Brief to the Standing House of Commons Committee on Finance

from the Union des producteurs agricoles

2011 Federal Pre-Budget Consultation

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Union des producteurs agricoles

By creating the Union catholique des cultivateurs in 1924, which in 1972 became the Union des producteurs agricoles (UPA), Quebec farmers resolutely opted for collective action, and their commitment has never wavered. They thus created a strong sense of unionism and an independent cooperative movement dedicated to defending their interests and promoting farming and private forestry.

Throughout its history, the UPA has worked relentlessly on many achievements: farm credit, farm and forestry cooperatives, rural electrification, the development of rural education, collective marketing, recognition of the farming profession, the implementation of sustainable agriculture and even the development of print media in Quebec with its newspaper *La Terre de chez nous*).

The activities of the UPA are a vital part of the fabric of rural Quebec society; they shape the geographic, community and economic faces of the regions. By maximizing Quebec's land heritage, the collective action of the farm and forestry cooperatives movement has put Quebec agriculture on the map in Canada and around the world.

Today, the UPA comprises 16 regional federations and 25 specialized groups. It counts on the direct involvement of more than 3,000 producers acting as administrators. Its activities extend as far as Europe (seeking from the WTO a farm exemption with a view to attaining food sovereignty) and Africa (developing collective marketing through its UPA international development corporation).

Working together within the Union, Quebec's 42,424 farmers invest some $630 million in Quebec's economy every year. The 35,000 wood producers, meanwhile, annually harvest more than 6 million m^3 of timber worth more than $300 million, thus contributing to the 73,000 jobs created by the forestry in the regions.

In the same vein, more than 30,000 farms, most of them family owned and operated, provide jobs for more than 61,000 people. Each year, Quebec's agriculture industry generates revenue of almost $7.5 billion, making it the biggest primary industry in Quebec and a key economic player, especially rural communities.

In the UPA, Quebec farmers and wood producers have a tool which enables them to control their destiny. They are proud to work together in carrying out the noble task of feeding Quebeckers. Their work ensures that Quebec enjoys food sovereignty, and contributes significantly to the province's sustainable development.

AGRICULTURE: A SMART INVESTMENT

Agriculture in Quebec serves our consumers and taxpayers well. The industry creates jobs and wealth. In addition producing quality local food, the 30,000 farms in Quebec have a major impact on our economy.

In 2007, according to a study released by the consulting firm ÉcoRessources,[1] the production and processing of agricultural products provided a total of 174,285 direct, indirect and induced jobs in virtually corner of the province. The wealth created by these sectors (GDP) totalled $13 billion, generating $2.2 billion in direct tax revenue for Quebec, $1.4 billion for the federal government and $319 million for municipalities. Once provincial and federal subsidies are subtracted, governments pocket almost $3 billion in revenue annually from these sectors, which contribute more to the province's GDP than the food services and accommodation sectors combined.

The ÉcoRessources study also showed that a $100-million investment in agriculture creates 1,042 jobs and adds $75 million to the GDP. That is more jobs and greater economic impact than each of the following sectors:

- construction;
- finance and insurance; and
- mining, oil and gas.

Agriculture clearly plays an important role in economic development. That is especially true for the many rural regions of Canada in which agriculture is often the driving force for development.

With the world's population growing, there will be 9 billion mouths to feed in 2050. It is therefore essential that measures be taken to sustain the agriculture industry. It is important to ensure that the environment in which farms operate provides an outlook of stability and profitability that is conducive to their development.

1. AGRICULTURAL RISK MANAGEMENT PROGRAMS

Existing agricultural risk management programs in Canada do not provide adequate support for farms that are hit by crises that can last several years. For example, payments to pig farms under the AgriStability program are decreasing, yet the swine industry in is in the midst of its biggest crisis ever. This situation, coupled with rising prices for grain, shows that the federal government has been putting less and less money into agriculture over the past few years.

According to data from Agriculture and Agri-Food Canada's financial statements, the department's net operating cost is in rapid decline, falling from almost $3 billion in the year ending March 31, 2008, to $2.4 billion and $2.3 billion in 2009 and 2010 respectively. The decrease change can be attributed to a drop in costs related to agricultural risk management programs. Data from Statistics Canada show that payments under the AgriStability program, including residual amounts paid through the Canadian Agricultural Income Stabilization (CAIS) program, decreased by half, from $1.7 billion in 2008 to only $850 million in 2010; 60% of those funds came from the federal government.

We are very concerned about the situation because many agricultural industries, the animal industry in particular, are experiencing tough years and are not getting the assistance they need. The AgriFlex program, as developed and proposed to the government by Canadian farmers would have had the

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[1] *ÉcoRessources Consultants, Retombées économiques de l'agriculture pour le Québec et ses regions, November 2009*

flexibility needed to deal with the current crises in an effective manner by making it possible to invest money through provincial risk management programs.

Unfortunately, by the time the federal government announced that the program was being launched, its flexibility had been watered down. In fact,

- the provinces cannot allocate AgriFlex funds to their income security programs;
- the $500 million over five years allocated to AgriFlex to cover all of Canada is one tenth of what farmers said they need, that is, $5 billion over five years. By comparison, special assistance paid by the government between 2003 and 2007 totalled more than $1 billion a year.

