank you, Danny.

We'll move to our opening round, with Mr. Easter for seven minutes, please.

**Hon. Wayne Easter:** Thank you, Mr. Chair, a.

And thank you, Danny. I know you really work hard at this program and sometimes I think you're the only guy in the country who really understands it.

First, on the inventory initiative, I'm getting a number of calls from producers who are confused over that, especially from the livestock industry. I guess one simple question would relate to the inventory initiative. Where are most of the payments going? Are

they going to the livestock industry versus the grain cash crop industry? Do you have any breakdown on that?

I'm also told by some producers that a payment came out recently. One individual who called me received a statement saying that on re-evaluation the individual owed money to the CAIS program. When he called, they said, "Don't worry, out of the next program there may be money owing to you." That's the January one, I assume. If that's the case, I don't think it's wise to send out those letters. The producers are already under enough stress and if they're wondering how in the heck they are going to come up with \$30,000 or so.... Why not leave it until the final calculation is in and then do what you have to do then?

Could you respond on that point first?

• (1215)

**Mr. Danny Foster:** On the first question, we've looked at the payment distribution by farm type. The vast majority of these payments will go to grains and oilseeds producers, followed by cattle producers, in that order.

**Hon. Wayne Easter:** On inventory—

**Mr. Danny Foster:** On inventory evaluation, which I know is quite surprising because everybody thought this was really going to benefit the cattle sector, it's clear it does. But it also reflects the fact that grain prices were declining over those three years, so the vast majority—and I'm talking upwards of 80% of those payments—will be going to those two sectors.

We don't like to give the sector breakdown, because we always try to protect ourselves from a trade standpoint, but that is the order. Those two sectors clearly are getting the vast majority of payments.

With respect to the actual payments going out to producers, as I mentioned in my opening remarks, we have started processing payments in all jurisdictions except Ontario, and there will be a transfer of funds to Quebec. If you recall, the minister placed a moratorium on where we deliver the CAIS program, placed a moratorium on the collection of overpayments under the CAIS program against other program payments. The grains and oilseeds payment program is an example. He placed a moratorium on that until the CITI payment started to go out to producers. That moratorium is basically on until January 2007, but if a producer is eligible for a CITI payment, then the overpayment will be clawed back against that CITI payment.

That was made clear in terms of the original announcement. The idea here was that the minister didn't want to be giving money with one hand then taking it back with the other. He said to wait until the CITI payment comes out, then do the offset against the CITI payment.

I don't know the specifics, Mr. Chair, but it could be a situation where the producer still has an overpayment remaining after the offset against the CITI payment. When I say "CITI", I'm referring to the inventory payment.

**Hon. Wayne Easter:** Is it the intention to move in the reference margin for 2007 to the accrual Olympic average and not offer a choice of cash versus accrual Olympic?

**Mr. Danny Foster:** That's correct. We will be moving to an accrual reference margin. We had extensive discussion with the National CAIS Committee on this. The idea is that you need to be comparing apples to apples. To measure your margin in the program year on one basis, an accrual basis, and use a reference margin on a cash basis—there's a significant gap there.

**Hon. Wayne Easter:** The difficulty, though, Danny...and you have a paper before you or in your office that came from one of the advisers on that committee. He compared his farm on the accrual Olympic average versus the cash Olympic average, and his reference margin drops from \$88,000 to a negative of \$7,700. I'm told that with a number of farms that have done that comparison, the margin would basically drop by about 40%. It could be a 40% to 60% decline, according to that individual.

Is that correct? Will we see a decline in margins, ending up basically saving money for the government—in particular the federal and provincial governments—but at the end of the day the losers being the farmers? Is that what's going to happen?

**Mr. Danny Foster:** There may be situations where an individual producer may have a lower reference margin, but we went through extensive analysis, through over 50,000 files, took this to the National CAIS Committee, and on average, grains and oilseeds producers will have higher reference margins because we're moving to the accrual basis.

We went through at least two meetings with the National CAIS Committee and all of the producers around the table on this issue. What the accrual reference margin also does, when producers are coming out of a disaster, is build up their reference margin quicker in terms of recovery because we are doing it on the accrual basis. We're taking into account the value of those inventories that they've been building up as they come out of a disaster situation.