If the federal government chooses not to give AgriFlex sufficient funds and the flexibility the provinces need to properly manage their income security programs, it must ensure that its AgriStability program has a big enough budget and effective mechanisms. It is essential that the program be made predictable and <u>more generous</u>, particularly for farms with negative margins, and more effective when margins stay down for an extended period. Our demands on this front are shared by the Canadian Federation of Agriculture (CFA).

RECOMMENDATION 1 – AGRICULTURAL RISK MANAGEMENT PROGRAMS

- Provide the envelope dedicated to agricultural risk management programs with a budget that reflects the actual needs and is at least equal to the 2008 level.
- If the AgriFlex program cannot be adjusted, quickly take effective action in industries that are currently grappling with extended crises, in particular the meat industry, to prevent those industries from falling apart and thousands of farms shutting down.
- Make immediate changes to the AgriStability program so that it more effectively meets the needs of farmers by taking the following corrective measures:
  - remove the viability criterion applied to negative margins;
  - give farmers the option of either using the upper 15% of AgriStability coverage of the reference margin or enrolling in the AgriInvest program;
  - hold back the Olympic Average or the average for the last three years, whichever is greater, in order to establish the reference margin (this option would ensure payments to some producers who were not entitled to them based on the Olympic Average and would also pay more to those who were already eligible);
  - increase coverage of negative margins from 60% to 70%.
- In the medium term, ensure that the AgriStability program takes proper action to address extended crises.

2. SPECIFIED RISK MATERIAL (SRM) – ASSISTANCE FOR PACKING PLANTS

In 2006, the Fédération des producteurs de bovins du Québec acquired Levinoff-Colbex, the largest cull cattle slaughter and processing facility in eastern Canada.

The joint initiative by cull cattle producers is an indication of their desire to invest in themselves farther down the line so that their products are marketed more effectively and they profit from market revenue. If these objectives are to be met, a strong cattle commodity chain cannot rely solely on export markets to sell their products. The painful experience with MCD taught us that.

Levinoff-Colbex is a vital asset in eastern Canada:

- to secure the sale of cull cattle;

- to support the prices paid to producers;
- to develop the steer market.

In July 2007, the Government of Canada adopted stringent regulations on specified risk material (SRM) in order to eradicate mad cow disease (MCD) in Canada.

The American regulations put in place in 2009 proved to be less costly and less strict than the Canadian regulations. The financial impact on Canadian packing plants makes it harder for them to compete with American plants. Because the regulations are not harmonized, Canadian producers and the Canadian industry have to bear additional costs that they cannot afford.

A study by the Canadian Meat Council showed that as a result of the Canadian regulations, the operating costs incurred by packing plants were pegged at $31.90 a head in 2010, $27.50 a head in 2011 and $22.50 a head in 2012. For Levinoff-Colbex, the unjust regulations mean additional costs of $3.5 million to $4 million annually.

Because of the cost of managing SRM, Canadian packing plants are simply closing their doors, cutting production or grappling with serious financial problems. In Quebec, Levinoff-Colbex is currently restructuring its balance sheet, and support from the Canadian government is essential if the facility is to remain in operation over the long term.

In addition to assistance to cover the additional costs generated by SRM, the government absolutely must extend the deadline for payments made under the Slaughter Improvement Program (SIP) to December 31, 2012. This extension is vital to implementation of the facility's recovery plan. The financial assistance will enable Levinoff-Colbex to significantly boost its competitiveness in the red meat industry.

RECOMMENDATION 2 – SRM – ASSISTANCE FOR PACKING PLANTS

In this context, the Government of Canada must renew the $25-million 2010 SRM compensation program in order to cover the additional production costs resulting from the Canadian regulations on SRM and keep that program in place until the Canadian and American regulations are harmonized.

3. ANTI-AVOIDANCE RULE APPLICABLE TO TAX ON TRANSFERS OF FAMILY BUSINESSES

Farms can be transferred by selling the business to a third party or key employees, but in most cases, they are transferred to a member of the family.

It is important for the governments to ensure that all the conditions needed to foster the profitability and continuing operation of family farms are in place. The Canadian tax system appears to favour the transfer of businesses to third parties rather than family members.

Every individual gets a $750,000 capital gains deduction when he or she disposes of eligible farm assets, including shares in a family farm. When assets are transferred between persons who are related, in order to claim the capital gains deduction, the seller-shareholder must sell the shares directly to the related buyer rather than amalgamate corporations. This means that the related buyer will have to pay the seller using her or her own liquid assets, on which he or she will have had to pay personal tax, rather than use directly the liquid assets generated by the business (if there had been an amalgamation).

<u>In the end, this process generates a big tax bill for the related buyer, requiring liquid assets as much as 50% greater than if the sale had been to a third party</u>.

To make the tax system fairer, the legislation should be relaxed in order to facilitate the transfer of farms within the same family (child, parent, brother, sister).

RECCOMMENDATION 3 – TAX MEASURES

- Exempt from section 84.1 of the ITA businesses that qualify as a family farm corporation within the meaning of the *Income Tax Act.*

CONCLUSION

In the current context, the Union des producteurs agricoles is deeply concerned about government intervention in the agriculture industry. The UPA would like to thank the Standing House of Commons Committee on Finance for taking the time to analyze the recommendations we make in this brief.