I know the specific instance that you're looking at, and we're actually looking at that file right now in terms of understanding the numbers to make sure, first of all, we've got it right, and then to do further analysis.

But we did do extensive analysis on this issue.

•(1220)

**The Chair:** Thank you, Mr. Easter.

Mr. Bellavance, seven minutes, please.

[*Translation*]

**Mr. André Bellavance:** Mr. Foster, my question is to be a topic for discussion at the next federal-provincial ministers' meeting. In fact, they devoted quite a bit of time to it at their last meeting. I am referring to the creation of separate programs.

In your opening remarks, you indicated that the CAIS program would be divided into several different programs: one focused on

insurance, another on disasters, and so forth. There is a gap in this regard at the moment. Just take the situation with the Saint-Amable potato producers, and their recent disaster.

In your opinion, would the Saint-Amable potato producers and the other horticultural producers affected by the golden nematode qualify for this program by virtue of the fact that this is a devastating situation for them? Or does there actually have to be a disaster per se, like a flood, for example, before they are entitled to help under the program?

[*English*]

**Mr. Danny Foster:** It's a very good question.

Clearly what ministers have agreed to is to separate out disaster relief programming from income stabilization programming, and looking at CAIS, or a margin-based program, as dealing with the income stabilization component.

In terms of disaster relief, whether it's a disease situation or whether it's flooding—and potato nematode would fit the circumstances of a disaster because it is a disease situation—really what we're looking at is providing assistance to help producers resume their business operations or mitigate the impact of the disaster as quickly as possible. But when we're looking at what needs to be done under a disaster relief framework, we also have to look at what existing programs are there. We're not there to try to substitute for what's available under existing programs, and of course, our two major programs are production insurance and, currently, the CAIS program.

So when we look at the disaster situation, we'll be looking at what programming is available, and then we'll look at what are the losses and costs that producers are incurring to deal with the disaster. If the existing programming is not responding, or can't respond, in dealing with those disasters, then that's what we envisage the disaster relief program will help producers with, to fill those gaps with the existing programs, to help them resume their operations, and also to mitigate the impact of the disaster. So if they're incurring, as an example, extraordinary costs because of the disaster that aren't covered under existing programming, then that's a potential area where we can provide assistance under our disaster relief program.

These are concepts that we've talked about with the National Safety Nets Advisory Committee, several national organizations, and it's the type of thing that ministers are going to be talking about next week in Calgary, in terms of a recommended disaster relief framework to deal with gaps in the current programming to help producers get back up on their feet.

[Translation]

**Mr. André Bellavance:** This is what we have been asking for for ages. This is probably why the provinces agree with the suggested division. As the current program stands, people like the Saint-Amable potato producers might apply for assistance under the CAIS program, but they would probably not get it. They do not qualify for anything at the moment.

[English]

**Mr. Danny Foster:** In fact, the potato producers in Saint-Amable are eligible for significant assistance, well over \$3 million, under the CAIS program right now. They just have to submit their applications and La Financière agricole du Québec is ready to respond right now.

I can go back to the last potato disaster that we had in New Brunswick in 2004. It was called pink rot. Producers took their potatoes and put them in storage. They lost their crop over a weekend. CAIS responded extremely quickly. We moved people out from Winnipeg to New Brunswick to help the producers fill in their CAIS applications. We paid out over \$20 million to 100 producers affected by pink rot around the Grand Falls area.

CAIS, in the case of the potato nematode, will also provide significant assistance to those producers. I'm not saying it's necessarily everything that they need to help them in terms of resuming their operations or even in terms of the long-term impact of the disaster, but there's financial assistance there right now for producers in that area.

• (1225)

[Translation]

**Mr. André Bellavance:** How do they calculate the value of the production they had to put in storage, which will have to be destroyed in any event? That is the problem.

[English]

**Mr. Danny Foster:** Maybe I'll just use a simple example. An average producer—and most potato producers have what we call “healthy margins”, they've made some decent money in terms of their potato operation—who has a reference margin or an historical margin, average historical income, of \$280,000, would be eligible for \$190,000 under the CAIS program. They could access 75% of that within the next two weeks by contacting La Financière agricole, providing the information, and they will do the calculation.

There's significant assistance available to those producers, and we've actually looked at some numbers that will give the producers the assistance they need under the program.

[Translation]

**Mr. André Bellavance:** Have you spoken to the Fédération des producteurs de pommes de terre du Québec (Quebec federation of potato producers) in this regard? Do you intend to act as a facilitator in this matter?

[English]

**Mr. Danny Foster:** As a matter of fact, I haven't, but several of my colleagues in the department have. They've been part of a task force. We've been working with the Province of Quebec very closely, and certainly have had a lot of contact with the federation in Quebec. As a matter of fact, I think even the minister and Mr. Pellerin are

meeting with our minister today, and probably one of those topics will be the potato nematode situation.

We've had a lot of contact with the federation in Quebec. They're fully aware of the assistance that's available under the CAIS program and, as well, fully aware that La Financière agricole has assigned somebody specifically to help producers with meeting the CAIS information requirement, so that they can get that money out as quickly as possible. And they've committed to doing that within two weeks of receiving the information.

**The Chair:** Thank you, Mr. Bellavance.

Mr. Anderson, for seven minutes, please.

**Mr. David Anderson:** Mr. Foster, I would like to ask a couple of questions about the numbers on page 2. Is the 2005 program year finalized?

**Mr. Danny Foster:** No. It probably wasn't clear in my opening remarks. It's finalized in the sense that the information for 2005 was due on September 30. We're in the process now of doing all the application processing. As I indicated, the bulk of the information usually comes in around the deadline. No matter where you set the deadline, that's when you're going to get the majority of your applications. So it's certainly not finalized.

We've paid out about \$500 million or \$600 million to 31,000 producers. We're projecting that when we're all done, it will be in the neighbourhood of \$1.6 billion that will have been paid out for the 2005 program year.

**Mr. David Anderson:** Could you tell me why Manitoba, then, would be at 110% of the year before?

**Mr. Danny Foster:** That's a very good question. That was because of their moisture conditions in 2005. Manitoba's projected expenditure for 2005 is going to be about 150% above what they had for 2004. Certainly as a result, the provinces have raised the affordability issue as a concern.

That reflects the demand-driven nature of the program. It's targeted to need. Manitoba suffered significant losses in 2005, and the numbers are reflecting that.

**Mr. David Anderson:** How many more producers do you expect to apply for 2005, then? You had a decline from 75,000 to 66,000, down to 27,000 in 2005. You said you expected there were going to be 140,000 producers in the program. It looks to me like the numbers are going the other way.

**Mr. Danny Foster:** Sorry?

**Mr. David Anderson:** The number of producers. In 2003 you had 75,000, in 2004—

**Mr. Danny Foster:** That's the number of producers who have received payment. We're averaging around 140,000 to 150,000 producers in total in the program. What you're looking at is the number of producers who have received payment to date. We're virtually complete for 2003-04. We're processing the 2005 applications, and we've paid a total of 27,000 producers.

We expect that number will be close to previous years, and that probably in the neighbourhood of 60,000 to 70,000 producers will receive payments.

**Mr. David Anderson:** So less than half the producers in the program are getting payments from it.

• (1230)

**Mr. Danny Foster:** It's probably about half. It varies by province and by year. Again, if their margin for the current year drops below the previous year, then they're going to get a payment. If their margin goes up, they don't qualify.

**Mr. David Anderson:** Mr. Gourde had some questions.

[Translation]

**Mr. Jacques Gourde:** Some producers in Quebec are also producers in Alberta. During the BSE crisis, they had trouble getting assistance under CAIS. Quebec producers must file their income tax returns in Quebec, but a good portion of their beef production, which is on contract, is in Alberta. There are no provisions for this situation, since the two provinces do not really agree on which one has jurisdiction over the animals, as it were.

Can you tell us more about this?

[English]

**Mr. Danny Foster:** Actually, I apologize, but I can't. I wasn't aware of that case. I know we do have many multi-jurisdictional farms. As I recall, the rule is that it's the province of the main farmstead. However, that's defined for tax purposes, that's where the assistance should be provided from. If the main farmstead is defined as in Quebec, then it would be Quebec's responsibility.

I don't want to oversimplify this issue. It's probably a very complicated one and that's why it's still dragging on. I'll try to find more information for you. I wasn't aware of this exact situation.

**The Chair:** I want to follow up on Mr. Gourde's point. Is that part of the problem, when the feds deliver it in some provinces and the provinces deliver it in other provinces? Would some of that be mitigated if the feds delivered it across the board?

**Mr. Danny Foster:** No.

**The Chair:** It really wouldn't matter.

**Mr. Danny Foster:** It wouldn't matter. You still have one producer in two different jurisdictions.

**The Chair:** But if it's totally federally administered, there's only one jurisdiction, and that's federal.

**Mr. Danny Foster:** Basically, it's trying to come up with the rules to make the determination fair for the respective jurisdictions. As an example, even if we administered the program nationally, Alberta and Quebec would very much have an interest in what we decide, because it impacts on their cost share.

**The Chair:** Exactly. Thank you.

Mr. Bezan, you have two minutes left.

**Mr. James Bezan:** A lot of farmers have been making use of the cash advance through the CAIS program, and of course that's put us in a position where a lot of them are paying it back. Right now there's no repayment due until January 1, but we're doing the recalculations on inventory values. Now I understand that this may

not happen in time for January 1 in terms of getting all the calculations done right through.

Where are we at with that recalculation? And how is that going to impact on repayment of any cash advances that were above and beyond what was deemed necessary for that farm?

**Mr. Danny Foster:** In terms of any overpayments, if you will, or advance payments that have to be repaid by producers, as we calculate their inventory cheque, if there's an amount on the books that's owed by the producer, we will deduct that amount from their inventory payment.

Federally we expect to have completed the 2003-04 inventory payments by December 31. That is the bulk of the money for all jurisdictions that will, under the \$900 million—I believe it's close to \$755 million, or \$760 million—be paid out by the end of the year. But if a producer still has a debt and it's sitting on the books as of January 1, then as the policy currently stands, interest will now start to accrue as of January 1. If they get a 2005 payment early January or February, then we'll collect it there and that will be the end of it.

So those are the kinds of timelines there.

**Mr. James Bezan:** Out of the “clawbacks”, which is what the producers are calling them...and this is a big concern right now out in the ridings. That's what we're hearing right now, that guys are concerned about the clawbacks that are going to take place after January 1.

How much of that is going to be negated by the recalculation of inventories?

**Mr. Danny Foster:** I don't have the number, but I can get it for you.

**The Chair:** Thank you.

Mr. Atamanenko, seven minutes, please.

**Mr. Alex Atamanenko:** Thank you for being here, gentlemen.

You're familiar with the K&C nursery file, are you, Mr. Foster?

**Mr. Danny Foster:** Yes.

**Mr. Alex Atamanenko:** It's my understanding that they started the application process in March 2004. They went back and forth with the department, and always were led to believe that they could get the payment and receive the payment in 2005.

On April 10, 2006, they got a letter saying they weren't eligible. They have something like \$235,000 to pay back because of something that happened.

Is that being looked into by your department? Could you give me the status on that, please?

• (1235)

**Mr. Danny Foster:** Is this the Canadian Nursery Landscape Association, or—?

**Mr. Alex Atamanenko:** It's K&C Silviculture Ltd.

**Mr. Danny Foster:** Yes, okay.

At the department we haven't looked at it yet, but I know that the file, which is probably on my desk, is something we need to respond to. I can't give you any update on it. I know they've written me. It's something we need to address.

**Mr. Alex Atamanenko:** It just seems that they did everything they had to do, received money, and all of a sudden found out they have this horrendous sum to be paid back. So it's reassuring that you're looking at that.

**Mr. Danny Foster:** Well, I haven't looked at it, but I will.

**Mr. Alex Atamanenko:** Okay.

I have another question. Nurseries that provide seedlings for reforestation are not eligible now to receive CAIS program payments. Why is it that nurseries under CAIS are eligible if they provide seedlings to an orchard business and ineligible if they supply the reforestation sector, when they perform nearly the same production operation? The grain farmer still qualifies for CAIS if they supply biofuel, for example.

**Mr. Danny Foster:** It basically comes down to the rules in terms of what's defined as farming income for income tax purposes. Nurseries providing seedlings for reforestation—woodlots, that type of thing—are not eligible. It all involves the care and nurturing of the seedling. As an example, Christmas trees, ornamentals, and fruit trees are eligible for CAIS.

So it's basically a distinction in terms of what's defined as farming income for tax purposes.

**Mr. Alex Atamanenko:** Has this always been non-allowable, going back to the inception of the program in 2003? Referring back to my previous question, there was some—

**Mr. Danny Foster:** Yes, it's always been that way for 2003. I understand that maybe the guidelines at some point, early in 2003, weren't as clear as they should have been. I think they used an “or” when they should have used an “and”, perhaps, if you know what I mean. But the guidelines and the rules have always been clear that it has to be reportable as farming income for tax purposes.

**Mr. Alex Atamanenko:** Why is reforestation left out?

**Mr. Danny Foster:** Basically because it isn't a farming activity as defined by the Income Tax Act.

**Mr. Alex Atamanenko:** Just to understand this procedure, you've obviously had similar situations before. Money has been paid out, and then all of a sudden people owe a whole bunch of money. Have there been cases in the past when that has been forgiven because of certain errors maybe by some officials?

In this case, in reading the information, it seems they have a pretty good case. It says they were led to believe everything was fine. Obviously you haven't studied it in detail, but what's the procedure here?

**Mr. Danny Foster:** As with any issue, we look at it on a case-by-case basis and we have to assess the facts. In terms of this case or these cases, my belief is that it is a debt to the Crown. We haven't changed the policy from the first day, so it's not reversing a decision that we made earlier, saying you're now ineligible and have to repay the money. It's basically either through audit or discussion with the client, in review of the file, to say this entity, this producer wasn't

actually eligible for the assistance provided. It wasn't that we've said we changed our minds, if you will.

**Mr. Alex Atamanenko:** I'm still not quite sure. If they're ineligible but they were led to believe they were, back and forth, through conversations and the money actually being paid out, do they have a case?

**Mr. Danny Foster:** I'd have to look at it on a case-by-case basis.

**Mr. Alex Atamanenko:** For the CAIS, have all the calculations have been completed with respect to who gets what and how much? According to the website, the delivery date is possibly December, which means no one can do their year-end. Am I right in saying that?

• (1240)

**Mr. Danny Foster:** For the 2006 program year, the sign-up deadline for producers to actually participate in the program was September 30, 2006. They had until September 30 to actually sign up for the program. They could have signed up back in June. If they recognize, through a bad harvest or what not, that they're losing their shirt, they can apply to the CAIS program for an interim payment and get 50% of their estimated final payment under CAIS.

You don't have to wait to file your taxes for 2006, which would be done in the spring of 2007, to access assistance under the program. There is an interim payment process. In fact, that's what we're talking about in the case of potato nematode in Quebec. Many producers are still in their 2006 tax year. They can access that assistance—in this case, up to 75%—through the interim advance process.

**Mr. Alex Atamanenko:** I have one more question. Does this basically outline the moneys that have been released?

**Mr. Danny Foster:** Yes. Those are the actual payments out the door. I've also thrown in some estimates or forecasts of payments that we expect to be out the door for the 2005 program year, for example, as well.

**The Chair:** Thank you, Mr. Atamanenko.

Following up on Alex's point on reforestation and the nurseries, if they could somehow prove to you that the reforestation was leading into a biomass cellulose ethanol facility twenty years down the road, they would qualify. It's all in the way they make their application.



**Mr. Danny Foster:** It's whether what they're doing fits the definition of farming income. I don't want to oversimplify it, because obviously it's not a simple issue, but I will go back to how Revenue Canada rules on the definition of farming income.

**The Chair:** That doesn't really help me a whole bunch. There are a lot of inconsistencies there too.

Thank you.

We have Mr. Thibault, for five minutes, please.

**Hon. Robert Thibault (West Nova, Lib.):** Thank you very much.

When you were reconsidering the program and doing your analysis of the program—and now you're looking at a disaster relief component—did you consider the position of the Canadian Federation of Agriculture, where the top of part of it would be NISA-type programming and permit companion programs, so that you can look at regional differentiation or provincial differentiation using the 60% component of the federal contribution?

**Mr. Danny Foster:** We're certainly fully aware of the CFA's proposal with respect to a NISA-like, contributory-style savings program as a top-up companion program to deal with regional flexibility, etc. When ministers tasked officials to come up with addressing the issue of a separate income stabilization program and disaster relief program, they did form a task team of producers and officials to look at what the options were to have a better income stabilization program. One of the options considered was a NISA-style program. The task team concluded that a better margin-based program was the way to go.

So NISA was considered, and we're very aware that the industry still very much wants to have a NISA-style program on top, if you will, of a margin-based program. But in terms of the process that we went through, we worked with producers to actually build the program options that we're now taking to ministers next week.

So we started with producers right from the ground floor. It was a small set of producers, mind you, but they were all recognized, well-respected producers who actually worked with officials to say, here's the program, here are the options, and here's our recommended program. We took those recommendations through the various consulting bodies, like the National CAIS Committee, the National Safety Nets Advisory Committee, and the national organizations, and said, this is what's being recommended. They actually supported the direction on all three fronts—disaster relief, production insurance, and margin-based. But as you have alluded to, they've said there's still more that needs to be done, and the NISA-style program is an option.

**Hon. Robert Thibault:** The problem seems to come in regional applications in a lot of cases, and in different markets. When the whole framework of the first CAIS program was being established, I remember what they suggested in Nova Scotia at the time: that if you could make a couple of changes to it, it would be fine. Those changes were made, but it's still very difficult at the application level.

I have small pork producers and they're in declining margins, but it doesn't work. They really are not interested, because supply management keeps them profitable and they seem to be doing quite fine. A lot of my farmers who are a little bit more aggressive or

entrepreneurial are in dairy plus mixed, and if they're in mixed and have trouble with one or two crops, then they have the stability of their dairy.

The only people I found left who really like the program are the milk farmers, who are experiencing probably their tenth consecutive successful year in growing margins. They see this program as useful when there is that individual cyclical decline, but for the others, it seems to be inappropriate, or there could be some changes made to make it regionally specific.

•(1245)

**Mr. Danny Foster:** In terms of regional flexibility, there are a couple things. One, we're putting in a lot of money federally under our programs. The provinces still have the flexibility to offer regional programs to deal with regional issues.

In terms of the disaster relief framework, that actually responds to the regional issues. If we look at the disasters that have taken place over the last ten to fifteen years, aside from maybe BSE, most of them have been regional. The disaster relief framework that ministers will be discussing next week in Calgary allows a regional response to a disaster. Whether it's potato nematode or whether it's avian influenza in B.C., that framework allows the provincial and federal governments to get together to discuss the appropriate response. We still have our national programming, but they can determine the appropriate response to deal with that regional disaster. So there is regional flexibility being built into this new suite of programs in terms of, certainly, disaster relief.

I acknowledge the issue that you've raised about how a margin-based program disadvantages producers who are diversified, because if they have a good year in hogs and a bad year on grains, they're not going to get a CAIS payment, versus somebody who's actually single commodity. But that single-commodity producer is still losing money, because CAIS will only cover 70% of the loss. So the diversified farmer is still better off in that example.

**The Chair:** Thank you, Mr. Thibault.

Mr. Devolin.

**Hon. Robert Thibault:** Mr. Chairman, I was going to give the last ten seconds of my spot to Ken.

**The Chair:** That's unfortunate. I wish you'd told me that up front, sir. Mr. Easter had a three-second spot open and he figured he could fix the world with that, so I'll get back to him and give him six seconds.

Mr. Devolin.

**Mr. Barry Devolin (Haliburton—Kawartha Lakes—Brock, CPC):** Thank you, Mr. Chair.

I have a couple of questions about the changes that have been made to CAIS going back to 2003-04. Are the numbers on page 2 just the numbers from those previous years, or do they include the changes that have recently been made?

**Mr. Danny Foster:** No, those numbers are strictly for the CAIS program as we know it; they do not include the inventory payment and the negative margin changes, which only came into.... Actually, let me correct myself. The 2005 program year would include the changes to negative margins, to the extent we've processed any applications that would benefit from those changes. So in terms of improving the eligibility rules for negative margins, the 2005 numbers may include some of the benefit there, but the inventory—the \$900 million—is not in this. It's actually on a separate page in the document.

**Mr. Barry Devolin:** Okay. You said that the payments for 2003-04 will be out the door and received by farmers before the end of the year?

**Mr. Danny Foster:** That's the target, yes.

**Mr. Barry Devolin:** That's the target?

**Mr. Danny Foster:** Yes. We're processing. There's nothing to lead us to believe that we won't meet that target. We're processing, I think the minister said in committee last week, approximately 3,000 cheques a week on the inventory. Alberta has just got under way; obviously there's a lot of money to go out in that province. They're administering it separately, but they're also on target. Ontario has had a bit of a delay, but the last time I talked to them, they said they should have 2003-04 out by the end of the year, even though they're probably starting about a month from now.

**Mr. Barry Devolin:** Okay, you anticipated my next question. I'm from Ontario and was going to ask that, because you can't control that from Ottawa, in terms of whether they do it quickly or slowly.

**Mr. Danny Foster:** They want to do it too. Keep in mind that Ontario has agreed to match the federal inventory payment on a 60-40 basis, so they want to move that money as quickly as possible, because producers in Ontario are not only getting the federal payment, but they're also getting a matching provincial payment at the same time. As of my last discussion with the officials there, they're looking at the first and second week, I guess it is, of December to have 2003 go out in a batch, or all at once, and for 2004 it will be the same process for the second week of December.

• (1250)

**Mr. Barry Devolin:** So farmers in Ontario, if they're eligible, will be receiving two cheques in the month of December?

**Mr. Danny Foster:** Yes, or in early January.

**Mr. Barry Devolin:** I'm not a farmer, and I've been trying to learn this file over the last two years, but one of the complaints I've heard so many times about CAIS is that it's totally unpredictable. You fill in all the applications and send them in, and the comparison that was used is that when you do your personal income taxes, so long as you fill in all the correct information, it spits out a number on the bottom that you either owe so much or you're going to get back so much. And that's subject to some adjustment, once you send it in to Revenue Canada. But the bottom line is that you can pretty well

predict.... With CAIS, unfortunately, because some of the variables are out of your own control, no matter how good a job you do or how smart an accountant you are, it is actually impossible.

I had a farmer recently tell me that in 2004 he had what he felt was a very good accountant and the accountant told him he would be getting back somewhere between \$13,000 and \$42,000, and it turned out he got a cheque for \$8,000. So that's very frustrating.

Can you tell me whether the changes being discussed for CAIS or the new program are going to address that issue, that the concern I'm raising is being addressed? Are they going to try to come up with something that is more predictable, so that when a farmer is partway through the year...? You're even talking about interim payments, but I don't understand how you would have any idea what your interim payment is going to be if you have no way of calculating what your final payment would be.

**Mr. Danny Foster:** The simple answer for the last example you used is that it would be producers who have basically lost their whole crop. They know their revenue is zero and they know what their expenses are; they can very quickly calculate what their margin is for the current year. They know what their historical margin is and can calculate a payment.

That's a very simple example. The producer in that situation would say he has no revenue, that he knows what this number is, and he would probably be pretty close to being able to estimate what his payment is.

Predictability, bankability has been the issue with the program. A number of things we're doing will help address that.

I don't want to underestimate the impact of that inventory change, in terms of producers being able to say they are getting money when they should be getting money for a drop in price on their inventory. That's a major change.

As well, with the online calculators and all the service improvements we're making to the program to help producers and—more important—accountants actually calculate the payments, there is a lot of work going on with the administrators.

In fact, today in Calgary we have the subcommittee of the National CAIS Committee meeting to deal with another issue that really drives the predictability and bankability issue, and that's called structural change. When farms change the operation, whether it's the commodity mix or the size, we have to adjust their reference margins. That was a major challenge in predictability terms under the program. The National CAIS Committee has formed a subcommittee, and they're looking at this. We'll be coming back with recommendations on how we can better do the structure change calculations for producers so that they can have a more predictable and bankable program.

So we are making a number of changes. I met with the minister the first week, and the example you used is the example we discussed: why can't you fill in your form like income tax, put in a bottom line number of \$10,000 and know that, plus or minus 10%, you are going to get that number? That's where we're going with the new margin-based program.

**The Chair:** Thank you, Mr. Devolin.

Mr. Boshcoff, you may have five minutes, please.

**Mr. Ken Boshcoff:** Thank you very much.

When we talk about participation and cooperation, how many provinces and territories are in?

**Mr. Danny Foster:** All the provinces are in, and one territory, Yukon.

**Mr. Ken Boshcoff:** The other two are not so significant in terms of this, so we have some support.

When you design your program, or when you look at adapting these features, what balancing is there through either involvement with World Trade Organization or through some of these things in this program. Are they modelled? Are they cookie-cuttered? And if so, if we were going to attempt to do that, why would we not have emulated things they do in the United States for disaster relief? I get back to that.

I'll let you answer that first, please.

• (1255)

**Mr. Danny Foster:** Definitely, one of the key principles in the design of the program is the trade issue, minimizing the risk of countervail for our programming, because clearly making payments just to have that clawed back—I'll use that term—by countervailing duties is not going to get us anywhere because of the size of our agricultural export industry. That continues to be one of the key principles in terms of designing new programming.

As far as disaster relief goes, and disaster programming, basically we've looked at all the disasters that have taken place in the country over the last 10 to 15 years at least, and we did the analysis of those and asked, where are the gaps with our existing programming and what do we need to do to better respond to disasters? We came up with a framework. It's a framework; it's not a program. It's not prescriptive in terms of saying that if you declare a disaster, producers are going to get \$1,000 an acre. You have to design the program on a case-by-case basis so it's event specific.

The industry groups have been very supportive of this framework approach. What they've said to us is that they agree with the

framework, they agree with the guidelines, they agree with the principles that we've come up with, but we're going to need to be clearer on what the process is, what actually happens—steps one, two, and three—so that we can put the disaster response in as quickly as possible. That's something we'll have to do if ministers agree next week in terms of the disaster framework.

So in terms of disaster relief, we looked at what has happened over the last number of years and asked, what would be the best possible response mechanism to those types of things?

We've certainly looked at the U.S. style of programming. There's lots of money there going to five commodities, but there are lots of downfalls on that. Do you want to be paying producers who are no longer producers? It's simply because they own the land that they're getting assistance payments. So there are those types of things, and we do look at other country models as well, on all types of programming, not just disaster relief.

**Mr. Ken Boshcoff:** I guess my concern is that if we could see it working, when our farmers can actually see across the border that it's working, clearly it wouldn't be countervailable in contravention of any international trade treaty, and you can see how they feel hard done by in terms of our response. Is that the type of thing you will be bringing to the agricultural ministers, the fact that these things do exist and they seem to work in other jurisdictions?

I've been very frustrated by this, even trying to get answers and responses, especially from the minister. He has put a wall up, actually.

**Mr. Danny Foster:** Certainly in terms of the minister's direction coming out of, first, Harrison Hot Springs, and then again St. John's, when we created these task teams, both on the CAIS program and production insurance enhancements, we were looking at models from all over the world and homegrown models in terms of program options, whether it's income stabilization or production insurance. Program options within the context of key principles, for example, minimize the risk of countervail.

I think it's fair to say that the producers—there were two government officials, but there were a lot more producer members on these task teams—basically said no, this is the way we think you need to go to address the various objectives, whether it's income stabilization, or production insurance, or creating a new disaster relief program.

• (1300)

**The Chair:** Thank you, Mr. Boshcoff.

Mr. Bellavance, I have one minute left for you. Do you have a final point?

[*Translation*]

**Mr. André Bellavance:** It would take more than an hour to raise all the problems associated with CAIS, but in one minute, I can tell you that the delays are over and above the other problems raised by my colleagues.

In response to Mr. Thibault, you referred to the golden nematode again, saying that potato producers could access 75% of the financial assistance they are looking for.

Is this correct?

[*English*]

**Mr. Danny Foster:** Producers in the CAIS program are eligible for up to 75% of their estimated payment on their estimated loss for 2006, and La Financière agricole du Québec is prepared to sit down with those producers and work on the numbers to provide that assistance.

[*Translation*]

**Mr. André Bellavance:** Do I have any time left?

[*English*]

**The Chair:** Thank you.

Thank you, Mr. Lloyd and Mr. Foster, for your presentation before us here today. I'm sure we'll have you back again in the near future.

Gentlemen, you have a motion before you. I need a motion from the floor to pay some of the witnesses, the roughly 20 of them who have appeared before us on the Canadian Wheat Board issue. Could I have a motion from the floor to pay that bill?

**Mr. Paul Steckle:** I so move.

• (1305)

**The Chair:** Mr. Steckle, thank you.

(Motion agreed to)

**The Chair:** Thank you.

This meeting stands adjourned.

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